

TRADE POLICY REVIEW

Report by

CHINA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by China is attached.

CONTENTS

	<i>Page</i>
I. INTRODUCTION	5
II. GENERAL ECONOMIC ENVIRONMENT AND POLICY DIRECTION	5
(1) ECONOMIC ENVIRONMENT	5
(i) Severe impact of the global financial crisis	5
(ii) Unprecedented natural disasters	6
(iii) General economic situation and basic national reality remain unchanged	6
(2) STIMULUS PACKAGE IN RESPONSE TO THE GLOBAL FINANCIAL CRISIS	7
(i) Proactive fiscal policy	7
(ii) Moderately easy monetary policy	7
(iii) Advancing industrial restructuring	8
(iv) Increasing consumer demand	8
(v) Effectiveness of the stimulus package	9
(3) PROMOTING THE TRANSFORMATION OF THE PATTERN OF ECONOMIC DEVELOPMENT	10
(i) Increasing support to agriculture, rural areas and farmers	10
(ii) Accelerating the development of the service sector	10
(iii) Advancing strategies for scientific and technological innovation and intellectual property rights	11
(iv) Intensifying efforts for energy conservation and pollution reduction	12
(v) Improving the well-being of the people	12
(4) CONTINUE TO DEEPEN THE REFORM	13
(i) Reform of the administrative system	13
(ii) Reform in taxation system	13
(iii) Price reform	13
(iv) Reform of state-owned enterprises and development of the non-public sector	14
(v) Reform in specific sectors	14
(vi) Reform in the financial sector and the capital market	14
(vii) Reform in the social security system	15
III. TRADE DEVELOPMENT AND TRADE POLICIES	15
(1) TRADE DEVELOPMENT AND BASIC CHARACTERISTIC	15
(i) Declines in both foreign trade and inward foreign direct investment (FDI)	15
(ii) Basic characteristic of China's foreign trade	16
(iii) Mounting risks of global protectionism	17
(2) PROMOTING TRADE AND INVESTMENT	17
(i) Launching the pilot program of settlement of cross-border trade in RMB	18
(ii) Improving trade financing	18
(iii) Streamlining procedures to facilitate trade and investment	18
(iv) Committed to balanced development of import and export	19
(v) Continuing to implement the Going Global Strategy	19
(vi) Continuing to promote the transformation of the pattern of foreign trade	20

	<i>Page</i>
(3) ADHERING TO FURTHER OPENING UP TO THE OUTSIDE WORLD	20
(i) New vehicle and new fields for foreign investment	20
(ii) Financial services	20
(iii) Tourism service	21
(iv) Telecommunication services	21
(v) Distribution service of chemical fertilizers	21
(4) STRENGTHENING AND ENHANCING THE MULTILATERAL TRADING SYSTEM	22
(i) Doha Development Agenda (DDA)	22
(ii) Opposing protectionism	23
(5) DEVELOPING REGIONAL AND BILATERAL ECONOMIC AND TRADE RELATIONS	24
(i) Free trade agreements	24
(ii) Aid for Trade	24
(iii) Assistance under South-South Cooperation	24
IV. THE WAY FORWARD	25
(1) MAINTAINING THE CONSISTENCY AND STABILITY OF THE MACROECONOMIC POLICIES	25
(2) ACCELERATING THE TRANSFORMATION OF THE PATTERN OF ECONOMIC DEVELOPMENT	26
(3) REFORM AND OPENING UP REMAINING THE THEME OF CHINA'S DEVELOPMENT	26

I. INTRODUCTION

1. China is at a critical development stage of building a moderately prosperous society. Guided by the strategic concept of Scientific Development and putting the interests of the people first, the Chinese Government is reconsidering its thinking on development, introducing new development pattern and improving development quality so that the socio-economic development will be accelerated on a more comprehensive, balanced and sustainable track.

2. Over the past two years, due to the impact of the global financial crisis and catastrophic natural disasters, China has encountered most serious difficulties in its economic growth since the turn of the century. Balancing the short-term growth target and the long-term development goal, the Chinese Government has been working hard to boost domestic demand, adjust economic structures, advance reform and increase benefit and welfare of the people. As a result, the marked decline in economic growth has been checked and the general economic situation has turned for the better.

3. In tackling the global financial crisis, the Chinese Government has relied mainly on expansion of domestic demand to stabilize the growth of the economy. At the same time it has also made great efforts to promote and facilitate trade and investment and to achieve balanced development of import and export. Domestic and international markets are both indispensable in China's economic restructuring and sustained development and the growth should be driven by both domestic and external demands in a balanced and coordinated manner.

4. Although severely affected by the global financial crisis, the Chinese Government has steadfastly pushed ahead reform and opening up and has constantly adhered to the win-win principle in opening up. China is committed to further consolidation and development of the multilateral trading system. At the same time, China continues its participation in regional trade liberalization, taking that as useful supplement to the fundamental role of the multilateral trading system. In a world where economic globalization continues to develop and the interests of all countries are closely intertwined, the Chinese Government is ready, as always, to shoulder its due responsibilities and work with all other countries to pursue cooperation and further opening up and to fight against protectionism so as to safeguard the stability of the world trade and investment environment.

II. GENERAL ECONOMIC ENVIRONMENT AND POLICY DIRECTION

(1) ECONOMIC ENVIRONMENT

(i) Severe impact of the global financial crisis

5. In the latter half of 2008, the global financial crisis triggered by the subprime mortgage problem in the United States began to inflict increasing impact on China's economy and development. The crisis brought the world economy into deep recession. External demand contracted drastically, resulting in a sharp decline in China's foreign trade, in particular in its exports. A lot of enterprises encountered difficulties; some even suspended production or closed down. Unemployed people increased significantly and many migrant workers had to return to their home villages. The global financial crisis not only brought greater downward pressure on China's economic growth in the short term, but also posed serious challenges to the Chinese Government in its long-term efforts to develop the economy in a more balanced way.

6. The fourth quarter of 2008 saw China's total value of imports and exports reverse to a negative growth of 1.6% year on year, compared with the increases of 24.7%, 26.9% and 24.3% registered respectively in the previous three quarters. In the fourth quarter, the first decline came in November, with a rate of 9.3%. This was the first monthly decline year on year in China's total value

of imports and exports since March 2002. In December, the figure continued to decline by 11.2%. In the first quarter of 2009, China's total imports and exports dropped further by 24.9%. After that the figure was not as big but still reached 22.0% and 16.6% in the second and third quarter of the year.

7. China's year-on-year gross domestic product (GDP) slowed down in the fourth quarter of 2008 to 6.8% (before adjustment) following 10.6%, 10.1% and 9.0% respectively in the previous three quarters. It went down further in the first quarter of 2009 to 6.1% (before adjustment), the lowest quarterly figure since 1992 when such quarterly statistics first became available. (See Chart 1.)

8. With respect to employment, an estimate based on a sample survey suggested that among the 130 million migrant workers in China, 15.3% or as many as 20 million either might have lost their jobs or could not find any at the time around the 2009 Spring Festival (late January to early February) due to the fact that under the shadow of the global financial crisis many enterprises were not able to operate at full capacity.

(ii) Unprecedented natural disasters

9. In 2008 and 2009 China suffered from a series of unprecedented natural disasters. The Wenchuan earthquake measuring 8.0 on the Richter scale that occurred on 12 May 2008 in Sichuan Province was particularly devastating. The earthquake left hundreds of thousands of people dead or injured, and caused massive damage to infrastructure, production capacity and the ecological environment. 51 counties (cities or districts) in the three Provinces of Sichuan, Gansu and Shaanxi were confirmed to be seriously or extremely seriously stricken areas, covering 116,656 square kilometres, with a direct economic loss of 650.34 billion Yuan.

10. As a matter of fact, China is one of the countries in the world that are most seriously affected by natural disasters. Over the past two years China has also suffered from heavy snow and ice storms in the south and severe drought in large areas of the north that had been rarely seen before. The direct economic loss in China as result of various types of natural disasters averaged over 200 billion Yuan annually between 1990 and 2008, and in 2009 the loss was estimated to be 252.3 billion Yuan.

(iii) General economic situation and basic national reality remain unchanged

11. Although China encountered the most serious difficulties in its economic development since the turn of the century, the difficulties did not reverse the general trend of China's long-term economic growth. Despite the natural disasters, China's GDP in 2008 still reached 31.40 trillion Yuan, an increase of 9.6% over 2007 (after adjustment). In 2009, facing the unprecedented global financial crisis, China, in a relatively short time, contained the decline in growth, stabilized the national economy and witnessed an overall picking up again. China's GDP in 2009 was 33.54 trillion Yuan, an increase of 8.7% over 2008.

12. China is experiencing rapid industrialization and urbanization. Infrastructure construction, upgrading in industries and consumption structure, environmental protection and ecological improvement as well as the development of other social programs all have great potential of demand and expansion to sustain the growth of China's economy at a relatively high speed over a relatively long period.

13. On the other hand, China's per-capita GDP still ranks behind more than 100 countries. Calculated by the World Bank's poverty standard of 1.25 USD per person per day, China still had some 150 million people living in poverty by the end of 2008. China must be prepared to provide long-term financial input and to work hard to solve the problems in the course of development, including insufficient consumer demand, slow development of the tertiary industry, weak capacity for

innovation, high consumption of resources and energy, serious environmental pollution, and wide disparity in development between urban and rural areas and between different regions.

14. In summary, although China has made great achievements over the past 30 years in its reform, opening up and economic development, the fact that China is still a developing country with a population of 1.3 billion has by no means changed. Specific national situations and development needs of developing members such as those of China are the set macro environment that should always be highlighted and given special consideration in WTO Trade Policy Reviews.

(2) STIMULUS PACKAGE IN RESPONSE TO THE GLOBAL FINANCIAL CRISIS

15. Facing the severe challenges posed by the global financial crisis, the Chinese Government has primarily relied on expanding effective domestic demand to maintain a steady growth of the economy, and has made up a stimulus package reflecting both the short-term target of addressing the economic downturn and the long-term goal of promoting the transformation of the economic development pattern.

(i) Proactive fiscal policy

16. The first major point of the stimulus package is the proactive fiscal policy, or specifically, substantially increasing government spending and implementing structural tax reductions. As a countermeasure to the global financial crisis, the Chinese Government put forth a plan of additional investment of 4 trillion Yuan to be implemented from the fourth quarter of 2008 to the end of 2010, in which direct investment from the central government would be 1.18 trillion Yuan.

17. Of the total 924.3 billion Yuan public investment by the central government for year 2009, 44% goes to housing projects for low-income urban residents, projects to improve the well-being of rural residents and rural infrastructure, and social programs; 23% to major infrastructure construction; 16% to economic restructuring, energy-conservation and emission-reduction and ecological improvement; and 14% to post-earthquake recovery and reconstruction. None of these investments translates into new large-scale production capacities. The purpose is to expand domestic demand through consolidation of the foundation for long-term economic development so that the economic downturn could be arrested and a steady growth be maintained.

18. In tax reductions the most significant one was the transformation on 1 January 2009 of the value-added tax system from production-oriented to consumption-oriented. Others included reform of the prices of refined oil products and taxes and fees on them, reduction by half of purchase tax on small-displacement automobiles, and abolition or suspension of 100 items of administrative fees, etc. It was expected to bring about a total saving of 500 billion Yuan for businesses and households in 2009, which would in turn promote both corporate investment and consumer spending.

19. With the implementation of the proactive fiscal policy, China's fiscal budget deficit for 2009 was 950 billion Yuan, or around 2.8% of the GDP; and the outstanding balance on government debt in the central budget at the end of 2009 was 6,023.768 billion Yuan, its ratio to GDP at around 18%. Both are relatively low and therefore are safe and acceptable.

(ii) Moderately easy monetary policy

20. In response to the impact of the global financial crisis, the People's Bank of China promptly adjusted policy orientation and began to implement a moderately easy monetary policy. Between September and December of 2008, the People's Bank of China lowered the deposits reserve ratio four times, adding up to a total reduction of 2-4 percentage points. It also cut the benchmark deposit and

lending rates of financial institutions five times, with the one-year benchmark deposit and lending rates down by 1.89 and 2.16 percentage points respectively. Transmission of the moderately easy monetary policy in general was effective, and supplies of money and credit increased rapidly. The policy played an important role in enhancing confidence, expanding demand and achieving turnaround in the development of the economy.

(iii) Advancing industrial restructuring

21. Another key element of China's stimulus package in response to the global financial crisis was formulation of programs for industrial restructuring and rejuvenation so as to accelerate elimination of backward production capacities, to raise the efficiency of energy use and to help small and medium-sized enterprises (SMEs) survive the crisis. The global financial crisis exposed again those deep-rooted problems of China's industrial development and highlighted further the urgency of industrial restructuring and upgrading and transformation of the economic development pattern. These are tasks that the Chinese Government has already been devoted to over the years.

22. As the shrinking external demand made China's surplus production capacities even prominent, the Chinese Government implemented more strictly policies on access of production capacities already in excess to restrict their redundant development, and made greater efforts to close down production capacities with high energy consumption, serious environmental pollution or backward technology. In 2009, 26.17 million kilowatt of small thermal power generating units were shut down and the goal of phasing out 50 million kilowatts of small thermal power generating units set in the 11th Five-year Plan (2006-2010) was achieved one year and a half ahead of schedule. Backward facilities with total production capacity of 16.91 million tons in steel making industry, 21.13 million tons in iron-smelting industry, 74.16 million tons in cement industry and 18.09 million tons in coke industry were also eliminated. In coal mining, calcium carbide, iron alloy, paper and chemical fibre industries, capacities closed down in the year were 50 million tons, 460,000 tons, 1.62 million tons, 500,000 tons and 1.37 million tons respectively.

23. SMEs were the hardest hit by the global financial crisis. To alleviate their difficulties, the Chinese Government in 2009 increased the fund for the development of SMEs from 3.9 billion Yuan to 9.6 billion Yuan to enhance support to SMEs including in such areas as technological innovation and structural adjustment. In September 2009 the State Council issued Certain Opinions on Further Promoting the Development of SMEs, providing principles on further lowering access barriers, alleviating difficulties in obtaining financing and strengthening services system for SMEs. At the end of 2009 the State Council also established an inter-agency Leading Group on Promotion of the Development of SMEs to further strengthen policy coordination in this respect.

(iv) Increasing consumer demand

24. Increasing consumer spending is a key element in the efforts of the Chinese Government to expand domestic demand. In 2008, the Chinese government increased the threshold for personal income tax, suspended personal income taxes on interest earnings from savings and stock account balance, and reduced or exempted taxes related to the purchase or sale of homes for residential uses. In 2009, the Chinese central government provided 32 billion Yuan for implementation of a series of consumption stimulus programs including those for rural residents to purchase home appliances and motor vehicles and motorbikes, and others for people to trade-in old motor vehicles and home appliances for new ones. The purchase tax on small-displacement automobiles was also halved. Throughout the year 13.64 million motor vehicles were sold, which was an increase of 46.2% over the previous year; and commodity housing sales amounted to 937 million square meters, up 42.1%;

nearly 90 million home appliances were delivered by manufacturers participating in related programs, with total sales for the year exceeding 150 billion Yuan.

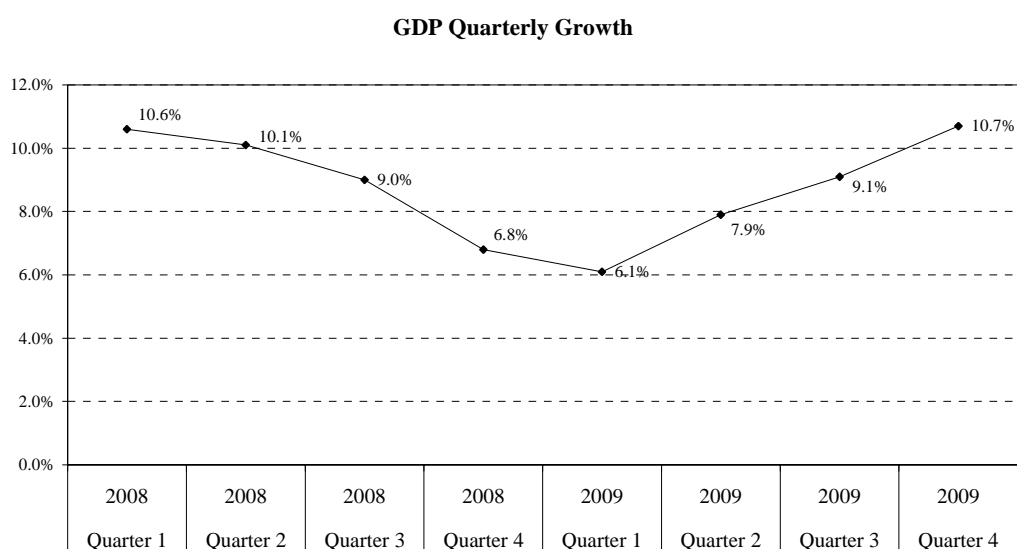
25. The Chinese Government continued to push forward the improvement of commercial facilities in countryside and in urban residential communities, promote construction and improvement of credit system, and encourage spending on tourism, cultural and recreational activities and sports. In July 2009 consumer financing companies were introduced in four cities including Beijing on pilot basis. Many local governments with fiscal capabilities adopted measures such as issuing admission tickets to tourist attractions or other service coupons in their efforts to tackle the economic downturn.

26. In the course of addressing the impact of the global financial crisis the Chinese Government has always given priority to improving the well-being of the people. Measures adopted in this respect include those to stabilize and promote employment, in particular those targeting university graduates and migrant workers; increasing the pension for enterprise retirees; expanding the coverage of medical insurance and increasing the funding and the level of remuneration; raising the level of basic living allowances for low-income groups in both urban and rural areas; increasing investment on the construction of housing for low-income families etc.

(v) Effectiveness of the stimulus package

27. The stimulus package has brought positive results. China's GDP achieved a 7.9% year on year growth in the second quarter of 2009, reversing the trend of continuous decline since the first quarter of 2008. From then on, the growth pace of GDP further picked up, registering a 9.1% increase for the third quarter of 2009 and 10.7% for the fourth quarter. Personal income, government revenue and corporate profits all increased rapidly in the fourth quarter of 2009. The Consumer Price Index (CPI) also came back to growth from a nine-month drop at the year end. The foundation of economic recovery has been consolidated. (See Chart 1.)

Chart 1



28. Domestic consumer market saw relatively rapid expansion. In 2009 retail sales of consumer goods in China totalled 12.53 trillion Yuan, up 15.5% from the previous year. The increase in real terms was 16.9% after adjustment for price changes and was the highest yearly increase since 1986. Retail sales in rural areas grew by 15.7% over the previous year, 0.2 percentage points higher than

that in urban areas. This was the first time since 1987 that retail sales in rural areas grew faster than that in cities.

29. Of the 8.7% increase of China's GDP in 2009, domestic demand contributed 12.6 percentage points, which offset the 3.9 percentage point shortfall due to the contraction of the external demand. Within the domestic demand, investment contributed 8 percentage points and consumption contributed 4.6 percentage points. Domestic demand plays a more significant role in fuelling China's economic growth.

(3) PROMOTING THE TRANSFORMATION OF THE PATTERN OF ECONOMIC DEVELOPMENT

30. Transformation of the pattern of economic development is a major long-term strategic task faced by China in its course of building a moderately prosperous society. In addition to the stimulus package in response to the global financial crisis, efforts of the Chinese Government over the past two years to advance the transformation of the pattern of economic development are also reflected as follows.

(i) Increasing support to agriculture, rural areas and farmers

31. Since the last review, the Chinese Government has continued pursuing the "pay-back" policies and strengthened further its support for agriculture, rural areas and farmers in a bid to continuously increase the incomes of the farmers. Over the past two years, investment in infrastructure and social programs in rural areas as well as direct financial support to farmers increased significantly. In the effort to increase the employment of the rural labour forces, training programs to improve the skills of rural migrant workers were launched on a large scale and policies were implemented to encourage rural migrant workers who returned to their home to start up their own businesses. Financial support for poverty alleviation purposes was also increased. From 2008 onwards the new poverty line of annual per-capita income of 1,196 Yuan was adopted to cover all low-income rural population. According to the new standard, 40.07 million people are eligible to receive assistance under poverty-relief programs.

(ii) Accelerating the development of the service sector

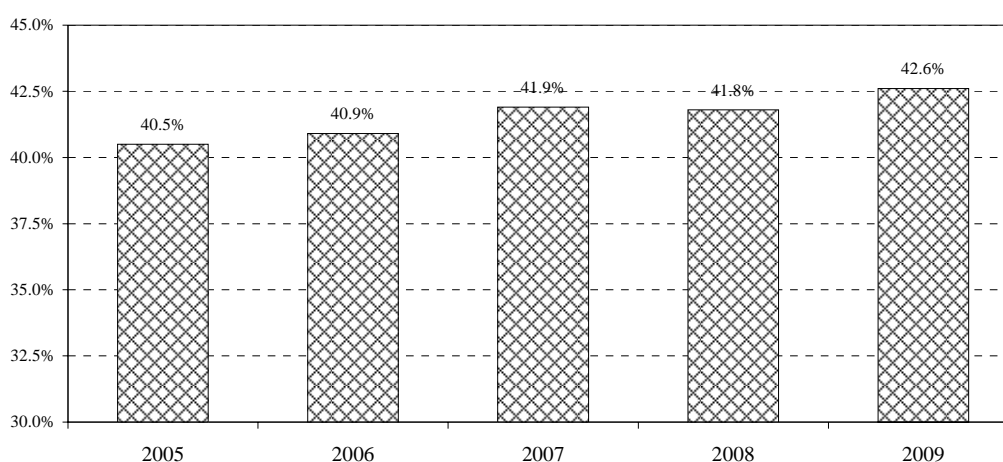
32. It was mentioned in the Government Report of China for the last review that in 2007 the State Council issued Opinions on Accelerating the Development of the Service Sector, setting out general policy direction and consideration for the development of China's service industry. As a follow-up, Opinions on the Implementation of Certain Policies and Measures for Accelerating the Development of the Service Sector was promulgated in 2008. The paper provided guiding principles for implementing policies and measures to accelerate the development of the service sector.

33. Over the past two years, China formulated or amended a series of laws, regulations and rules concerning services sectors including insurance, securities, consumer credit, financial information service, telecommunication, legal service, postal service, tourism, etc. The legal framework for further development of the service industry continued to be consolidated. On many specific services sectors such as tourism, film industry, cultural industries, etc., guidelines on acceleration of their development were also issued, proposing to lower further the access thresholds, to have more participation of private and foreign capital and to encourage the development of SMEs. To keep abreast of the technological and market development, the Chinese Government also proposed to phase in the integration of telecommunication networks, cable television networks and the Internet for ultimate interconnection and resource sharing.

34. In 2008, the added value of the tertiary industry in China amounted to 13.13 trillion Yuan, growing by 10.4% over 2007 (after adjustment). This was the first time since 2003 that the tertiary industry had a higher annual growth rate than the secondary industry. In 2009, the added value of the tertiary industry reached 14.29 trillion Yuan, which was another year-on-year increase of 8.9% and 0.2 percentage points higher than the GDP growth rate. Proportion of the added value in GDP also came to 42.6% that year, up by 0.8 percentage points over 2008, and the figure has been increasing steadily since 2005. (See Chart 2.)

Chart 2

Share of the Tertiary Sector in GDP



(iii) Advancing strategies for scientific and technological innovation and intellectual property rights

35. Scientific and technological innovation is the key to China's transformation of the pattern of economic development to achieve sustained economic growth. In 2006, the Chinese Government promulgated Outline of the National Program for Long and Medium-Term Scientific and Technological Development (2006-2020), striving to create an environment in favour of scientific and technological innovation and to speed up the construction of an innovative society. As a developing country, China still lags behind in its overall development level of science and technology, with quality of scientific research not high enough and funding in the field of science and technology still insufficient. In particular, with respect to import of hi-tech products and transfer of technology, China, like other developing countries, has long been subject to unfair and unreasonable unilateral restrictions imposed by some developed countries having comparative advantages in this regard.

36. In the course of advancing the development of science and technology, the Chinese Government welcomes and encourages foreign companies to establish research and development (R&D) centres in China. Foreign-invested enterprises have already become important participants of R&D activities in China. In 2008, the proportion of R&D expenditure of foreign-invested enterprises (Fees) accounted for 27.2% of the total R&D expenditure of large and medium-sized industrial enterprises in China, up from 19.7% in 2002, with an average annual growth rate of 21.2%. The number of patents for inventions owned by foreign-invested enterprises accounted for 29% of the national total, while their expenditure for new products development, sales revenue and exports were 31%, 41% and 60% of the national total respectively.

37. Intellectual property rights are of utmost importance for China in its transformation of the pattern of economic development. In June 2008, the State Council promulgated Outline of National Intellectual Property Rights Strategy. The paper summarized the intellectual property rights system and their protection in China, and made the intellectual property rights strategy a clear and important national strategy. It also proposed to enhance comprehensively the capabilities of creating, using, protecting and managing intellectual property rights to contribute to the innovation capacity of the nation and to the building of an innovative society. Over the past two years, a number of laws and regulations concerning intellectual property rights were improved with new amendments, including for example the Patent Law and its implementation regulations, and the efforts of law enforcement to protect intellectual property rights were also further strengthened.

(iv) Intensifying efforts for energy conservation and pollution reduction

38. Pushing forward energy-saving and emission reduction and promoting clean production and green consumption have always been important elements of the work of the Chinese Government to accelerate the transformation of the pattern of economic development. Since the promulgation by the State Council of the General Work Plan for Saving Energy and Reducing Emissions in 2007, the Chinese Government has further intensified its efforts in this regard. Use and promotion of energy-saving products and technologies such as efficient light bulbs received support from the central government. Implementation of key energy conservation projects continued to make progress. Environmental standards and supervision further tightened up. Development of clean energy accelerated. Pollution prevention and control and ecological conservation strengthened. Comprehensive utilization of resources further enhanced.

39. In 2009, the Chinese Government released the system of indices for clean production assessment in 11 industries. Desulphurization facilities were installed in thermal power generating units with a total capacity of another 102 million kilowatts, raising the percentage of the total capacity of thermal power generating units so equipped to 72%. From 2006 to 2009, China's energy consumption per unit of GDP decreased by 14.38%, and chemical oxygen demand and sulfur dioxide emissions reduced by 9.66% and 13.14% respectively. Forest coverage rate in China now stands at 20.36%.

40. The Chinese Government has recently set new targets of energy saving and emission reduction. By 2020, the GDP carbon dioxide intensity will be reduced by 40-45% from the 2005 level, and the share in the primary energy consumption of non-fossil fuels including renewable and nuclear energy will be increased to around 15%.

(v) Improving the well-being of the people

41. Development of social programs and enhancement of people's well-being have always been major focus of the Chinese Government when striving to promote transformation of the development pattern and to strengthen the role of consumption in sustaining the economic growth. As early as in the Outline of the 11th Five-year Plan issued in 2006 the Chinese Government stated that in economic development it "should further boost the domestic demand, adjust the relationship between investment and consumption, keep investment within a reasonable scale, and strengthen the role of consumption in driving the economic growth". In the face of the reality that the per-capita national income is still low, the Chinese Government must make long-term and strenuous efforts to ensure continuous increase of people's income, to enhance the development levels of social security and social programs in order to finally realize the transformation.

42. Over the past two years, the Chinese Government has continued its efforts in this regard with various measures in addition to those in the stimulus package in response to the global financial crisis. They included, for example, enforcing the minimum wage system; expanding the coverage of all social security schemes and raising remuneration levels; increasing further investment in education and implementing free compulsory education both in urban and rural areas; and increasing greatly investment in the medical and health care system and accelerating its reform process.

(4) CONTINUE TO DEEPEN THE REFORM

43. Reform is China's basic state policy. The Chinese Government holds that only by improving the socialist market economy system through constant reform, can a fundamental institutional guarantee be established for China to transform the economic growth pattern in the long run and to achieve healthy and sustainable development of the economy. In the past two years reform has been further advanced in many aspects of China's economic and social life.

(i) Reform of the administrative system

44. In March 2008, China implemented institutional restructuring of the State Council. The reform focused on transforming government functions and straightening out responsibilities of different agencies and explored the establishment of larger departments with more integrated functions. The functions of macro-economic departments were more reasonably deployed. The administration on energy and environment was strengthened. Institutions concerning industry, information technology and transport were adjusted. Public administration and public service agencies were strengthened and integrated with more emphasis on people's well-being. The number of agencies adjusted or changed in this restructuring totalled 15, and that of ministerial-level agencies reduced by 4. Apart from the General Office of the State Council, the State Council currently has 27 administrative agencies. In addition, the transparency of the public sectors further improved. With the implementation of Regulations on Government Information Release since 1 May 2008, work on government information release has been further enhanced.

(ii) Reform in taxation system

45. With respect to taxation system, following the reform in 2007 of tax for use of land in urban areas and vehicle and vessel tax, and the introduction in 2008 of the new Law on Enterprise Income Tax and Interim Regulations on Tax for Farmland Occupation which have been applied uniformly to both domestic and foreign-invested enterprises, the Chinese Government further unified the real estate tax for Chinese and foreign-invested enterprises and individuals. Thus, except for the urban construction and maintenance tax and the education surcharge, the taxation system for Chinese and foreign-invested enterprises and individuals has been unified in China. In addition, with the implementation in 2009 of the amended Interim Regulations on Value-added Tax, Interim Regulations on Business Tax, and Interim Regulations on Consumption Tax, value-added tax has been transformed, and the systems of business tax and consumption tax have been further improved.

(iii) Price reform

46. With respect to price, the Chinese Government carried out reform of the prices and taxes and charges of refined oil on 1 January 2009, taking an important step forward in the reform of pricing mechanism of resource products. Further progress was also made in the reform of prices concerning water, electricity and other resource products. The reform aims at having prices of resource products to timely reflect the market situation of supply and demand as well as the scarcity level of the resources, and giving full play to the fundamental role of the market in forming the prices of resource products. On 25 January 2009 the prices of chemical fertilizers were reformed with restrictions on the

prices lifted. The prices of fertilizers from local factories are now determined by market, instead of being guided by the government.

(iv) Reform of state-owned enterprises and development of the non-public sector

47. With respect to state-owned enterprises, in October 2008 Law on State-owned Assets of Enterprises was adopted at the Fifth Session of the Standing Committee of the 11th National People's Congress, and established the legal framework for the supervision of state-owned assets. Introduction of corporate and share-holding systems for state-owned enterprises has further advanced through participation of strategic investors, restructuring and going public. Corporate governance structure has also improved with measures such as establishment of standard board of directors and introduction of external directors, etc. The budget system for the use of state capital has basically taken shape. Institutional improvement has also advanced in areas such as financial supervision, ownership management and supervision by board of supervisors over the state-owned assets.

48. By the end of February 2010, the number of state-owned enterprises for which the State-owned Assets Supervision and Administration Commission of the State Council performed the responsibilities of an investor had decreased from 151 at the beginning of 2008 to 128. The recently published results of the Second National Economic Census showed that at the end of 2008 China had altogether 4.959 million enterprise legal persons, among which 143,000 was state-owned enterprises, 36,000 less than that at the end of 2004 as shown in the First National Economic Census, or a decrease of 20%. In the mean time, the number of private enterprises was 3.596 million, up by 81.4% with an addition of 1.614 million. This indicated that the non-public sector had been developing steadily and had already become an important component of the national economy.

49. In addition to the issuing of Opinions on Further Promoting the Development of SMEs as mentioned earlier, the State Council on 24 March 2010 held an executive meeting to specifically study policies and measures to further encourage private investment, including to develop infrastructure and public utilities such as transport, telecommunications and energy, to establish financial institutions; to participate in social programs in culture, education, sports, health etc; and to participate in the reshuffle and restructuring of state-owned enterprises by means of equity participation or control or assets acquisitions.

(v) Reform in specific sectors

50. With respect to the reform in various sectors, restructuring of the telecommunication industry was launched in May 2008, ushering in a competitive market with the restructured China Mobile, China Telecom and China Unicom being three major suppliers capable of offering the full line of services. Structural reform in the postal service was further advanced with the amended Postal Law coming into effect on 1 October 2009. A new postal service system is in place whereby enterprises operate independently and the government takes up the supervision responsibilities in accordance with the law. Reform in the banking sector also progressed. The first policy bank or China Development Bank was commercialized and transformed into a joint-stock commercial bank at the end of 2008, and the last wholly state-owned bank, Agricultural Bank of China, was also transformed into a joint-stock company at the beginning of 2009.

(vi) Reform in the financial sector and the capital market

51. With respect to the capital market, the new shares issuance system was further reformed and improved. The Growth Enterprise Board was launched in October 2009, which was a significant step taken to develop multi-level capital market in China. Construction of a system of the futures market was further strengthened with the launch of the classified supervision over futures companies.

Preparations for the introduction of stock index futures market were basically completed in terms of both the administrative system and technical support. Corporate bond market also developed rapidly, as the pilot program of the issuance of convertible corporate bonds by listed companies was pushed forward. Relevant systems concerning supervision of securities companies and listed companies as well as protection of investors' rights and interests were also further consolidated.

52. With respect to the foreign exchange administration, Regulations on the Administration of Foreign Exchange was amended in August 2008 to further improve the managed floating foreign exchange rate system based on market demand and supply and in reference to a basket of currencies. The RMB exchange rate has basically been stable at an adaptive and equilibrium level. In August 2008 a pilot program of domestic and foreign currency exchange franchise business to serve individual customers began to be implemented in Beijing and Shanghai, and in November 2009 it was expanded to include more cities. In July 2009 settlement of cross-border trade in RMB also began on an experimental basis in 5 cities including Shanghai.

(vii) Reform in the social security system

53. In 2009, the reform of medical and health care system began to be implemented nationwide. It is planned that by 2011 a basic medical insurance system would cover both urban and rural residents, and a national system of basic medicines would be put in place. Also, both urban and rural community-level medical and health care system would be improved, and a national system of basic items of public health service would be formulated and implemented. It is estimated that central and local governments will spend 850 billion Yuan for the reform in three years time.

54. In other areas of the social security system, a new rural pension insurance program was launched in 2009 in more than 300 counties nationwide. It is planned that the program would cover all eligible rural residents by 2020. For workers of urban enterprises, a nationwide pension planning system pooling at the provincial level was basically established, and the method for transferring pension accounts across different provinces was also introduced. In domestic securities market part of the state-owned shares of listed companies has been required to be transferred to the National Social Security Fund. In 2010, the social insurance fund budget began pilot implementation.

III. TRADE DEVELOPMENT AND TRADE POLICIES

(1) TRADE DEVELOPMENT AND BASIC CHARACTERISTIC

(i) Declines in both foreign trade and inward foreign direct investment (FDI)

55. China has encountered great difficulties in foreign trade and foreign direct investment as a result of the global financial crisis. In 2009, China's merchandise export amounted to 1.2015 trillion USD, down by 16% over the previous year; and the import amounted to 1.0058 trillion USD, down by 11.2% over the previous year. In contrast, in 2008, despite the growing impact of the crisis in the latter half of the year, China's export still reached 1.4307 trillion USD, up by 17.3% over the previous year, and the import reached 1.1326 trillion USD, up by 18.4% over the previous year. It is worth noting that the average annual growth rate in China's total import and export was 23.7% for 2005-2007.

56. With respect to foreign direct investment, in non-financial sectors, China's inward foreign direct investment amounted to 90 billion USD, down by 2.6% from 2008, where the figure was 92.4 billion USD, up by 23.6% over 2007. In 2007, the figure was 74.8 billion USD, a 13.6% increase over the previous year.

(ii) **Basic characteristic of China's foreign trade**

57. The crisis has had severe impact on China mainly because alongside the economic globalization and the global redeployment of the manufacturing sectors, China has become one of the most important production bases in the world with its firm commitment to the policy of opening up. Of China's total export of 2008 (1.4307 trillion USD) and 2009 (1.2015 trillion USD), processing trade represented 675.1 billion USD and 586.9 billion USD, or 47.2% and 48.8% of the total respectively; exports of foreign-invested enterprises amounted to 790.5 billion USD and 672.1 billion USD, or 55.3% and 55.9% of the total respectively. Of China's total import of 2008 (1.1326 trillion USD) and 2009 (1.0058 trillion USD), processing trade represented 378.4 billion USD and 322.3 billion USD, or 33.4% and 32% of the total respectively; imports of foreign-invested enterprises amounted to 619.4 billion USD and 545.3 billion USD, or 54.7% and 54.2% of the total respectively. (See Charts 3 and 4.)

58. It is easy to tell that both the import of raw materials and the export of end products are highly dependent on foreign markets, and foreign-invested enterprises account for a large proportion of China's foreign trade. This important characteristic is essentially determined by China's position in the global industrial chain and its comparative advantages. China has a huge labour force of high quality, high efficiency and low cost. In addition, China has a relatively well developed system of manufacturing industry, strong supporting capabilities and sound infrastructure.

59. Currently China's main exports are concentrated in those of middle and lower end manufacturing industries with low added value, while a large amount of capital, technologies, designs, management, and even raw materials, components and parts come from abroad. This is why China maintains large trade surplus with some WTO members and large trade deficits with some others. Many Chinese exports contain very limited added value during their production in China, which to a large extent only reflects the input through labour of the Chinese workers.

Chart 3: Share of processing trade in total exports and imports, 2008 and 2009

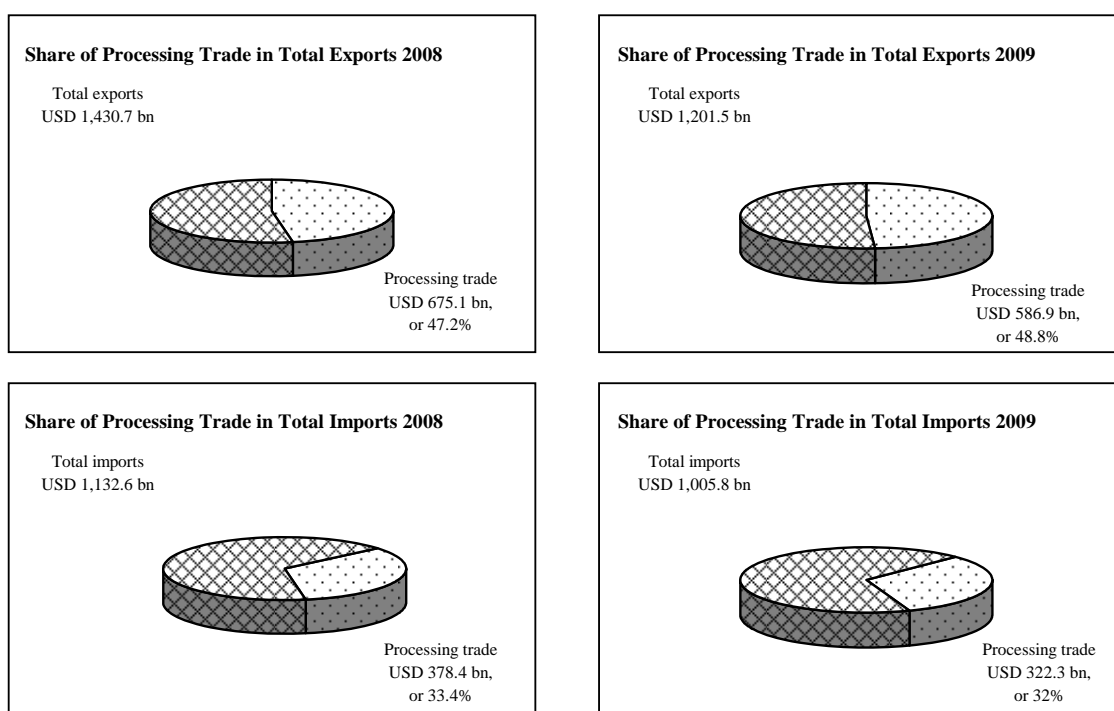
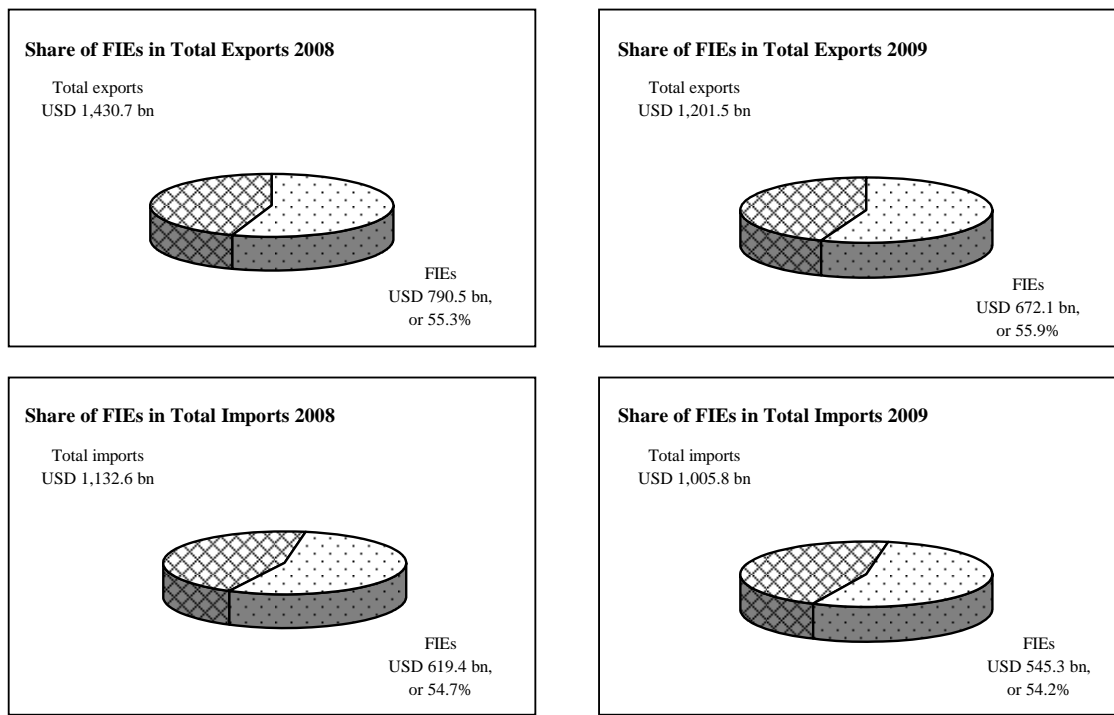


Chart 4: Share of FIEs in total exports and imports, 2008 and 2009



60. Such a characteristic of China's foreign trade is a manifestation of the international division of labour brought about as economic globalization further deepens. It has not only benefited China, but also foreign investors and consumers of Chinese products all around the world.

(iii) Mounting risks of global protectionism

61. China remains the most targeted country of various trade remedy measures. Statistics from the WTO show that in 2008, WTO members initiated a total of 71 anti-dumping investigations against China, accounting for 33.7% of the total in that year; the number of countervailing investigations against China was 11 in 2008, accounting for 68.8% of the total.

62. The global financial crisis increased the risk of protectionism against China. Exports from China, including the products of many foreign-invested enterprises, are facing a growing number of protectionist measures; trade volume affected keeps growing. There is also a tendency of rising trade frictions between China and some of its trading partners, particularly those major developed countries.

63. Statistics from the Chinese Government show that in 2008 and 2009, China was the target of 210 trade remedy investigations, among which 141 cases were filed after September 2008, when the global financial crisis went into full gear. In 2009 in particular, the number of investigations against China reached 116, involving a total trade volume of 12.7 billion USD, up by 23% and 102% respectively over the same period of 2008, a record high in history.

(2) PROMOTING TRADE AND INVESTMENT

64. In the face of the precarious trade situation brought about by the global financial crisis, the Chinese Government, while working hard to maintain a stable and rapid economic growth, has

managed to pursue the goal of boosting domestic demand and stabilizing external demand. With boosting domestic demand as priority, China strives to mitigate the effect of rapidly shrinking external demand through various facilitation and promotion measures to stabilize trade and investment.

(i) Launching the pilot program of settlement of cross-border trade in RMB

65. In April 2009, the State Council decided to launch a pilot program to settle the cross-border trade in RMB in Shanghai and other four cities of Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai and Dongguan. The implementation measures followed up in July that year. Settlement in RMB for cross-border trade can facilitate trade and investment, and help enterprises avoid the risk of fluctuations in the exchange rate of major currencies for international settlements. Currently, the Chinese Government is taking stock of the pilot work through case studies and trying to improve the supporting policies and measures so as to advance the pilot program.

(ii) Improving trade financing

66. With regard to trade financing, China Export Credit Insurance Company expanded its coverage of short-term export credit insurance to 90.3 billion USD in 2009. The Chinese Government also supported, with the fund from the central budget, credit guarantee institutions for SMEs to expand their services and to facilitate these enterprises including trading enterprises to obtain loans from banks.

67. With respect to the international cooperation related to trade financing, China bought bonds in the value of 1.5 billion USD from International Finance Corporation of the World Bank Group; the People's Bank of China signed bilateral currency swap agreements valued at a total of 650 billion Yuan with central banks or currency authorities of Argentina, Belarus, Indonesia, Malaysia, Hong Kong, China, and Korea; China participated in the establishment of the Chiang Mai Initiative Multilateralization, and signed the Chiang Mai Initiative Multilateralization (CMIM) Agreement valued at a total of 120 billion USD together with the 10 ASEAN countries, Japan, Korea and Hong Kong, China on 24 December 2009. China also announced the program to provide loans of 15 billion USD to ASEAN countries, loans of 10 billion USD to African countries and other member countries of Shanghai Cooperation Organization (SCO) respectively, and to establish China-ASEAN Investment Cooperation Fund in an amount of 10 billion USD.

68. The Export-Import Bank of China (China Exim Bank) has launched a series of international cooperation programs in trade financing, including a joint statement with the Export-Import Bank of the United States to provide trade financing facilities of 20 billion USD. It provided trade financing of up to 3 billion USD to banks in Russia, Turkey, India, Chile and multinational financial institutions such as the Afri-Exim Bank.

(iii) Streamlining procedures to facilitate trade and investment

69. The Chinese Government has continued to improve vigorously the facilitation of trade and investment in terms of procedures. The Chinese Customs adopted a series of Customs clearance facilitation measures to reduce costs of, *inter alia*, logistics and warehousing, such as inspection and release of goods upon arrival with advance declaration, inspection and release at port Customs with declaration made at local Customs, 7-day/24-hour appointment for Customs clearance, etc. More authorities for examination and approval of foreign investment projects were delegated to local administrations, with relevant procedures further simplified, and the number of items subject to examination and approval further reduced. On-line application and administrative licensing concerning foreign investment began to be implemented nationwide.

70. Among the trade facilitation measures, those to facilitate the domestic sales of processing trade products are of considerable significance for enterprises trapped in difficulties as a result of shrinking external demand. Processing trade is a trade practice which is subject to special supervision of the Customs. Under such practice, raw materials are imported in bond and the processed products will be re-exported. If the processed products are sold at home, the enterprises are required to re-do the Customs import procedures for the imported raw materials and pay the import duties. In face of the shrinking external demand due to the global financial crisis, the Chinese Customs simplified the procedures for enterprises engaged in such business, thus facilitating a large number of enterprises to sell export products in the domestic market, and helping them out of difficulties.

(iv) Committed to balanced development of import and export

71. While endeavouring to stabilize export, the Chinese Government has kept its market open and made efforts in expanding importation so as to achieve a much more balanced development of import and export.

72. In 2009, the Chinese Government organized 13 trade and investment promotion missions to purchase goods and expand investment cooperation in over 30 countries and regions. Despite substantial decline in both Chinese imports and exports due to the global financial crisis, the year-on-year decrease in import (11.2%) was much lower than that in export (16.0%). In 2009, China's surplus of merchandise trade declined 34.2% from the previous year.

73. Export to China from many countries performed much better than the overall export of these countries. For example, in 2009, while the EU's overall export decreased year on year by 20.6%, its export to China decreased by 1.5% only. The same year saw an 18.1% year-on-year decrease in the overall export of the United States, while its export to China decreased by merely 0.2%. Among China's neighbouring countries, Thailand, Indonesia and Malaysia experienced overall export decrease of 14.6%, 15.0% and 21.1% respectively in 2009, while their export to China remained stable. Overall export of Australia and New Zealand decreased 17.3% and 18.3%, while their export to China increased 21.7% and 29.2% respectively.

74. China has also imported a great amount of products from least-developed countries and regions, which contributed to the economic development of these countries and regions. In February 2010, the WTO Secretariat circulated a document titled Market Access for Products and Services of Export Interest to Least-developed Countries (WT/COMTD/LDC/W/46/Rev.1), noting that China became the largest export market for LDCs in 2008, purchasing 23% of the LDC's export, and the share of China's market for LDCs has been increasing.

(v) Continuing to Implement the Going Global Strategy

75. To continue the Going Global strategy, the Chinese Government continues to encourage qualified enterprises to go abroad and engage in multinational operation to achieve mutual development. Rules on Administration of Overseas Investment was promulgated in March 2009, and came into force on 1 May 2009. The department rule delegates 85% of the examination and approval related items of outbound investment to the competent authorities of provincial governments. The procedures for examining and approving outbound investment are also significantly simplified.

76. By the end of 2009, Chinese enterprises had already established 18 overseas economic and trade cooperation zones in 14 countries and regions, which facilitated outbound investment of Chinese enterprises, especially SMEs. These cooperation zones should benefit the economy of host countries as they build up local production capacities according to local conditions with relatively complete industrial chains and are supported by the development at the same time of sound infrastructure.

77. In 2008, China's overseas direct investment totalled 55.91 billion USD, up by 111% compared with the previous year. Among this, investment in non-financial sectors amounted to 41.86 billion USD, up by 68.5% compared with the previous year. In 2009, China's overseas investment also increased in spite of the adverse situation. The overseas direct investment in non-financial sectors reached 43.3 billion USD, up by 6.5% on a year-on-year basis.

78. In 2008, the top three industries with the largest outbound direct investment were business services, financial sector and wholesale and retail sector. The investment outflow into these three industries accounted for 75.6% of the total outflow of direct investment. They were also the top three industries with the largest stocks of outbound direct investment as of the end of 2008.

(vi) Continuing to promote the transformation of the pattern of foreign trade

79. While making efforts to stabilize the international trade and investment environment, the Chinese Government has remained committed to optimizing and transforming the pattern of foreign trade. Measures restraining production and consumption of certain products have been implemented at home aiming to achieve energy-saving, emission reduction and the protection of ecological environment. As commensurate measures, the Chinese Government has continued to rigorously control the export of products of high energy consumption or high emission and products of exhaustible natural resources, to advance the transformation and upgrading of processing trade, to enhance the added-value of export products, and to promote the development of services trade.

(3) ADHERING TO FURTHER OPENING UP TO THE OUTSIDE WORLD

80. Opening up to the outside world is one of the basic state policies that China has long been pursuing. Since the last review, the Chinese Government's efforts to further promote opening up have continued and not been affected by the global financial crisis. In many fields, the level of opening up has been further raised.

(i) New vehicle and new fields for foreign investment

81. Measures for Administration of Establishment of Partnership Business in China by Foreign Enterprises or Individuals was promulgated on 25 November 2009 and came into effect as of 1 March 2010. The administrative regulation provides foreign investors with a new form of business set-up in addition to wholly foreign-owned enterprise, equity joint venture and contractual joint venture.

82. The amended Catalogue of Advantaged Industries for Foreign Investment in Mid-West China (2008) came into force in 2009. Foreign investment projects listed in the Catalogue are regarded as encouraged foreign investment projects as provided in the Catalogue for the Guidance of Industries for Foreign Investment. Central and western regions of China have opened up more fields to foreign investment on larger scales.

(ii) Financial services

83. In January 2008, the newly amended Measures on Administration of Auto Financing Companies was promulgated, expanding the financing channels and the business scope of auto financing companies including wholly foreign-owned and joint venture service providers, and allowing auto financing companies to issue financial bonds and engage in financial leasing business.

84. Since August 2008, the Chinese Government has launched the pilot program in Beijing and Shanghai to allow establishment of domestic and foreign currency exchange franchise businesses to

serve individual customers, and the entities permitted to engage in the business include foreign-invested enterprises having independent legal-person status. Since November 2009, the pilot program has been expanded to a dozen of provinces and municipalities.

85. Rules on Administration of Provision of Financial Information Services in China by Foreign Institutions was promulgated in April 2009, which outlined the application procedures, rights and obligations applicable to the establishment of financial information services enterprises by foreign institutions in China.

86. In July 2009 pilot program on consumer financing companies was launched in Beijing, Tianjin, Shanghai and Chengdu. According to the newly-promulgated Measures on Administration of Consumer Financing Companies on Pilot Basis, the investors of a consumer financing company may include overseas financial institutions.

87. In September 2009 Rules on Foreign Exchange Administration of Domestic Securities Investment by Qualified Foreign Institutional Investors (QFII) was promulgated. Following the increase in the total investment quota of QFII from 10 billion USD to 30 billion USD in 2007, the department rule raised the quota for a single QFII from 800 million USD to 1 billion USD.

(iii) Tourism service

88. In May 2009 Regulations on Travel Agencies came into effect and substantially raised the level of liberalization in the tourism service sector in China. The administrative regulation eliminated the prohibition on the establishment of wholly foreign-owned travel agencies, and also permitted foreign-invested travel agencies already established to further set up branches. It also removed the special requirements applicable to foreign-invested travel agencies in terms of registered capital and qualification of the investors. The administrative regulation also unified the market access threshold for operating domestic travel and inbound travel business, and reduced the minimum registered capital of operating inbound travel business from the original 1.5 million Yuan to 300,000 Yuan. The unified market access requirements apply equally to both Chinese and foreign-invested travel agencies.

89. The requirements in the earlier regulations and rules that the establishment of foreign-invested travel agencies "should be in compliance with the development planning of tourism" and "should be in line with the needs of the tourist market" were also phased out with the repeal of these regulations and rules.

(iv) Telecommunication services

90. In September 2008, Regulations on Administration of Foreign-Invested Telecommunications Enterprises was amended. The minimum registered capital requirement of a foreign-invested telecommunications enterprise providing basic telecommunications services was reduced by half. The approval procedures for telecommunication enterprises in China to be listed overseas were further simplified.

(v) Distribution service of chemical fertilizers

91. In August 2009, the State Council issued Decision on Further Deepening the Reform of the Circulation System of Chemical Fertilizers, lifting the restriction on ownership of the enterprises that may engage in the business of chemical fertilizers, allowing all qualified enterprises, regardless of their ownership, foreign-invested enterprises included, to participate in the distribution of chemical fertilizers and compete in the market.

(4) STRENGTHENING AND ENHANCING THE MULTILATERAL TRADING SYSTEM

92. As always, China is a staunch supporter of the multilateral trading system represented by the World Trade Organization. The WTO is the most important multilateral institutional arrangement regulating trade policies and measures among various countries in the world and laying foundation for maintaining stable international trade environment. Confronted with the severe challenges posed by the global financial crisis, the multilateral trading system is facing two most significant tasks. One is to conclude the Doha Round negotiations at an early date and the other is to fight hard against protectionism.

(i) Doha Development Agenda (DDA)

93. The DDA negotiation is essential to global trade liberalization. Under the circumstances that the global economy has suffered severely during the global financial crisis, concluding the DDA as soon as possible will bring more opportunities and create an open environment for trade. It will further strengthen the multilateral trading system and contribute to recovery and growth of the world economy.

94. The Chinese leaders attach great importance to the Doha Round Negotiation. Given the push and pull effect exerted by the global financial crisis upon the negotiation process, top leaders of China have called for joint efforts of all members on numerous occasions during various World Summits to push for the conclusion of negotiation at an early date with a comprehensive and balanced outcome to achieve the development goal.

95. China has always been an active supporter of the DDA, playing a constructive role in the negotiations in order to achieve fruitful results as early as possible. China has actively participated in various consultations and negotiations at Ministerial as well as Senior Official levels. At the Mini-Ministerial meeting in July 2008, China, taking the interests of all into account, tried its best to bridge the differences between members and spared no efforts in pushing forward the negotiation to reach a consensus. The negotiation failed in the end. However, all members were aware of the role China played. At the 7th WTO Ministerial Meeting at the end of 2009, China called for improvement and strengthening of the multilateral trading system and encouraged all members to send a positive signal to the world, a signal to "open up, advance and reform".

96. It has been nearly nine years since the DDA negotiation was launched. What is on the table is hard won, and cannot be unravelled for any excuse. China will join efforts with other members to push forward negotiation on the basis of the three principles, namely, to respect the mandate for development, lock in achieved outcomes, and base the negotiations on Agriculture and NAMA Chairs' texts of December 2008. In so doing, we can resolve the remaining issues expeditiously and secure a comprehensive and balanced outcome that will benefit all members particularly developing members and LDCs among them, ultimately achieving the development goal.

97. On agriculture, developed members and developing members are facing fundamentally different pressures. China's agriculture tariff is already very low. China has eliminated agricultural export subsidies and only provides a very limited amount of domestic support at de minimis level. As a large developing country with nearly more than 700 million rural population, China upholds the position to substantially reduce trade-distorting domestic support by developed members, substantially reduce high tariffs and tariff escalation, and provide sufficient and effective special and differential treatment to developing members, so as to address their concerns on food security, livelihood of rural population and rural development.

98. With respect to NAMA, China supports the multilateral negotiation process led by the Chair to achieve progress as soon as possible. According to the Hong Kong Ministerial Declaration, the participation in sector arrangement should be on a voluntary basis.

99. The Rules negotiations should contribute to further clarifying and improving the WTO rules, tightening disciplines on investigation in trade remedy, increasing transparency, and preventing and reducing the abuse of trade remedy measures, especially the abuse by developed members against developing ones.

100. On trade in services, China expects the negotiation to reflect the export interests of developing members. In particular, market access should be expanded substantially for the movement of natural persons. The GATS rules negotiations should be conducted in line with the mandate with the aim of achieving a balanced result.

101. The negotiation of trade facilitation will play a positive role in further expanding the world trade. However, quite a number of developing members are concerned with their capacity for future implementation, calling for technical assistance, capacity building and special and differential treatment. Such concerns should be properly addressed in the negotiation.

(ii) Opposing protectionism

102. The Chinese Government opposes protectionism in any form. Since the outbreak of the global financial crisis, the Chinese leaders unambiguously declared China's position on this issue at various international fora. President Hu Jintao joined leaders from other G20 members in the commitment to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO inconsistent measures to stimulate exports. They were also committed to promptly rectify any such measures.

103. As proven by history, protectionism can only aggravate trade disputes and deepen crises. It never helps to turn around economic recession but instead delays the process of recovery. Therefore, the international community has learnt the lessons from history and expeditiously formed a solid common understanding to fight against protectionism, which is of great significance in keeping protectionism from spreading around the world.

104. With impact of the global financial crisis intensifying, protectionism is taking increasingly diversified forms with disguised cover. Each and every country of the world need not only remain fully vigilant against protectionism proliferating in many forms, but also endeavour to translate their serious pledge of combating protectionism into concrete actions.

105. China firmly supports the work carried out by the WTO through its monitoring of protectionism. As required by the monitoring mechanism, China notifies on a regular basis its latest trade-related measures and verifies carefully all the information regarding China gathered and transmitted by the WTO Secretariat, for the sake of transparency of China's trade-related measures adopted since the global financial crisis.

106. In formulating and implementing various policies and measures in response to the crisis, the Chinese Government attaches great importance to combining and taking into account international factors and possible impact of such measures upon other members, making reference to international practices and fully respecting the WTO rules coupled with assessment of WTO consistency of such policies and measures.

(5) DEVELOPING REGIONAL AND BILATERAL ECONOMIC AND TRADE RELATIONS

107. China has continued to develop its economic and trade relations with other countries and regions since the last review under both regional and bilateral frameworks.

(i) Free trade agreements

108. In April 2008, China and New Zealand signed the China-New Zealand Free Trade Agreement, which entered into force in October 2008.

109. In April 2008, the Supplementary Agreement on Trade in Services for the China-Chile Free Trade Agreement was signed. The negotiation of the agreement on the investment in the China-Chile Free Trade Agreement started in January 2009. Six rounds of negotiations have taken place so far.

110. In July 2008, China signed CEPA Supplementary Agreement V with Hong Kong, China and Macao, China, respectively.

111. In October 2008, China and Singapore signed the China-Singapore Free Trade Agreement, which entered into force in January 2009.

112. In February 2009, the Agreement on Trade in Services under the China-Pakistan Free Trade Agreement was signed, which became effective in October 2009.

113. In April 2009, China and Peru signed the China-Peru Free Trade Agreement, which took effect in March 2010.

114. On 9 and 11 May 2009, China signed the CEPA Supplementary Agreement VI with Hong Kong, China and Macao, China, respectively.

115. In August 2009, China and ASEAN signed the Investment Agreement of the China-ASEAN Free Trade Agreement. In January 2010, the China-ASEAN Free Trade Area was fully established.

116. In April 2010, China and Costa Rica signed the China-Costa Rica Free Trade Agreement.

(ii) Aid for Trade

117. China has all along attached great importance to the Aid for Trade initiative of the WTO. In 2009, China responded to the South-South Cooperation Questionnaire and participated actively in the three regional reviews held in Zambia, Jamaica and Cambodia. China has also made financial contributions to the DDA Global Trust Fund within the framework of Aid for Trade to help other developing members, LDCs in particular, fully benefit from the multilateral trading system and better integrate into the global economy.

(iii) Assistance under South-South Cooperation

118. Under bilateral, regional and global cooperation framework, China continues to attach great importance to the South-South Cooperation with other developing countries. This includes providing economic and technical assistance within its best ability to help other developing countries build their development capacity and promote their economic and social development. China's assistance in the areas of infrastructure, agriculture and human resource development and the duty-free treatment and debt exemption granted to LDCs play a positive role in improving the trade capacities of other developing members, LDCs in particular.

119. Since the last review, Premier Wen Jiabao announced a series of concrete measures to support other developing countries in their pursuit of economic and social development at the UN High-Level Meeting on Millennium Development Goals in September 2008 and the Fourth Ministerial Conference of the Forum on China-Africa Cooperation in November 2009. These measures are currently under implementation.

120. China will continue to grant duty-free treatment to products exported to China from LDCs. It will also exempt LDCs and heavily indebted poor countries interest-free loans due. The phased implementation plan will start in 2010 for duty-free treatment covering up to 95% products of these countries. Debt exemption agreements have been signed with 50 countries with 380 overdue debts exempted.

121. China is helping developing countries in Africa and Asia to build agricultural technology demonstration centres. It will also dispatch many more agricultural experts and technical personnel to other developing countries so that the total number will increase to 2,000. China will also provide agriculture training courses in China for 3,000 person/times.

122. In order to assist the recipient countries to develop renewable energy, improve their production and living conditions and promote sustainable development, China will help other developing countries to build more than 100 small clean energy projects by 2013, such as small hydropower, solar power and biogas projects.

123. An agreement was signed in March 2009 in which China contributed 30 million USD to the Food and Agriculture Organization of the United Nations to establish a trust fund. The first instalment of 10 million USD was made in 2009. The fund will be used in South-South Cooperation projects under the framework of the FAO Special Program for Food Security and human resources training.

124. China has also provided food aid and assistance in the areas of healthcare, education and science and technology.

IV. THE WAY FORWARD

(1) MAINTAINING THE CONSISTENCY AND STABILITY OF THE MACROECONOMIC POLICIES

125. A V-shape growth has been witnessed in China's GDP performance between 2008 and 2009 on a year-on-year comparison, indicating an emerging sign of economic recovery. However, given the amount of uncertainties in the current international and domestic economy, the situation faced by China's economy is complicated, with interweaving of the short-term and long-term issues, and interaction of domestic and international factors. Such situation poses mounting difficulties for China to maintain a stable and fairly fast economic development and promote transformation of the pattern of economic growth.

126. Under such circumstances, the Chinese Government will continue to implement proactive fiscal policy and moderately easy monetary policy, while keeping the continuity and stability of such policies, fine-tuning the specificity and flexibility of these policies in light of new situations and conditions and ultimately keeping the pace, steps and priorities in the implementation of these policies. In this regard, China needs to properly balance the relations between achieving steady and faster economic development, adjusting economic structure, and managing the inflation pressures. Specifically, on the one hand, China needs to retain sufficient policy strengths and consolidate the positive signs of the economy towards recovery. On the other hand, China needs to accelerate the adjustment of economic structure to make substantive progress in transforming the pattern of

economic development. At the same time, it also needs to manage inflation expectation and stabilize the general level of prices.

(2) ACCELERATING THE TRANSFORMATION OF THE PATTERN OF ECONOMIC DEVELOPMENT

127. The transformation of the pattern of economic development refers to transforming China's economic growth from overwhelmingly dependent on investment and export to a coordinated boosting of consumption, investment and export, from mainly depending on the secondary industry to mobilizing a driving force of synergy of the primary, secondary and tertiary industries, and finally, from mainly depending on consumption of physical and natural resources to depending on scientific and technological innovation, tapping potentials of human resources, and improvement in management innovation.

128. It seems that the impact of the global financial crisis has constituted a blow to China's economic growth. However, as a matter of fact, it has affected truly the pattern of China's economic development, making the issue of economic transformation more pronounced. For the next step, the Chinese Government will accelerate the transformation of the pattern of economic development and quicken the pace in adjusting the pattern of national income distribution, balancing the development in the urban and rural areas, pushing forward scientific and technological innovation and advancement, building an energy-saving and environment-friendly society, and coordinating economic development and social affairs.

(3) REFORM AND OPENING UP REMAINING THE THEME OF CHINA'S DEVELOPMENT

129. China began the new development era of reform and opening to the outside world in 1978. After taking the path for more than 30 years, China has achieved a great historical transformation from a highly-centralized planned economy to a vibrant socialist market economy and from a closed and semi-closed economy to all-round opening up. In the past two years, despite the unprecedented global financial crisis sweeping across the globe and inflicting upon the world economy, the Chinese Government's resolution to reform and open up stay unchanged and its steps have not stopped at all.

130. Only by adhering to reform and opening up can China continue to survive and thrive. The policies and measures adopted by the Chinese Government in order to speed up the transformation of the pattern of economic development are not in conflict with the general policy of reform and opening up. Instead, the process of accelerating the transformation of the pattern of economic development will be reenergized and driven by further deepening reform and intensifying opening up.

131. China will follow the road of peaceful development and adhere to the basic principle of seeking mutual benefits and win-win results in the grand course of its opening up. China will continue to commit itself to maintaining a stable international trade environment and opposing protectionism. China will spare no efforts in strengthening the multilateral trading system, calling for an early conclusion of the DDA with a balanced outcome. China stands ready to continue its economic and trade relations with all other countries and regions through bilateral, regional and multilateral trade and investment liberalization, so as to bring welfare and benefits to both the Chinese people and the people of other countries and regions in the world.
