



**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.

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## 1 INTRODUCTION

1.1. Since the last trade policy review in 2014, in the face of complex and changing external environment as well as new circumstances and developments in domestic economy, the Chinese government has taken the initiative to adapt to, grasp the direction of and guide the new normal in economic development and adhered to its overall policy keynote of making progress while maintaining stability. It has brought forth new approaches in the adjustment of its macro economy, taken into its policy-making consideration all the factors of stabilizing growth, promoting reform, adjusting structure, benefiting the people's livelihood and preventing risks, and thoroughly implemented a development strategy driven by innovation. While comprehensively deepening its domestic reform, actively pushing forward a new round of opening up and pressing ahead with supply-side structural reform in good time, China has managed to secure stable development of its national economy, and made important contributions to the recovery and development of the world economy. China's economy contributed to over 25% of global economic growth in 2015.

1.2. The Chinese government has driven and expanded its opening up to new degree of depth, while comprehensively deepening its domestic reform. It has committed itself to building a new system of open economy and accelerated its steps in building new advantages in international competition. It has promoted innovative development in foreign trade, facilitated balanced investment development from a strategic perspective, and actively explored the cultivation of a new system of rules and regulatory patterns for cross-border trade and investment through popularizing the mature experiences and practices of the Shanghai Pilot Free Trade Zone and establishing three new pilot free trade zones in Guangdong, Tianjin and Fujian. While continuing to implement the Going Global strategy, China has focused on pushing forward the Belt and Road initiative, opened inland and border areas wider to the outside world, with a view to forming a new pattern of all-round opening up and realizing the modernization in the system and capacity of governing the open economy.

1.3. The Chinese government has continued to develop its foreign economic and trade relations in an all-round way. China insists that the multilateral trading system should serve as the main channel for trade and investment liberalization, and supports the mutually reinforced development through bilateral, regional, sub-regional and multilateral cooperation. China's proposal on Solidarity Work Program in promoting the multilateral trade talks has built consensus over multilateral negotiations on topics including the remaining issues of the Doha Round. China has continued to be a staunch player in promoting economic globalization, undertaking trade and investment liberalization and facilitation, participating and formulating international rules, guarding common interests, and building a harmonious world, and played a positive role in responding to various challenges to global economy and trade, and promoting more balanced and sustained development across the world.

## 2 ECONOMIC AND TRADE ENVIRONMENT AND MACROECONOMIC POLICY DIRECTION

### 2.1 ECONOMIC AND TRADE ENVIRONMENT

#### 2.1.1 International economic environment

2.1. Since the last review in 2014, China's economic and trade development has continued to face severe and complicated international environment. The world economy still lingers in the in-depth adjustment period after the crisis and features sluggish overall recovery. Slow growth remains during adjustments and divisions, and uncertainty and destabilizing factors have increased. Globally, we witnessed slow growth in industrial production, weak trade, declining bulk commodity prices and picked-up fluctuations in the international financial market. The growth rate of the world economy in 2015 was the slowest in the past six years.

2.2. The complexity and correlation between various economies have increased obviously. With insufficient aggregate demand, developed countries have seen remarkably reduced demand for importing from developing countries, which caused significant impact on the latter's economy. The uncertainty of the macroeconomic policies of major economies has risen.

### 2.1.2 Domestic economic situation

2.3. In the past two years, China's economic development has progressed and improved steadily at a medium to high speed. The economy has been operating within a proper range, positive progress was made in structural adjustment, and the growth of new momentum for development accelerated. Bumper harvests were reaped again. The contribution rate of the service sector to economic growth exceeded 50% for the first time. Industrial upgrading showed an obvious trend and market sales saw fast increase. Consumer prices maintained a relatively low increase rate, employment secured overall stability, personal income steadily increased and fiscal and financial sectors maintained stable generally.

2.4. China's economy still confronts many difficulties and problems while maintaining a general trend of stable development. China was still simultaneously dealing with the shifting of its economic growth speed, structural adjustments and absorbing the effects of previous economic stimulus policies. Economic growth was still under considerable downward pressure, acute structural contradictions and challenges in the smooth transition in growth impetus.

2.5. During 2014 and 2015, China's gross domestic product (GDP) achieved stable growth while its growth rate slowed down. GDP in 2014 was 63.59 trillion yuan. Calculated at comparable prices, it showed a year-on-year growth of 7.3%, and an increase of 7.3%, 7.4%, 7.1% and 7.2% quarter by quarter. GDP in 2015 was 67.6708 trillion yuan, calculated at comparable prices, showing a year-on-year growth of 6.9%, and an increase of 7.0%, 7.0%, 6.9% and 6.8% quarter by quarter.

2.6. The consumer price index (CPI) in 2014 rose by 2.0% over the previous year, and that for 2015 rose by 1.4% year on year. Per capita disposable income of the whole country in 2014 was 20,167 yuan, showing a nominal growth of 10.1%, and 8.0% in real terms over the previous year. Per capita disposable income of the whole country in 2015 was 21,966 yuan, showing a nominal growth of 8.9%, and 7.4% in real terms year on year.

2.7. In terms of labour cost, 19 provincial authorities nationwide adjusted their minimum wage standards in 2014, with an average increase rate of 14.1%. In 2015, 27 provincial authorities adjusted their minimum wage standards, with an average increase rate of 14.9%. Currently, Shanghai has the highest standards for both the minimum monthly wage and the minimum hourly wage nationwide, standing at 2,190 yuan and 19 yuan respectively. The average monthly income of migrant workers was 2,864 and 3,072 yuan respectively in 2014 and 2015, showing a year-on-year increase of 9.8% and 7.2% respectively.

## 2.2 MACROECONOMIC POLICY

### 2.2.1 New thinking on macroeconomic policy

2.8. In face of the complex internal and external environment, the Chinese government has maintained its strategic focus in stabilizing the macroeconomic policy, viewing domestic and international situations as a whole and taken the initiative in adapting to and guiding the new normal. Instead of adopting short-term strong stimulation measures, it has continued to innovate thoughts and ways of macroeconomic adjustment and applied range-based, targeted, and well-timed regulation so as to activate vitality, bolster areas of weakness and make entities stronger.

2.9. The Chinese government has continued to adhere to its overall policy keynote of making progress while maintaining stability, taken into consideration all the factors of stabilizing growth, promoting reform, adjusting structure, benefiting the people's livelihood and preventing risks, and implemented proactive fiscal policy and prudent monetary policy. It exerted all efforts to deepen reform and opening up, stimulate market vitality and cultivate innovation impetus and effectively supported economic operation through the new twin engines of popular entrepreneurship and innovation, and expanded supply of public goods and services.

### 2.2.2 Fiscal policy

2.10. The Chinese government has continued to implement the proactive fiscal policy and with stepped-up efforts. In 2014 and 2015, fiscal deficits accounted for 2.1% and 2.4% of GDP

respectively. The outstanding balance on central government debts was 9.5655 trillion yuan at the end of 2014, and 10.6599 trillion yuan at the end of 2015, accounting for 15.04% and 15.75% of GDP respectively.

2.11. Fiscal expenditure has continued to favour weakly funded areas that would help promote people's livelihood, energy conservation, emission reduction, and ecological environment and so forth. In 2014, the central government spent 706.611 billion yuan in social security and employment, an increase of 8.5%; 293.126 billion yuan in health care, a surge of 11%; and 410.159 billion yuan in education, a rise of 8.2%. It expanded the scope of structural tax reductions, cut fees across the board, comprehensively popularized the pilots in collecting value-added tax (VAT) instead of business tax, and widened the scope of preferential taxation policy for small and micro enterprises.

### **2.2.3 Monetary policy**

2.12. In 2014 and 2015, the Chinese government continued to adhere to the prudent monetary policy, and maintained its continuity and stability. It made the regulation more targeted and effective and in a measured way, carried out timely and moderate pre-emptive adjustments and fine tuning of its monetary policy and constantly supplemented and improved its policy tool set. Financial reform was broadened along new horizons and structural adjustment, economic transformation and upgrading were provided with a neutral and moderate monetary and financial environment, to promote the scientific and sustainable development of economy.

2.13. In 2014, the People's Bank of China employed comprehensively multiple monetary policy instruments such as open market operation, short-term liquidity adjustment tools and standing lending facility to ensure reasonable and ample liquidity. It implemented targeted cut of reserve requirement ratio (RRR) twice and cut RMB loan and deposit base rates once. In 2015, the People's Bank of China employed comprehensively multiple instruments such as open market operation, medium-term lending facility, and the universal cut of deposit reserve ratio to reasonably adjust the liquidity in the banking system. It cut RMB loan and deposit base rates five times, guided the reduction of reverse repo rates in open market nine times, and implemented targeted RRR cut. Monetary loan and public financing have grown steadily, loan structure continued to improve and the problem of high financing costs of enterprises alleviated to a certain extent.

## **2.3 ADJUSTING ECONOMIC STRUCTURE AND TRANSFORMING DEVELOPMENT PATTERN**

2.14. Adhering to the concepts of innovative, coordinated, green, open and sharing development, the Chinese government has continued to focus on improving the quality and benefits of economic development and further intensified its efforts in stabilizing growth and adjusting structure. While moderately expanding aggregate demand, it has focused on strengthening supply-side structural reform and completing the tasks in addressing overcapacity, reducing inventory, deleveraging, lowering costs, and bolstering areas of weakness. While deepening reform in an all-round way, the Chinese government implemented the innovation-driven development strategy and endeavoured to fully tap the potential of economic growth. On the one hand, the market was enabled to play a decisive role in resource allocation so as to cultivate a new engine; on the other hand, the government's role was brought into better play to transform and upgrade the traditional engine.

### **2.3.1 Modestly expanding domestic demand and doing a good job in supply-side structural reforms**

2.15. Efforts were made to exploit the potential of domestic demand, moderately expand aggregate demand, actively adjust and reform the demand structure, promote the effective connection between supply and demand and organically combine investment with consumption so as to provide steady and persistent support to economic development from internal demand. The Chinese government has continued to be committed to enhancing the fundamental role of consumption in stimulating economic development and giving play to the crucial role of effective investment in stabilizing growth and structural adjustment.

2.16. China's domestic consumer market has grown rapidly over the past two years. Total retail sales of consumer goods reached 27.19 trillion yuan and 30.09 trillion yuan respectively in 2014

and 2015, realizing nominal year-on-year growth of 12.0% and 10.7%. After adjustment for price changes, the increases in real terms were 10.9% and 10.6% respectively. Upgrading of the consumption pattern of Chinese residents also accelerated. A number of new forms and areas of consumption were very vigorous, and the trade volume of e-commerce exceeded 20.8 trillion yuan in 2015, which had doubled that of 2013. In 2014, 6 consumption projects were conducted in information consumption, green consumption, stabilization of housing consumption, improvement of cultural, educational and sports consumption, upgrading of tourism and leisure consumption, and elderly care, housekeeping and health consumption. 2.8 trillion yuan of relevant consumptions were driven by 3 trillion yuan of investment in the above areas.

2.17. The Chinese government has sped up reform in the circulation system of domestic trade. On 25 August 2015, comprehensive pilots on the circulation system reform in domestic trade were launched in 9 cities including Shanghai and Nanjing to explore effective experiences in the establishment of business environment under the rule of law. In 2015, the State Council printed and issued the *Opinions on Promoting the Modernization of Domestic Trade Circulation and Building the Business Environment under the Rule of Law*, and the General Office of the State Council issued the *Opinions on Promoting Online and Offline Interactions and Accelerating the Innovation, Development, Transformation and Upgrading of Business Circulation* to promote the transformation, innovation and development of domestic trade circulation. Efforts were made to explore the establishment of traceability systems for important products. Currently, 13,500 enterprises have established traceability systems for meat and vegetables, covering over 200,000 business units. A traceability network across the country that connects urban and rural areas has initially taken shape.

2.18. The Chinese government has continued to pay attention to playing the crucial role of investment and has increased effective investment to bolster areas of weakness and adjust structure. Investment arranged in the central budget mainly went to low-income housing, infrastructure in the areas of agriculture, water conservancy, and railway, people's livelihood projects such as those in social services, as well as energy conservation, emission reduction, and ecological environment. In 2014, China's total social fixed assets investment amounted to 51.2 trillion yuan with an increase of 15.2%. In 2015, fixed assets investment (excluding rural households) reached 55.16 trillion yuan with an increase of 10.0%. Private investment increased by 10.1% and its proportion to fixed assets investment (excluding rural households) grew to 64.2%.

2.19. In 2014 and 2015, China's GDP grew by 7.3% and 6.9% respectively on a year-on-year basis. In 2014, final consumption expenditure, gross capital formation and net export of goods and services contributed to 49.6%, 45.9% and 4.5% of GDP growth respectively, and stimulated GDP to grow by 3.6, 3.4 and 0.3 percentage points respectively. In 2015, consumption contributed to 60.9% of social economic growth, a rise of 11.3 percentage points over 2014. China has successfully realized the major transition from an economy driven mainly by investment and foreign trade to one mainly driven by domestic demand, especially consumption.

### **2.3.2 Accelerating the development of the service sector**

2.20. Since the last review, the service sector has enjoyed comprehensive and fast development as well as a constantly expanded scale, and accounts for half of the national economy. With the structure further optimized, it has played a positive and important role in promoting employment, stimulating consumption and improving people's livelihoods and become a major impetus and a new engine that fuels national economic growth. The Chinese government has continued to encourage non-government players to increase their investment in the service sector, deepen various reforms in the service sector, and released the guiding opinions on promoting the development of information services, culture, tourism, sports, elderly care, health, life service and other service industries. The Chinese government has focused on promoting the development of emerging industries such as energy conservation and environment protection, and endeavoured to cultivate a sound policy and institutional environment for the development of the service sector.

2.21. Since the last review, the number of practitioners in the service sector has steadily increased, reduced costs like tax and fees have stimulated the market vitality, fixed assets investment has grown fast, and the ability to attract foreign capital has improved. Trade structure has been constantly optimized, emerging industries have grown rapidly and traditional industries have quickened their steps of transformation and upgrading. The Internet economy has enjoyed

explosive growth, information consumption has surged, and the scales of railway, road, water transportation and civil aviation networks have constantly expanded. Postal and express delivery industries have developed by strides, tourism has maintained fast growth, and public service has enjoyed marked development achievements.

### 2.3.3 Strengthening the protection of intellectual property rights

2.22. Since its last review, the Chinese government has continued to strengthen its law enforcement in the IPR protection and reinforced the long-term mechanism. The National Leading Group on the Fight Against IPR Infringement and Counterfeiting headed by a vice premier of the State Council has been expanded to include 30 members. Leading groups and working mechanisms have been correspondingly established by the members of the Group and the people's governments at provincial, municipal and county levels to ensure implementation at all levels. A working pattern characterized by joint actions between central and local governments, coordination between various departments, close collaboration from administrative and judicial bodies and full participation by all sectors of the society has initially taken shape. IPR infringements and the manufacturing or selling of counterfeiting commodities have been effectively suppressed.

2.23. On 1 May 2014, the *Judicial Interpretation on Jurisdiction of Trademark Cases and Application of Laws after Implementation of the Amendment Decisions of Trademark Law* promulgated by the Supreme People's Court began to be implemented. On 1 April 2016, the *Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Patent Infringement Disputes (II)* began to be implemented. The Chinese government amended the *Implementation Regulations of the Trademark Law* and is amending the *Copyright Law* and the *Patent Law*. It has carried out special programs to crack down on online infringement and piracy, launched the QingFeng action to preserve the overseas image of products made in China, strengthened management over the source of production, combined international cooperation with domestic efforts in the import and export stages, and improved the quality of exported products made in China.

2.24. In addition, the Chinese government has continued to proactively carry out the public legal education on IPR across communities and in the society. It organized publicity and educational activities on special occasions such as the International Day for Protecting Consumers Rights, the World Intellectual Property Day, the Day for Preventing and Combating Economic Crimes and the National Legal System Publicity Day. News media is encouraged to cover typical cases on IPR infringement and counterfeiting activities in order to respond to concerns of the general public. The court trials of IPR cases are broadcast online and the relevant information on those cases are disclosed in accordance with law. These efforts have effectively guided the entire society to participate in IPR protection, and brought law enforcement and judicial activities under public scrutiny, thus contributing to maintaining a fair and competitive market order.

### 2.3.4 Pursuing innovation-driven development

2.25. Faced with complicated international and domestic environment, the Chinese government has regarded innovation as a core priority in its national development agenda and the primary motive force that leads development. It formulated and implemented the *Outline of National Strategy on Innovation-driven Development*, pushed forward entrepreneurship and innovation by the public, and made great efforts to cultivate new elements, develop new industries and create new models. The boom of entrepreneurship and innovation has played an increasingly greater supporting and leading role in economic and social development. Giving rise to new supply and releasing new demand, entrepreneurship and innovation by the public constitutes a strong motive force of development, an effective support for employment expansion, a major innovation in income distribution pattern and an effective channel for promoting social justice.

2.26. The Chinese government has promoted the reform of scientific and technological systems in an all-round way, pressed ahead with improvements in innovation capacity in an orderly fashion, and built a group of new technological centres, research centres and laboratories of enterprises recognized by the State. It has actively implemented the guiding opinions on the Internet Plus action and identified 11 priorities, i.e. Internet Plus entrepreneurship and innovation, collaborative manufacturing, modern agriculture, smart energy, inclusive finance, people-benefiting services,



efficient logistics, electronic commerce, convenient transportation, green ecology and artificial intelligence.

2.27. Guided by the strategy of innovation-driven development, big data, electronic commerce, logistics and express delivery as well as other new forms of business have constantly emerged. With the accelerated development of supportive platforms for public entrepreneurship, crowdsourcing, crowdsupporting and crowdfunding, over 2,300 maker spaces of all kinds and 453 demonstrative institutions for technology transfer were established nationwide, and the total amount of technology trading approached 1 trillion yuan. Besides, interconnection has been realized among public service platforms for small and medium-sized enterprises (SMEs) in 26 provinces and the first National Public Entrepreneurship and Innovation Week was successfully held.

### **2.3.5 Advancing transformation and upgrading of traditional industries and energy conservation and emission reduction**

2.28. The Chinese government pays attention to both the cultivation of emerging industries and the transformation and upgrading of traditional industries. The Made in China 2025 program and the three-year action plan for enhancing the core competitiveness of manufacturing industries were launched, and a number of key projects regarding enhancing the core competitiveness of manufacturing industries, industrial revitalization and technological renovation were pushed forward. Traditional industries have realized transformation and development through climbing up the industrial value chains and optimizing product structure. The proportion of hi-tech industry has increased year on year with an ever higher annual growth margin.

2.29. The Chinese government attaches great importance to conserving resources, protecting environment and addressing climate change and has been vigorously promoting energy conservation, emission reduction, and pollution prevention and control, proactively dissolving excess and outdated production capacity in steel, cement, electrolytic aluminum and other industries of high energy consumption and high emission, treating these tasks as important component of China's efforts in the adjustment of industrial structure and transformation of its economic development pattern. Control over total coal consumption is adopted in key cities for air pollution treatment, and the action plan for the energy-conserving and emission-reducing upgrading and transformation of coal-fired power plants has been thoroughly implemented. Pilots of carbon emissions permit trading are run in seven localities including Beijing, Tianjin, Shanghai, Chongqing, Guangdong, Hubei and Shenzhen.

2.30. Prominent effects have been made in energy conservation and emission reduction, and profound changes have taken place in the energy consumption structure. In the past three years, China has accumulatively closed down backward production capacities of over 90 million tons in iron-making and steel production, 230 million tons in cement, more than 76 million weight cases in plate glasses and over 1 million tons in electrolytic aluminum. The energy consumption per 10,000 yuan of GDP has dropped by 13.5% in cumulative terms. In 2015, the energy consumption and carbon dioxide emission per unit GDP dropped by 5.6% and over 6.6% respectively. Sulfur dioxide emission, chemical oxygen demand and emissions of ammonia nitrogen and nitrogen oxides dropped by 5.8%, 3.1%, 3.6% and 10.9% respectively. The proportion of coal consumption in total energy consumption in 2015 dropped by 4.5 percentage points compared to that of 2012, while the share of clean energy such as hydropower, wind power, nuclear power and natural gas rose by 3.4 percentage points.

### **2.3.6 Consolidating and strengthening the foundation for agriculture**

2.31. Agriculture is a key industry in terms of expanding domestic demand and adjusting economic structure and is of great significance for the long-term stability and sustainable development of China's economy and society. The Chinese government unwaveringly gives top priority to the issues of agriculture, rural development and the farmers' wellbeing, focuses on safeguarding food security and increasing farmers' income, accelerates the transformation of agricultural development patterns, and firmly promotes agricultural modernization.

2.32. Since the last review, the Chinese government has continued to increase investment in agriculture and rural areas. Efforts were made to accelerate innovation and extension of

agriculture technology; vigorously advance agricultural mechanization; intensify infrastructure construction including irrigation systems, power grids, highways, natural gas and housing; reform and improve the policy on agricultural support, including integrating the subsidy to purchase agricultural machinery and tools, the subsidy to promote the use of superior strains and seeds and the direct subsidy to farmers into agriculture support and protection subsidy, and adjusting the policy goal into mainly supporting the protection of farmland fertility; move forward rural reform, carry out pilots on mortgage loans over rural contracted land use rights and farmers' housing property rights, conduct pilots on the reform of the rights and functions of rural collective assets and shares; and implement crucial poverty alleviation projects. The Chinese government has also strengthened coordinated urban and rural development during the course of urbanization and orderly realized the urbanization of rural migrant population.

2.33. Since the last review, agriculture and rural economy have enjoyed steady development, and the grain yield has risen for 12 consecutive years. From 2011 to 2015, impoverished rural population were reduced by over 100 million, and more than 300 million rural people gained access to safe drinking water. In 2014, per capita net income of rural residents was 9,892 yuan, growing by 9.2% in real terms. 230,000 kilometres of rural highways were newly built or rebuilt. In 2015, the per capita disposable income of rural residents reached 11,422 yuan, a rise of 7.5% in real terms. The growth rate was higher than that of the economy and the income of urban residents for the 6<sup>th</sup> consecutive year. The urban-rural resident income ratio dropped to 2.73:1.

## 2.4 CONTINUING TO DEEPEN THE REFORMS STEADFASTLY

2.34. Reform is a basic state policy that the Chinese government adheres to over the long run. Since the last review, China has continued to set the reform of economic system as priority, collaboratively pushed forward reforms in other areas, and formed a joint force to press ahead with the reforms. The core of economic system reform is to handle well the relationship between government and market, let the market play the decisive role in the allocation of resources and bring the role of the government into better play. Since the last review, various specific working items of reform have been advanced comprehensively.

### 2.4.1 Further promoting reform of the administrative examination and approval

2.35. The Chinese government has sped up the transformation of government functions, further promoted the streamlining of administration and the delegation of powers to lower levels, improved regulation and optimized services. By reducing the number of investment projects and items of production and operation activities subject to examination and approval, qualification permissions and administrative undertaking charges, strengthening regulation in process and afterwards and optimizing public service procedures, market vitality and social creativity have been constantly released. In order to ensure the implementation of various administration-streamlining and power-delegating reform measures, the Chinese government has proposed to the Standing Committee of the National People's Congress to amend 30 laws and 82 administrative regulations since 2014.

2.36. In 2014, 246 items previously subject to examination and approval at the central government level were abolished or delegated. In 2015, 311 such items were abolished or delegated, the examination and approval of all non-administrative licensing were abolished, so were 214 items subject to the examination and approval implemented by local governments as designated by the Central Government, and 123 items subject to vocational qualification licensing or identification.

2.37. In 2015, the Chinese government launched a comprehensive nationwide campaign to sort out and standardize charges. Accumulatively 106 administrative undertaking charges and 5 governmental funds were abolished, terminated or exempted, and 17 charging standards were lowered at the central government level. As a result, enterprises and individuals may pay 57 billion yuan less each year. 345 standards on administrative undertaking charges were abolished or terminated by various provinces (regions). Consequently, enterprises and individuals may pay 18 billion yuan less each year.

2.38. On 2 October 2015, the State Council released the *Opinions of the State Council on Implementing the Negative List System for Market Access*. According to the Opinions, a negative

list system would be piloted in some regions and will be officially adopted across the country as of 2018. The document requires relevant departments to waste no time in formulating the negative list for foreign investment. The negative list system for market access refers to a series of institutional arrangements where the State Council clearly lists the sectors, areas and businesses prohibited or restricted from the market within the territory of the People's Republic of China, and governments at various levels take corresponding management measures according to law. All kinds of market players may enter the sectors, areas and businesses outside the negative list on an equal basis and according to law. The introduction of the negative list management approach into the regulation of domestic markets indicates the Chinese government's resolve to deepen reforms and establish fair and transparent market rules and is conducive to further clarifying the boundary of the government's functions. In March 2016, National Development and Reform Commission and the Ministry of Commerce released the *Draft Negative List for Market Access* (to be used in pilot regions) which has been put into trial use in Tianjin, Shanghai, Fujian and Guangdong.

#### 2.4.2 Pushing forward business system reform in an all-round way

2.39. On 1 March 2014, the system of paid-in capital was officially replaced by that of subscribed capital for company capital registration. The Chinese government has continued to carry out reforms on the business registration system since then, and 85% of the pre-stage examination and approval procedures of industrial and commercial registration were streamlined. In June 2015, the State Council released the *Opinions on Accelerating the Registration System Reform of Three Certificates in One*. Previously, an enterprise had to submit separate registration applications before receiving the Industrial and Commercial Business License approved and issued by the industrial and commercial administrative department, the Organization Code Certificate approved and issued by the quality and technology supervision department and the Tax Registration Certificate approved and issued by the taxation department. According to the Opinions, an enterprise may submit only one application before receiving a business license carrying a unified social credit identifier for legal entities and other organizations approved and issued by the industrial and commercial administrative department. The registration mode characterized by one license and one code has provided optimized business and operation environment for the enterprises to develop.

2.40. The number of newly-registered enterprises reached 3.651 million in 2014, showing a year-on-year increase of 45.9%. Among them, 3.451 million were private enterprises, showing a year-on-year increase of 48.3% and accounting for 94.5% of all the newly-registered enterprises. In 2015, the number of newly-registered enterprises reached 4.439 million, showing a year-on-year increase of 21.6%. On average, 12,000 new enterprises got registered every day. Among them, 4.212 million were private enterprises, showing a year-on-year increase of 22% and accounting for 94.9% of all the newly-registered enterprises.

#### 2.4.3 Accelerating reform of investment examination and approval

2.41. Since the last review, important steps have been taken in the reform of the project verification system which is conducive to realizing independent investment by enterprises, releasing the potential of social investment, giving play to the key role of investment in promoting development and providing broader platforms for the innovation and entrepreneurship of various types of investors. Based on the 2013 revision, the Chinese government revised the *Catalogue of Investment Projects Subject to Government Verification* again in 2014, repealing 15 verification requirements and changing them into items subject to filing requirements and delegating 23 items to be verified by local governments. After the revision, the number of projects subject to verification at the national level decreased by 76 % in cumulative terms over 2 years. In 2014, National Development and Reform Commission released the revised *Administrative Measures for Investment Projects Subject to Government Verification*, *Administrative Measures for the Verification and Registration of Foreign-invested Projects* and *Administrative Measures for Verification and Registration of Overseas Investment Projects*, and then revised relevant articles of these measures in December 2014.

2.42. 45. As for foreign-invested projects, overall verification has been changed into universal filing combined with limited verification, and over 95% of foreign-invested projects are subject to management through filing. The verification authority over all the encouraged projects with total investments (including capital increment) of less than US\$1 billion with the requirements that

Chinese partners shall hold majority shares (or relative majority shares) as specified in the *Catalogue for the Guidance of Industries for Foreign Investment* have been delegated to local governments, and the verification authority over restricted projects with total investments (including capital increment) of less than US\$100 million have been delegated to governments at the provincial level. The scope of verification for overseas investment projects has been drastically reduced. Except for those involving sensitive countries and regions and sensitive industries, verifications have been abolished and the projects are now managed through filing. Only less than 2% of the projects are subject to verification. The authority of competent investment departments of governments at the provincial level has been expanded. The overseas investment projects with less than US\$300 million of Chinese investment implemented by local enterprises not subject to verification only need to be filed with the competent investment departments of the governments at the provincial level. Besides, reform of railway investment and financing system has been actively moved forward.

#### **2.4.4 Reform of state-owned enterprises and development of the private economy**

2.43. In order to promote the common development of economy of various ownerships, the Chinese government has constantly enhanced its support to SMEs, particularly small enterprises with low profits. From 1 October 2015 to 31 December 2017, the upper limit of the annual taxable income of small enterprises with low profits that enjoy preferential income tax policies has increased from 200,000 yuan to 300,000 yuan (including 300,000 yuan). 50% of the income of these enterprises is included in the taxable income and the enterprise income tax is charged at the rate of 20%. Effective from 1 August 2013, small-scale taxpayers of VAT and taxpayers of business tax with monthly sales of not more than 20,000 yuan has been temporarily exempted from VAT and business tax. From 1 October 2014 to 31 December 2017, the application scope of this preferential treatment has been extended to small-scale taxpayers of VAT and taxpayers of business tax with monthly sales of not more than 30,000 yuan. From 1 November 2011 to 31 December 2017, the lending contracts concluded between financial institutions and small enterprises with little profits have been exempted from stamp duty. Starting from 1 January 2015, small enterprises with little profits have been exempted from 42 administrative undertaking charges at the central government level.

2.44. The Chinese government has continued to encourage and guide the healthy development of private capital. In November 2014, the State Council released the *Guiding Opinions on Innovation of Investment and Financing Mechanisms in Key Areas to Encourage Social Investment*. In 2015, the State Council printed and issued the *Guiding Opinions on Promoting the Model of Public-Private-Partnership in Public Service Sectors*. By widening market access, innovating the investment operation mechanisms, popularizing government purchase of social services, public-private partnership and other market-oriented approaches, the government has encouraged and guided private investment to participate in the construction, operation and management of public products and public services. Private investment has become more active. In 2015, private investment in fixed-asset investment (excluding rural households) rose by 10.1%, accounting for 64.2% of total investment.

2.45. Besides, the Chinese government has continued to relax the restrictions for private capital to enter the financial sector, and actively developed private banks, financing guarantee and financial leasing. In 2015, the *Guiding Opinions on Promoting the Development of Private Banks* were issued, and private banks entered a stage of normalized development. As of January 2016, there had been five private banks, eight private financial leasing companies and two private consumer finance companies in operation.

2.46. Since the last review, China has continued to deepen the reform of state-owned enterprises (SOEs). In August 2015, The *Guiding Opinions on Deepening the Reform of State-Owned Enterprises* were released, dividing SOEs into commercial enterprises and non-profit enterprises. Demonstrations and pilots on mixed-ownership reforms were accelerated in railway, civil aviation, telecommunications and the military industry. Pilots were conducted on fulfilling the functions and rights of boards of directors, market-oriented recruitment of managers and the professional manager system, and improvement of the modern enterprise system was facilitated. Remuneration distribution systems matching socialist market economy were adopted, state-owned capital investment and operation companies were reorganized and rebuilt, and the function transformation of state-owned assets supervisory agencies were sped up towards mainly the management of capital. Efforts have been accelerated to repeal the social functions performed by

the SOEs and address problems left from history, the system of budgeting for state capital operation has continued to be improved, with the percentage of earnings from state capital turned over to public finance raised.

2.47. At the end of 2015, the number of central enterprises for which the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) performed the responsibilities of an investor was reduced to 106 from 112. By the end of June 2013, there had been altogether 353 publicly listed companies controlled by central enterprises and their subsidiaries. 55.8% of the total assets of central enterprises, 59.1% of their net assets and 60.8% of their operating revenue came from listed companies. The reform of operating budget of state-owned capital has moved on. Starting from 2014, the proportion of state-owned capital earnings to be turned over to public finance by the central enterprises has been raised by another 5 percentage points on the basis of the original level.

#### **2.4.5 Pushing forward reform of fiscal and taxation system**

2.48. In recent years, the Chinese government has vigorously pushed forward reform of the fiscal system. A framework of financial budget system was by and large formulated, consisting of general public budget, government fund budget, budget for state-owned capital operation and budget for social security fund. Fiscal transparency has been constantly improved. Since the last review, efforts have been made to reform the transfer payment system from the central government to local governments and increase the proportion of budget for central state-owned capital operation transferred into general public budget. The taxation systems applied to the domestic and foreign-invested enterprises have been unified, VAT transformation has been realized, the pilot program of levying VAT in lieu of business tax implemented, and the reform on the ad valorem calculation and collection of resources tax carried out in an all-round way. The Chinese government has also pressed ahead with reform of consumption tax and legislation on environmental protection tax, and gradually promoted the reform of personal income tax that combines comprehensive and classified measures.

2.49. The pilot program of levying VAT in lieu of business tax was first launched on 1 January 2012 in Shanghai in the transportation industry (railway transportation excluded) and six service sectors, i.e. research, development and technology, information technology, cultural creative ideas, logistics assistance, tangible movable leasing and authentication and consultation. Starting from 1 September 2012, Beijing, Jiangsu and other places have been successively included in the pilots. On 1 August 2013, the pilot program was further expanded across the country and included the production, distribution and broadcasting of radio, film and television works. On 1 January 2014, railway transportation and postal industry were included in the pilot program. On 1 June 2014, telecommunications were covered. By the end of 2015, the pilot program on levying VAT in lieu of business tax had covered 5.92 million taxpayers throughout the country. Among them, 1.13 million were general taxpayers and 4.79 million were small-scale taxpayers. Since the launch of the project in 2012, an accumulative tax reduction of 641.2 billion yuan has been realized in four years.

2.50. Starting from 1 May 2016, the scope of the pilot program has expanded to construction, real estates, finance and living services, covering all industries of goods and services. As the VAT of machinery and equipment purchased by enterprises has been brought into the deductive range, new real estates are allowed to be covered in the deductive range to add income deduction, to ensure decrease in tax burdens for all industries and promote and expand effective investment. Meanwhile, the preferential business tax policy originally enjoyed by the newly-added pilot industries has continued in principle, with transitional measures applied to specific industries. It is estimated that the pilot program of levying VAT in lieu of business tax will result in the tax reduction of over 500 billion yuan for enterprises in 2016.

#### **2.4.6 Deepening reform of financial system**

2.51. The Chinese government has pushed forward market-based reform of interest rates in an orderly fashion. On 20 July 2013, the People's Bank of China (PBOC) thoroughly removed the control over the loan rates of financial institutions. In March 2014, PBOC removed the upper limit of interest rate for small-amount foreign currency deposits within the China (Shanghai) Pilot Free Trade Zone. In May 2015, it removed the upper limit of interest rate for small-amount foreign

currency deposits across the country. The removal of the upper limit of interest rate for deposits in October 2015 marked the general removal of control over interest rates in China.

2.52. The Chinese government has continued to move forward market-based reform of RMB interest rate and given play to the market's decisive role in exchange rate formation. The floating range of RMB exchange rate has gradually expanded and the elasticity of exchange rate enhanced. On 17 March 2014, the fluctuation range of the exchange rate of RMB against US\$ on the interbank foreign exchange spot market was widened from 1% to 2%. Since July 2014, China has removed the floating range restrictions over banks US\$ quotations to their customers. In 2015, the central parity rate of RMB against US\$ (annual mean value) was 6.2284 yuan, the year-on-year increase of the BIS real effective exchange rate was 3.93%, and the year-on-year increase of the BIS nominal effective exchange rate was 3.66%. From the reform of the RMB exchange rate formation mechanism in 2005 to December 2015, the BIS nominal effective exchange rate of RMB appreciated by 45.87% and its real effective exchange rate appreciated by 56.15% in cumulative terms.

2.53. Since 2015, China has further strengthened the market supply and demand-based mechanism that adjusts exchange rates in reference to a basket of currencies. On 11 August 2015, PBOC improved the quotation mechanism of the central parity of RMB against US\$. Before the market opens on each business day, market makers provide quotations of central parity to China Foreign Exchange Trade System (CFETS) by referring to the closing rate of the inter-bank market on the previous day, and taking into account demand and supply in the foreign exchange market and exchange rate movements of major international currencies, so as to make the quotation mechanism of the central parity rate of RMB against US\$ more market-based and better serve as a benchmark. On 11 December 2015, CFETS released the CFETS RMB exchange rate index and gave a RMB exchange rate index in reference to the BIS currency basket and the SDR currency basket, so as to maintain the basic stability of RMB exchange rates against a basket of currencies. On the whole, the market supply and demand-based adjustment mechanism in reference to a basket of currencies has well balanced the relations among the trend of market supply and demand, maintaining basic stability against a basket of currencies and stabilizing market expectations.

2.54. On 1 December 2015, the International Monetary Fund (IMF) decided to include RMB into the SDR currency basket. Starting from 1 October 2016, RMB will officially become a freely usable currency, and a currency of the SDR basket along with US dollar, Euro, Japanese yen and pound sterling as the currency of the third biggest weight.

2.55. The process of RMB convertibility under the capital account has advanced steadily. The foreign exchange in foreign direct investment has been generally convertible. Annual inspection on foreign exchange and the filing of foreign exchange for overseas reinvestment were abolished, and discretionary settlement of foreign exchange was popularized nationwide for the capital funds of foreign-invested enterprises. In November 2014, Shanghai-Hong Kong Stock Connect was launched and further promoted the internationalization of RMB and its convertibility under the capital account.

2.56. The Chinese government has further simplified the examination and approval procedures for the qualification and quota of qualified foreign institutional investor (QFII). In February 2016, the State Administration of Foreign Exchange issued the *Provisions on the Administration of Foreign Currencies of Investments in Domestic Securities by Qualified Foreign Institutional Investors*, which relaxed the upper quota limit of individual institutions, allowed open-ended funds to convert the original weekly subscription and redemption into daily subscription and redemption, abolished the requirements for remittance periods and set the uniform lock-up period of principle of 3 months. Besides, pilot programs of RMB qualified foreign institutional investor (RQFII) were implemented in 16 countries and regions. By the end of 2015, approval had been given to 279 QFII institutions, with an accumulative quota of US\$81.099 billion; 132 QDII institutions, with an accumulative quota of US\$89.993 billion; and 156 RQFII institutions, with total investment quota of 444.325 billion yuan.

2.57. The reform of financial institutions moved further. On 1 May 2015, the *Regulations on Deposit Insurance* were implemented and the deposit insurance system was officially established in China. Over nearly one year after its enforcement, the Regulations have received positive feedbacks from various parties. The deposit situation of big, medium and small banks remains stable, banking financial institutions are operated under normal business order, and the deposit

insurance system has been introduced and implemented in a smooth and orderly manner. As an important fundamental institutional arrangement of the financial industry, the deposit insurance system is of great significance to improving the financial security network, strengthening depositor protection and facilitating the formation of market-based financial risk preventing and handling mechanisms. In December 2015, Postal Savings Bank of China successfully took on board China Life Insurance, China Telecom, UBS AG, JP Morgan Chase and other domestic and foreign strategic investors and has seen smooth progress in its equity diversification.

#### **2.4.7 Effectively pushing forward reforms in other respects**

2.58. The Chinese government has continued to comprehensively push forward the building of social security system and established a unified basic pension insurance system for urban and rural residents. By the end of 2015, the total number of urban and rural residents and enterprise employees who participated in the basic pension insurance reached 831 million. The minimum standard for basic pension of urban and rural residents rose from 55 yuan to 70 yuan per person per month. The assistance and support system for destitute persons has further improved, and the systems of living subsidy for impoverished disabled people and nursing subsidy for severely disabled people comprehensively established. Under the project of security and affordable housing for urban residents, 40.13 million flats were built and over 100 million people moved into new residence.

2.59. The reform of medical and healthcare system has continued to be deepened. The construction of medical insurance system for all people has been proactively promoted. The establishment of security mechanisms for major and critical diseases and urban and rural medical assistance system has been forcefully enhanced. The system for essential drugs and the new mechanism for its functioning at grassroots level have been consolidated and perfected. The comprehensive reform of public hospitals has been proactively advanced, with greater support provided to the participation of social resources in medical facilities. Currently, the basic medical insurance scheme has generally realized full coverage, with a stable participation rate of above 95%. At the end of 2014, the pilot projects of major disease insurance for urban and rural residents were extended to all provinces. In 2015, insurance against major diseases was comprehensively implemented, covering all the insured residents. The emergency disease supporting system was thoroughly established. The standard of fiscal subsidy for the medical insurance of urban and rural residents rose from 320 yuan per person per year in 2014 to 380 yuan in 2015. In 2014, there were 439,000 non-public medical and healthcare institutions, accounting for 45% of medical and healthcare institutions in the country.

2.60. The Chinese government has continued to intensify its efforts in price reform, successively relaxed control over or delegated the authority of prices for nearly 80 commodities and services and revised the government pricing catalogue. The items subject to central government pricing were cut by around 80%, and the items subject to local governments pricing were reduced by over 50%. Besides, the pricing policy for energy conservation and environmental protection has been further improved and the work of sorting out and standardizing import and export charges has continued.

### **3 TRADE AND INVESTMENT DEVELOPMENT AND RELATED POLICIES**

3.1. The opening up and reform of China have gone hand in hand and been mutually reinforcing. Since the last review, the Chinese government has been committed to building a new system of open economy and constantly improved the internationalized and convenient business environment based on rule of law. Under the new circumstances of economic globalization, China has continuously promoted opening up domestically and to the outside world, better integrated FDI utilization and going global, facilitated the orderly and free flow of international and domestic factors, highly efficient resource allocation and in-depth market integration, fostered new advantages in participating and leading in the international economic cooperation and competition at a faster pace, and promoted reform through opening up.

3.2. In 2015, the Chinese government released the *Several Opinions of the State Council on the Building of A New System of Open Economy* which, from a macro point of view, clarifies the policy orientation of the Chinese government to further press ahead with high-level opening up to the outside world and puts forward the future objectives and important tasks to continue to build and

improve an open economic system. Since the review in 2014, China's foreign trade and two-way investment have continued to develop.

### 3.1 TRADE AND INVESTMENT DEVELOPMENT

#### 3.1.1 Trade Development

3.3. In 2014 and 2015, China's total imports and exports of goods reached US\$4.30 trillion and US\$3.96 trillion, up 3.4% and down 8% year-on-year respectively, of which export value were US\$2.34 trillion and US\$2.27 trillion respectively, showing year-on-year growth of 6.0% and reduction of 2.9% respectively, and import value were US\$1.96 trillion and US\$1.68 trillion, up 0.5% and down 14.2% year-on-year respectively. In 2015, affected by the slow international economic recovery, continued decline in international market demand and sharp fall in the international price of bulk commodities, China's imports and exports of goods both dropped, which was for the first time in many years, and imports were characterized by increasing quantity and falling prices.

3.4. China's trade in goods has demonstrated the following features in the past two years. First, its global market share has further increased. In 2015, China's imports and exports of goods ranked the first in the world for the third consecutive year since 2013. In 2014, despite the growth rate of only 2% of global trade in goods, China registered a remarkably higher growth rate of foreign trade than the global average, and its share in world export rose from 11.2% in 2012 to 12.3%. In 2015, against the backdrop of double-digit negative growth in global trade, China took up 13.8% in global trade, marking the highest increase margin of its share in global trade over years.

3.5. Second, general trade has fallen after steady growth. In 2014 and 2015, total import and export value under general trade reached US\$2.31 trillion and US\$2.14 trillion, up 5.3% and down 7.5% year on year respectively and accounting for 53.8% and 54.1% of aggregate imports and exports respectively. In 2014 and 2015, the export under general trade took up 51.4% and 53.4% respectively in the total exports, and the import under general trade accounted for 56.6% and 54.9% respectively of the total imports.

3.6. Thirdly, the share of processing trade has shown an obvious trend of decline. In 2014 and 2015, total imports and exports under processing trade were US\$1.41 trillion and US\$1.24 trillion respectively, up 3.8% and down 11.6% respectively and accounting for 32.7% and 31.5% of total imports and exports.

3.7. Fourthly, China's trade partners have become more diversified. In 2014, the total import and export value between China and emerging markets and developing countries was US\$2.56 trillion, accounting for 59.6% of its overall import and export value. The markets in developed countries have seen steady growth. In 2014, imports and exports with the European Union and the United States grew by 10% and 6.5% respectively. In 2015, bilateral import and export value between China and the European Union, the United States and Japan totaled US\$1.4017 trillion, showing a year-on-year decrease of 5.5% and accounting for 35.4% of its total import and export value. During the same period, China's trade with ASEAN, India and other emerging markets performed relatively well, better than the overall imports and exports. Total value of bilateral import and export between China and ASEAN reached US\$472.16 billion, decreasing by 1.7% and its proportion in total import and export value has risen to 11.9%. Bilateral trade value between China and India increased by 1.5%.

3.8. Fifthly, private enterprises have continued to perform better than the overall level. In 2014, private enterprises with import and export records accounted for over 70% of foreign trade enterprises across the country, 2 percentage points higher than that of 2013. Imports and exports of private enterprises added up to US\$1.49 trillion, a rise of 7.3% and accounting for 34.5% of the national total imports and exports. In 2015, imports and exports of private enterprises reached US\$1.46 trillion, a decrease of 1.5% and accounting for 37% of the national total imports and exports.

3.9. China's trade in services has maintained steady and fast development since 2014. In 2014 and 2015, China's total imports and exports of services reached US\$604.3 billion and



US\$713.0 billion respectively, growing by 12.6% and 14.6% year on year in comparable terms. In 2014, China's trade in services overtook that of Germany to rank the second in the world for the first time. Total value of service export stood at US\$222.2 billion and US\$288.2 billion in 2014 and 2015 respectively, showing a year-on-year growth of 7.6% and 9.2% and quickened development of trade in services. Total value of service import was US\$382.1 billion and US\$424.8 billion respectively, showing a year-on-year growth of 15.8% and 18.6%, which was notably higher than that of service export. In 2015, deficit of trade in services expanded from US\$118.5 billion in 2013 to US\$136.6 billion, mainly sourced from such sectors as travelling, transportation, IPR royalties and etc.

3.10. The scale of export in high value-added services has further expanded, and the structure of service export has continuously optimized, becoming an important driving force for China's economic transformation and upgrading. In 2014, the export of financial service, film, audio and video, computer and information service as well as insurance service grew by 57.8%, 22.3%, 19.0%, and 14.1% respectively over the previous year. In 2015, the export of telecommunications, computer and information service, professional management and consulting service, advertising service, cultural and entertainment service, and IPR royalties grew by 25.1%, 13.6%, 37.1%, 43.9% and 64.9% respectively over the previous year and accounting for an ever bigger share in the export of services year on year.

3.11. Emerging business models have maintained rapid growth. Cross-border electronic commerce, market purchase trade, integrated foreign trade service and other new business models are gradually becoming new growth points in the development of foreign trade. In 2015, cross-border electronic commerce and market purchase trade grew by over 30% and 60% respectively, driving the exports of a large number of SMEs and small enterprises with low profits.

### **3.1.2 Inward and outbound direct investment**

3.12. The foreign direct investment (FDI) absorbed by China has maintained steady growth and China has been the largest FDI recipient among developing countries for 24 consecutive years. In 2014, 23,778 foreign-invested enterprises (FIEs) were newly approved, with a year-on-year growth of 4.4%. The value of actually utilized FDI reached US\$119.56 billion, showing a year-on-year growth of 1.7%. In 2015, FDI in China reached a new high and the quality of foreign investment further improved. In 2015, 26,575 FIEs were newly approved, with a year-on-year growth of 11.8%. The value of actually utilized FDI reached US\$126.27 billion, showing a year-on-year growth of 5.6%.

3.13. The sectoral distribution of foreign investment has further optimized. The proportion of the service sector has continued to exceed that of the manufacturing sector and become a new growth point in FDI attraction. In 2014, the actually utilized FDI in the service sector reached US\$66.23 billion, accounting for 55.4% of China's total FDI that year and 22 percentage points higher than that of the manufacturing sector. In 2015, the actually utilized FDI in the service sector reached US\$77.18 billion, growing by 16.5% year on year and accounting for 61.1% of China's total FDI that year, 29.7 percentage points higher than that of the manufacturing sector.

3.14. China's outbound foreign direct investment (OFDI) has seen expanded scope and strong momentum of growth. In 2014, China's two-way investment approached balance for the first time and US\$107.2 billion worth of non-financial OFDI was realized accumulatively, showing a year-on-year increase of 15.6% and ranking the third in the world for the third consecutive year. In 2015, investors from mainland China made direct investment in 6,532 enterprises of 155 countries and regions and US\$118.02 billion worth of non-financial OFDI was realized accumulatively, showing a year-on-year increase of 14.7%. Shanghai, Guangdong and Beijing have taken the top three places of OFDI for two consecutive years.

3.15. China's OFDI involves various sectors. In 2014 and 2015, the top four invested sectors included leasing and business service (US\$36.83 billion, accounting for 29.9% in 2014; US\$41.67 billion, accounting for 35.3% in 2015), wholesale and retail (US\$18.29 billion, accounting for 14.9% in 2014; US\$16.02 billion, accounting for 13.6% in 2015), manufacturing (US\$9.58 billion, accounting for 8.9% in 2014; US\$14.33 billion, accounting for 12.1% in 2015), and mining (US\$16.55 billion, accounting for 15.4% in 2014; US\$10.85 billion, accounting for 9.2% in 2015).

## 3.2 PROMOTING FOREIGN TRADE INNOVATION AND DEVELOPMENT

3.16. Since the last review, China has been faced with diversified challenges such as weak demand in the international market, continued depression in global trade, rising operating costs and the weakening of its traditional advantages. Confronted with the new situation, the Chinese government has been proactively committed to transforming the development pattern of foreign trade, restructuring foreign trade, innovating in the development mode of foreign trade and strengthening pragmatic cooperation with its trading partners, to achieve mutual benefit, win-win and common development.

### 3.2.1 Implementing proactive import policy

3.17. The Chinese government has continued to integrate import with domestic demand expansion, improve import promotion policies, broaden import channels, and optimize the structure of trade revenue and expenditure.

3.18. The Chinese government has continued to implement interim tariff rates on certain imported products which were lower than the applied MFN rates. In 2015, interim tariff rates were applied to 749 items of commodities, and in 2016, to 787 items of commodities, thus further increasing import to meet the needs of domestic consumption and industrial structure.

3.19. Import administration procedures have been further simplified. On 1 July 2014, the Ministry of Commerce removed the automatic import licensing administration of goods under 81 HS 10-digit commodity items. The online license application and the paperless customs clearance for automatic import licensing are under way smoothly. The pilot program on paperless customs clearance for automatic import licensing was launched in the Shanghai Pilot Free Trade Zone in August 2014 and was introduced nationwide in February 2016.

3.20. The Chinese government has actively conducted trade promotion activities, to enhance multilateral and bilateral exchanges and cooperation, and improve public services. It has enabled trade promotion institutions to organize import procurement, encouraged well-known exhibitions and fairs to explore import functions, attracted trading partners to China for holding exhibitions and business negotiations and supported various industries and enterprises to carry out trade promotion activities abroad. Public service platforms for foreign trade promotion were proactively established, to strengthen information disclosure, trade policy introduction, information searching, trade barrier complaining and IPR protection.

### 3.2.2 Pushing forward transformation and upgrading of foreign trade

3.21. In order to adapt to the changing international economic situation and pattern of domestic economic development, the Chinese government has continued to promote the adjustment of the development pattern of foreign trade. Centering on the goals of stabilizing trade growth, adjusting trade structure, and promoting trade balance, it has endeavoured to promote the transformation of foreign trade from cost and price advantages to overall competitive advantages, elevate the position of Chinese industries in global value chains and adhere to the coordinated development of trade in goods and trade in services.

3.22. The transformation and upgrading of processing trade has been accelerated. In January 2016, the State Council printed and issued *Several Opinions on Promoting the Innovative Development of Processing Trade*, which put forward the following main tasks: extending the industrial chain and promoting the status of processing trade in the global value chains; exerting the demonstrating and leading role of coastal regions and promoting quality improvement and performance enhancement by way of transformation and upgrading; supporting the inland and border areas to undertake gradient industrial transfer and promoting coordinated regional development; comprehensively promoting the reform of administrative examination and approval of processing trade and further simplifying the formalities for the taxation, verification and cancellation of duty repayment for domestic sales; accelerating the integration and optimization of special custom supervision zones, promoting diversified business development of bonded processing, bonded logistics and bonded services in special custom supervision zones, and promoting the innovative development of processing trade.

3.23. Electronic commerce (e-commerce) has become a new highlight in international trade and a new impetus for economic growth. The Chinese government has constantly improved the environment for the development of cross-border e-commerce. In 2015, the State Council successively released the *Guiding Opinions concerning Vigorously Moving Forward the Internet Plus Actions* and the *Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-Commerce*, putting forward the idea of promoting the transformation and upgrading of foreign trade through foreign trade via the Internet. In March 2015, the State Council approved the establishment of China (Hangzhou) Cross-border E-Commerce Comprehensive Pilot Area to accumulate replicable and transferable experiences for the development of cross-border e-commerce through institutional innovation, management innovation and service innovation. In January 2016, new cross-border e-commerce comprehensive pilot areas were established in 12 cities including Ningbo, Tianjin, Shanghai and Chongqing. Since the launch of pilots on cross-border e-commerce services in 2012, China Customs and other port management departments have also adopted a series of policy measures in support of the healthy, orderly and fast development of e-commerce.

3.24. China has vigorously developed trade in services and created favourable environment, and the level of liberalization and facilitation has constantly improved. Since 2014, the Chinese government has successively released the *Opinions on Accelerating the Development of Foreign Culture Trade*, the *Opinions on Accelerating the Development of Service Outsourcing*, and the *Several Opinions on Accelerating the Development of Trade in Services* and other guiding documents for trade in services. In February 2016, the State Council decided to carry out pilots on innovation and development of trade in services in 15 provinces and municipalities (areas) including Tianjin to explore the systems and mechanisms suitable for and can facilitate the innovation and development of trade in services.

### 3.2.3 Improving trade facilitation

3.25. Since the last review, the RMB settlement business for cross-border trade and investment has maintained stable and orderly growth. Currently, both cross-border trade and direct investment can be settled with RMB. In 2015, the RMB settlement amount for cross-border trade reached 7.23 trillion yuan and grew by 10.4% year on year. The RMB settlement business for direct investment amounted to RMB 2.32 trillion yuan, and grew by 121% year on year. In October 2015, phase 1 of RMB Cross-border Interbank Payment System (CIPS) successfully went online to provide capital liquidation and settlement services for the RMB cross-border and off-shore businesses of financial institutions at home and abroad.

3.26. PBOC has continued to sign bilateral local currency swap agreements with the central banks or currency authorities from certain countries and regions. By the end of 2015, PBOC has established currency swaps with 33 central banks or currency authorities with the total size of the swap facility exceeding 3.3 trillion yuan.

3.27. Reforms of customs clearance facilitation have been accelerated to further improve the clearance efficiency of ports and the level of trade facilitation. On 3 February 2015, the State Council printed and issued the *Reform Plan on Realizing Information Exchange, Mutual Recognition of Supervision and Mutual Assistance in Law Enforcement and Promoting Clearance Construction*, which calls for accelerated promotion of customs clearance coordination between inland, coastal and border areas and the realization of information exchange, mutual recognition of supervision and mutual assistance in law enforcement between relevant port management departments. Currently, integrated regional customs clearance has covered all the 42 customs offices across the country which is made up of five sections of reform on integrated clearance: Beijing, Tianjin and Hebei, the Yangtze River Economic Belt, the four pan Pearl River provinces, the Silk Road Economic Belt and the northeastern region. One declaration, one inspection and one release was popularized in an all-round way. On 1 August 2012, pilot reforms on paperless customs clearance were launched in 12 customs offices including Shanghai, and introduced to all business sites of customs offices across the country in 2014.

3.28. On 16 April 2015, the State Council printed and issued *Several Opinions on Improving Port Work to Support the Development of Foreign Trade*, which calls for the construction of single window for international trade through the public platforms of electronic ports. Currently, progress has been made by leaps and bounds in the construction of single window. First, pilots were successively implemented in coastal areas. The single window for international trade was either

already online or in pilot operation in 11 provinces and municipalities including Shanghai, Tianjin and Fujian. Second, the functions of the single window have constantly improved, and the core functions of port clearance such as the import and export declaration of goods and the declaration of transportation tools have realized at large. Thirdly, the service capabilities of ports have remarkably enhanced. The clearance procedures changed from tandem type into parallel type, with the application procedures and formalities simplified, and the coordination and cooperation between port management departments further optimized.

3.29. Trade and investment facilitation in foreign exchange management has been pushed forward continuously. First, to cultivate the upgraded version of reform on foreign exchange fund operation and management of multinational companies, simplify the requirements on account opening, receipt and usage so as to save cost of capital for enterprises. Second, administrative licensing for border trade accounts has been removed, with the requirements for trade documents of individuals streamlined and diversified development of foreign trade promoted. Thirdly, pilots on foreign exchange payment businesses for cross-border e-commerce have been steadily moved forward.

### **3.3 PAYING EQUAL ATTENTION TO THE STRATEGIES OF FDI ATTRACTION AND GOING GLOBAL**

3.30. Active utilization of foreign investment has been an important part of China's basic state policy of opening up to the outside world over decades. Boom in OFDI represents a new important feature in China's development of an open economy in recent years. Under the new circumstances, standing at a height of building a new system of open economy, the Chinese government will comprehensively promote the reform of FDI utilization and the management system of OFDI, maintain the stability, transparency and predictability of foreign investment policies, liberalize the market access for investment in an orderly way and further improve the comprehensive effects of FDI utilization. Meanwhile, enterprises and individuals will be fundamentally recognized as the investors of OFDI, and permitted to conduct investment cooperation abroad by exerting their own strengths and assuming risks themselves, so as to enhance their capabilities of participating in the integration of the global value chains and operating internationally.

#### **3.3.1 Optimizing the utilization of foreign investment while opening wider to the outside world**

3.31. On 10 April 2015, the *Catalogue for the Guidance of Foreign Investment Industries (2015 Revision)* began to be implemented. Compared to the 2011 version, the number of items listed in the restrictive category decreased from 79 to 38, that of items limited to Chinese-foreign equity or contractual joint ventures dropped from 43 to 15, and that of items to be controlled by the Chinese party went down from 44 to 35. This revision of the Catalogue represents the biggest degree of opening up in the six revisions, which reflects the government's further efforts to encourage foreign investment in modern agriculture, high and new technology, advanced manufacturing, energy conservation and environmental protection, new energy, modern service industries and etc., as well as in research and development.

3.32. Since the last review, China has further opened up its manufacturing and service industries. China has by and large opened up the general manufacturing sector by lifting restrictions on equity ratio for steel, ethylene, oil refining, papermaking, crane machinery, ship cabin machinery, electricity transmission and transformation equipment, coal chemical equipment, light helicopter, automobile electronic integrated system, and famous liquor; and by removing nonferrous metallurgy, small size construction machinery, plain bearing, photosensitive material and chloramphenicol. In the service industry, China has lifted or relaxed the restrictions on the equity ratio of e-commerce, chain operation, branch railway, subway, light rail, marine transport, and venue of performance; removed from the restrictive category direct selling, mail order, import and export commodity inspection and certification, railway freight transport, insurance broker and trust company; and listed architectural design and elderly care institution in the encouraged category.

3.33. The financial sector has been further opened up. On 20 December 2014, the State Council revised the *Regulations of the People's Republic of China on the Administration of Foreign-funded Banks*, which has introduced three opening-up measures since 1 January 2015. First, eliminating the minimum requirements for the working capital appropriated free of charge by the head offices

of wholly foreign-funded banks and Chinese-foreign joint equity banks to their branches established within the border of China. Second, eliminating the requirement that foreign-funded banks (foreign financial institutions) need to have set up representative offices within the border of China for at least 2 years, before establishing wholly foreign-funded banks or Chinese-foreign joint equity banks in China, and before foreign banks applying to establish branches in China. Thirdly, shortening the number of years required for foreign banks' operative institutions being in RMB business from no less than 3 years to no less than 1 year, and eliminating the requirement for profit making for 2 consecutive years before the application.

3.34. To further open up the bond market, in June 2015, PBOC issued the *Circular on the Repurchase of Bonds in the Interbank Bond Market by Offshore RMB Clearing Banks and Offshore Participating Banks* (PBOC No. 170 of 2015), which allows offshore RMB clearing banks and offshore participating banks to repurchase bonds in the interbank bond market. In July 2015, PBOC issued the *Circular on Matters Relevant to the Investment in Renminbi on the Interbank Bond Market by Foreign Central Banks, International Financial Organizations and Sovereign Wealth Funds* (PBOC No. 220 of 2015), exercised filing-based management system to foreign central banks entering the market and lifted restrictions on their investment amount, and expanded the scope of investment to bond repurchase, bond lending, bond forward, interest rate swap, forward rate agreement and other transactions approved by PBOC.

3.35. Building Pilot Free Trade Zones (hereinafter referred to as pilot FTZs) is a significant measure taken by the Chinese government on its own initiative to open up. Focusing on institutional innovation, it aims at streamlining administration and delegating authority to lower levels, improving regulation and optimizing services. Proactive exploration and bold attempts have been made by the pilot FTZs to quicken the transformation of government functions, facilitating trade and investment, and innovatively opening up the financial sector, so that they can take the lead in establishing a system of cross-border investment and trade rules that conform to the requirements of internationalization and the rule of law; and explore new ways and gain experience for deepened reform and expanded opening up across the country.

3.36. In September 2013, the State Council issued the *Overall Plan for China (Shanghai) Pilot Free Trade Zone*. In December 2014, the Chinese government decided to establish three more pilot FTZs in Guangdong, Tianjin and Fujian with the experience drawn from Shanghai, and to expand Shanghai Pilot FTZ. Guangdong Pilot FTZ covers Nansha New Area in Guangzhou, Qianhai Shekou Subdistrict in Shenzhen and Hengqin New Area in Zhuhai; Tianjin Pilot FTZ covers Tianjin Port area, Tianjin Airport area and Binhai New Area Central Business District; Fujian Pilot FTZ covers Pingtan Subdistrict, Xiamen Subdistrict and Fuzhou Subdistrict; Shanghai Pilot FTZ was expanded to cover Lujiazui Financial Subdistrict, Jinqiao Economic and Technological Development Zone and Zhangjiang Hi-Tech Park. In April 2015, the State Council issued the *Special Administrative Measures of Pilot Free Trade Zone for Admittance of Foreign Investments (Negative List)*.

3.37. The pilot FTZs have made bold explorations in investment, trade, finance and other areas, stimulated the vitality of market players, and become new growth poles of economy. First, the reform of investment management system, with the Negative List management at the core, has continued. After the establishment of Guangdong, Tianjin and Fujian pilot FTZs, the growth rate in the number of newly established FIEs has increased by over 2 times year on year. Second, constant innovation has been made in the trade regulatory system focusing on trade facilitation. Thirdly, new measures of financial opening up have been implemented steadily. Fourthly, the system of in-process and follow-up regulation, based on the social credit system, has initially taken shape. The General Office of the State Council issued the *Measures for the National Security Review of Foreign Investment in Pilot Free Trade Zones*. Fifthly, the supportive service system focusing on encouraging innovation is improving.

3.38. The pilot FTZs have had some good and replicable experience in their reform pilots, which have been gradually spread to the whole country or some regions. Before the anniversary of the establishment of the Shanghai Pilot FTZ, relevant departments had spread 27 of its practices, including 13 in investment, 10 in trade and 4 in financial areas. In 2014, one year after the establishment of Shanghai Pilot FTZ, the State Council printed and issued the *Notice on the Wide Application of Replicable Reform Experience from the Pilot Programs in China (Shanghai) Pilot Free Trade Zone*.

### 3.3.2 Improving competitiveness through going global

3.39. Since the last review, the Chinese government has continued the reform of overseas investment management system. In 2014, the State Council issued the *Catalogue of Investment Projects Subject to Government Verification (2014 Edition)*, the Ministry of Commerce revised and issued the *Measures on the Administration of Overseas Investment Projects*, establishing a new management mode dominated by record filing and supplemented by verification. The *Measures on the Administration of Overseas Investment Projects* has reduced the scope and time limit for verification, and delegated the authority for the record filing of overseas investment by local enterprises to commerce departments at the provincial level, to provide convenience to local enterprises to do the filing locally. The ratio of record filing has been over 99.5%.

3.40. In 2013, the Chinese government proposed the major cooperation initiative of jointly building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road. By the end of 2015, 68 countries have expressed their willingness to join. The initiative has become the common aspiration reflecting the interests and pursuits of all parties. In 2015, the Chinese government issued the *Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road*. China and the countries along the Belt and Road planned for the construction of six economic corridors that run through China-Mongolia-Russia, New Eurasian Land Bridge, China-Central Asia-West Asia, China-Pakistan, Bangladesh-China-India-Myanmar and China-Indochina Peninsula. The Asian Infrastructure Investment Bank and the Silk Road Fund have accelerated substantial project investment, and provided strong funding support for Asia-Europe connectivity and industrial cooperation.

3.41. In 2015, the State Council issued the *Guiding Opinions on Promoting International Capacity and Equipment Manufacturing Cooperation*. This is a new measure taken by the Chinese government to adapt to the New Normal, and a new initiative to converge new impetus for global economic growth. The aim is to open up further to the outside world, reshape a more balanced, inclusive and beneficial global industrial chain that brings into play the comparative advantages of various countries, and build a world community of development and interest featuring mutual benefit, win-win results, and inclusive and shared progress. Positioned in different development stages, various countries can not only match each other's supply and demand, but also expand demand with the innovative supply through international capacity cooperation. Currently, China has launched bilateral institutional capacity cooperation with 17 countries.

## 3.4 CONSTRUCTING ECONOMIC AND TRADE PARTNERSHIPS BASED ON MUTUAL BENEFIT AND WIN-WIN

3.42. China has been committed to developing all-round foreign economic and trade relations and promoting the building and perfection of a global economic and trading system that is open, cooperative and mutually beneficial. China has always been upholding the WTO-based multilateral trading system as the main channel for trade liberalization and facilitation, actively cultivating a network of Free Trade Areas of high standard and resolutely opposing trade and investment protectionism.

### 3.4.1 Committed to advancing the Doha Development Agenda

3.43. China firmly believes that against the backdrop of sluggish world economic recovery and rapid development of regional trade arrangements (RTAs), an open, inclusive and non-discriminatory multilateral trading system would bring about more trade, investment and employment opportunities to the whole world, reduce the cost of enterprises and foster a more stable and open external environment for the enterprises to participate in the global competition. Further consolidating and enhancing the role of the multilateral trading system in global governance is conducive to containing trade protectionism and promoting the recovery and steady growth of global economy.

3.44. The Chinese government has attached great importance to and actively participated in the DDA negotiation. Over the past two years, China has joined other WTO members to fully participate in negotiating various items on the Doha agenda, respected the development mandate of DDA and safeguarded the outcomes already achieved, promoted harmony, negotiations and progress and played an important constructive role in the success of the Tenth WTO Ministerial

Conference (MC 10). China is also among the first few members that have completed national ratification of the *Trade Facilitation Agreement (TFA)*.

3.45. Chinese President Xi Jinping has, on several occasions including the G20 Summit, the APEC Informal Leaders' Meeting, and the BRICS Leaders' Meeting, called on all WTO members to show necessary flexibility, narrow differences and help to conclude the Doha Round of negotiations and achieve the development goals. As the host country of the 2016 G20 Summit, China is proactively promoting consensus among G20 members on opposing protectionism, increasing the transparency of RTAs, implementing TFA at an earlier date and pushing forward multilateral negotiations.

3.46. After the conclusion of MC 10, China put forward the Solidary Work Program initiative to promote multilateral trade negotiations, and called on all parties to start working as soon as possible, and build consensus on moving forward the multilateral negotiations including on the remaining agenda items of the Doha Round. China stressed that all members should adhere to the concepts of responsibility, mutual trust and inclusiveness, admit the differences in their development levels, and achieve mutually beneficial and win-win results. China will work together with other WTO members to actively promote negotiations on the remaining issues of the Doha Round according to the mandate of the *Nairobi Ministerial Declaration*.

3.47. China holds that to fully conclude the Doha Round of negotiations, all members need to adhere to the development orientation, respect the mandate and the progress already made, and adopt practical, balanced and feasible methods to benefit all. The conclusion should help create opportunities for developing, especially the least developed country members, and help achieve the goals in the United Nations 2030 Agenda for Sustainable Development. The negotiations should be driven by members, be transparent and inclusive, and ensure effective participation of all. At the same time, it is China's proposition to discuss new issues in an explorative way within the multilateral framework, to realize inclusive institutional arrangements, participation, interests and rules.

#### **3.4.2 Safeguarding the multilateral trading system with concrete actions**

3.48. China is an active participant in firm supporter and important contributor to the multilateral trading system. Since its accession to the WTO, China has earnestly honoured its accession commitments and made major contributions to safeguarding the multilateral trading system. China has seriously and actively participated in the daily operation of the WTO and respected the rulings of the Dispute Settlement Mechanism, and proactively performed its transparency obligations. Since the outbreak of the international financial crisis, China has supported the WTO in launching the monitoring and surveillance mechanism of trade measures, playing a crucial role in curbing protectionism.

3.49. In the course of formulating and implementing economic and trade policies, China has set store by their consistency with the WTO rules and China's commitments in the multilateral trading system. China has endeavoured to make reference to prevailing practices of other WTO members and take into account possible impact on the outside world, to ensure the stability, transparency and predictability of its trade policies.

3.50. China has actively responded to the Aid for Trade initiative of the WTO. While providing assistance to the best of its ability bilaterally to other developing members, China has been donated to the Aid for Trade Fund under the multilateral framework of WTO since 2008. After establishing China's LDCs and Accessions Program (China Program) in 2011, China contributed a total of US\$900,000 to the Program in 2014 and 2015, sponsored Roundtables on LDCs' WTO accession in Tajikistan and Kenya respectively, and made important contribution to help the LDCs integrate into the multilateral trading system. During MC 10, China's Minister of Commerce Gao Hucheng and WTO Director-General Azevedo concluded the fifth memorandum on the China Program, to which China contributed another US\$500,000.

3.51. China has actively responded to the WTO's Made in the World Initiative and proactively promoted the structural adjustment, transformation and upgrading of its foreign trade following the law of development of global value chains (GVCs). China has proposed GVCs initiative on multilateral fora like APEC and taken the lead in the APEC calculation and accounting of trade in

added-value and other GVCs-related work, to promote the inclusive and coordinated development of GVCs and push forward trade and investment facilitation. China has conducted cooperation on the topic of GVCs with the WTO, UNCTAD, OECD and other international organizations to jointly promote the better integration of developing economies and SMEs into GVCs on such platforms as G20 and APEC.

3.52. China has also actively participated in other rule-making and market access negotiations within the WTO framework. With China's active participation, the negotiations to expand the coverage of the *Information Technology Agreement* (ITA) concluded in December 2015. According to the WTO statistics, the negotiations involved over US\$1.3 trillion worth of trade and will boost trade of IT products as well as global economic growth.

3.53. China has been dedicated to promoting trade liberalization of environmental goods. In early 2014, it launched the negotiations of Environmental Goods Agreement (EGA) with some WTO members to explore various opportunities for trade liberalization of environmental goods within the WTO framework. China hopes that the negotiations could reach significant outcomes with balanced benefit so as to achieve triple-win for trade, environment and development.

3.54. China has been continuously pushing forward its accession negotiation to the *Government Procurement Agreement* (GPA). In December 2014, China submitted its 6<sup>th</sup> offer and conducted in-depth consultations with the GPA parties. China will endeavour to achieve an earlier accession to the GPA.

#### **3.4.3 Promoting regional and bilateral economic and trade cooperation and other arrangements**

3.55. While committing itself to bringing into play the fundamental role of the multilateral trading system and its rules, China has continued to promote trade and investment liberalization and facilitation through regional, sub-regional and bilateral opening up and cooperation, strived to expand the converging points of interest with various countries and regions for mutual benefit and win-win. China is of the view that in the development of global trade, the dominant role of the multilateral trading system and the complementary role of bilateral and regional liberalization could stay in parallel and reinforce each other.

3.56. China has continued to accelerate its steps in implementing the free trade area (FTA) strategy. By the end of 2015, it has signed and put into effect 14 FTAs with 22 countries and regions. Currently, China is actively engaged in a number of FTA negotiations, including the Regional Comprehensive Economic Partnership (RCEP), China-GCC FTA, China-Japan-Republic of Korea FTA, China-Georgia FTA and etc. Since the last review, China has reached FTAs with Australia and the Republic of Korea respectively, which came into effect on 20 December 2015. In November 2015, China and ASEAN signed the FTA Upgrading Protocol. In the same month, Mainland China signed the *CEPA Agreement on Trade in Services* with Hong Kong, China and the *CEPA Agreement on Trade in Services* with Macao, China, both will be implemented as of 1 June 2016.

3.57. China has continued its active participation in APEC, Greater Mekong Sub-regional Economic Cooperation, Greater Tumen Initiative and other regional and sub-regional economic cooperation mechanisms. In November 2014, the 22<sup>nd</sup> APEC Informal Leaders' Meeting was held in Beijing. By identifying the direction and objectives of future cooperation in the Asia-Pacific region, approving the *Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP* and the *APEC Blueprint on Connectivity*, passing the *APEC Accord on Innovative Development, Economic Reform and Growth*, the meeting has opened various new fields for cooperation. The negotiations of China-US Bilateral Investment Treaty (BIT) have been going on smoothly in general and entered the stage of negative list negotiation. Important headway has been made in the negotiations of China-EU BIT.

3.58. China holds the G20 presidency in 2016. The theme of this year has been determined as Building an innovative, invigorated, interconnected and inclusive world economy, with four major topics of innovative growth pattern, global economic and financial governance with higher efficiency, powerful international trade and investment, as well as inclusive and interconnected development. In the area of trade and investment, China will host the G20 meeting of Trade



Ministers and G20 meetings of Trade and Investment Working Group, to prepare economic and trade outcomes for the summit focusing on five aspects, i.e. strengthening the building of G20 trade and investment mechanism, promoting global trade growth, supporting the multilateral trading system, facilitating coordination and cooperation of global investment policies, and boosting inclusive and coordinated development of GVCs.

#### **3.4.4 Enhancing South-South Cooperation**

3.59. As the biggest developing country in the world, China has endeavoured to assume the development responsibilities in keeping with its national conditions and development stage, actively advocated and participated in international developmental cooperation while achieving its own development. Within the framework of South-South cooperation, China has provided other developing countries, especially the least developed countries (LDCs) with economic and technological assistance to the best of its capability. By strengthening infrastructure construction, enhancing capacity building and providing zero-tariff treatment, China has helped these countries better integrate into GVCs and the process of globalization, improved local people's livelihood, and driven their economic and social development.

3.60. The foreign aid modality with Chinese characteristics has become a model of South-South cooperation. Over 60 odd years, China has provided assistance of more than 400 billion yuan to 166 countries and international organizations, trained over 12 million talents for recipient countries, and offered help to over 120 developing countries in implementing the millennium development goals (MDGs), making great contributions to the global development undertakings. In September 2015, President Xi Jinping put forward the concept of equitable, open, comprehensive and innovative development at the UN Sustainable Development Summit. He also announced the establishment of an assistance fund and an institute for South-South cooperation and development, and the provision of "6 one-hundred" project support to developing countries and other important measures for South-South cooperation.

3.61. China has adhered to the win-win, multi-win and win-for-all development concept. It is one of the most open markets to the LDCs and has continued offering unilateral preferential treatment to the LDCs. At the Asian-African Summit held in April 2015, President Xi Jinping announced that China would be firmly committed to closer Asian-Africa cooperation, and would provide zero-tariff treatment to 97% of tariff lines from the LDCs having diplomatic ties with China by the end 2015. In December 2015, the Johannesburg Summit of the Forum on China-Africa Cooperation (FOCAC) was held in South Africa. President Xi Jinping proposed that the new type strategic partnership between China and Africa be upgraded to a comprehensive strategic and cooperative partnership. By focusing on industrial capacity cooperation as well as the three networks and industrialization, China-Africa cooperation in all areas would be deepened to enable both people to share the benefits of cooperative development. China also expressed its willingness to conduct pragmatic cooperation with Africa in ten major areas including industrialization, agricultural modernization, infrastructure, finance, green development, trade and investment facilitation, poverty reduction, public health, culture and people-to-people exchange, as well as peace and security.

3.62. Since 10 December 2015, China has applied zero-tariff to 97% of the tariff lines of 33 LDCs having diplomatic ties with China that had completed the exchanges of notes. The gradual implementation of zero-tariff treatment has greatly enhanced the export from the LDCs to China. Since 2008, China has been the biggest export destination for the LDCs, importing about 1/4 of the total export from these LDCs. China hopes that the implementation of the zero-tariff commitment to the LDCs can help promote the improvement of market access treatment to the LDCs by other developing and developed countries.

## **4 THE WAY FORWARD**

4.1. Since 2014, China's economy has generally maintained stable development. Steady growth has been realized in GDP, employment in cities and towns, residents' income, enterprises' profits and fiscal revenue, while price of commodities has been kept at a low level. Positive progress has been made in structural adjustment with the cultivation of new development impetus accelerated. Despite of the complicated world economic situation, deep-rooted domestic contradictions and increasing downward economic pressure, China still finds itself in an important period of strategic opportunities during which great progress can be made in its development. The Chinese

government will stick to and carry out the innovative, coordinated, green, open and sharing concepts of development, be committed to maintaining economic growth at a medium to high rate and promote the upgrading of industry towards the middle and high end. Innovation will play a leading role to inject tremendous vigour into development, new-type urbanization and agricultural modernization will be promoted and coordinated development of urban and rural areas facilitated, the green production and low-carbon lifestyle will be nurtured, reform will be deepened, and a new system of open economy will be built.

4.2. Confronted with the new situation, the Chinese government will adhere to innovative development and focus on improving the quality and effect of development. Vitality for creativity will be inspired, public entrepreneurship and innovation will be promoted and the shifting of driving forces for development quickened through optimized allocation of factors including labour force, capital, land, technology and management. The supply-side structural reform will be vigorously advanced to expand effective and medium- and high-end supply, and increase supply of public goods and public services, therefore enabling supply and demand to form a synergy in promoting economic development and raising the total factor productivity. The innovation-driven development strategy will be implemented profoundly, to assist the transformation of governmental functions from research and development management to innovation of services, and reinforce the dominant position and leading role of enterprises in innovation. Efforts will be made to establish a new system of development, deepen the reforms of public administration, fiscal and financial systems, as well as SOEs, encourage private companies to enter more business fields, and pace up the creation of a uniform and open market system with orderly competition.

4.3. Confronted with the new situation, the Chinese government will adhere to open development. Efforts will be made to improve the regional layout of opening-up and expand the opening-up of inland and border areas; speed up the process of foreign trade optimization and updating and apply positive import policies; fully exercise the foreign investment management system of pre-establishment national treatment plus negative list, orderly expand the opening up of the service sector, steadily realize RMB convertibility under the capital account, improve the internationalized and convenient business environment based on the rule of law, and perfect the system and mechanism beneficial to win-win cooperation and in keeping with international trade and investment rules; press ahead with the Belt and Road initiative to enhance infrastructure connectivity, deepen cooperation in energy resources and strengthen cooperation with international financial institutions. The Chinese government will accumulate useful experiences from the four pilot FTZs and spread them to other areas with necessary conditions.

4.4. Since its accession to the WTO, China has by and large established an economic and trade system in line with its national conditions and international prevailing practices through continuous reforms and opening up, which has contributed greatly to the development of China's open economy and the integration of China's economy with the world economy. Currently, China is the largest trading partner of over 120 countries and regions and has become one of the main driving forces for world economic growth. It is estimated that in the next five years, China will realize US\$10 trillion worth of goods imports and US\$500 billion worth of outbound investment, and more than 500 million person-times will travel abroad. Meanwhile, China is also a developing country with relatively low level of per capita income, with still nearly 200 million people living under the poverty line. The basic national conditions of China as a big developing country have not changed and will not be fundamentally changed despite its economic development achievements. China will be subject to the challenges of onerous development tasks for a long time.

4.5. The Chinese government holds that economies at different development levels and phases should embrace the spirit of solidarity, discard zero-sum practices, jointly rise up to the common challenges, promote the development of a new international economic order towards equality, fairness and win-win cooperation, and realize economic balance and financial security globally. China will continue to develop its economic and trade relations with various countries and regions in the world based on the principles of mutual benefit and win-win, and proactively participate in the international governance and exert its influence as a major developing trading nation. China is firmly against trade protectionism and advocates to give full play to the leading role of the multilateral trading system with the WTO at its core, to promote the process of multilateral trade negotiations and the balanced, win-win and inclusive development of the multilateral trading system. At the same time, implementation of the FTA strategy will be expedited to establish a globally-oriented network of FTAs with high standard.

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