SUMMARY

1. During the period under review (2012-14), China's economy has experienced stable growth, with real GDP expanding by 7.7% annually, in both 2012 and 2013, and forecast at 7.5% for 2014. The driving force behind growth was strong domestic demand, mainly private consumption, triggered by a policy of fiscal expansion, by rising incomes, and by credit availability. The Chinese Government continues to promote consumption expansion through specific measures, including a structural tax reduction policy. China's strong domestic demand, including for imports, has continued to contribute to global economic growth. Consumer price inflation, which had reached 5.4% in 2011, slowed down in 2012 and 2013, due to lower commodity prices, wage increase moderation and more contained domestic food and energy prices hikes.

2. China's traditional external current account surplus reflects the excess of national savings over investment. The faster growth of consumption has reduced China's savings-investment gap somewhat during the past few years, and this has translated into a lower current account surplus (2% of GDP in 2013, down from 4% in 2010). However, the levels of both savings and investment continue to be very high, representing some 50% and 47% of GDP, respectively.

3. During the period under review, China continued to implement an active fiscal policy, with expenditure increasing faster than revenue. The fiscal deficit reached 1.7% of GDP in 2012 and an estimated 1.9% of GDP in 2013. Although the level of Central Government debt remains moderate at 14.9% of GDP in 2012, total government debt is considerably higher, reaching 39.4% of GDP by the end of 2012. China continues to promote private participation in the economy and the number of private enterprises and individual industrial and commercial households has been increasing. However, state participation in the economy remains relatively high, as the public sector controls some 40% of fixed-asset investment and accounts for some two-thirds of total exports.

4. During most of the period reviewed, China's monetary policy has consisted mostly of fine–tuning measures applied to either pre-empt inflationary pressure from building up or to keep economic momentum, as required. In 2013, a number of policy changes were introduced, including further steps towards interest rate liberalization, with financial institutions now allowed to freely determine their lending rates.

5. The People's Bank of China (PBC) continues to maintain a "managed floating" exchange rate regime, taking a basket of currencies as reference. During the period under review, the fluctuation band range of the RMB/US$ exchange rate in the interbank spot foreign exchange market was enlarged twice, from 0.5% to 1% in 2012, and from 1% to 2% in March 2014. A more flexible exchange rate, reflecting more closely the evolution of the economy's fundamentals, may play a role in promoting import consumption growth. In fact, since the launching of the exchange rate reform in 2005 to end-2013, the RMB has experienced a substantial appreciation, both in nominal and in real terms. Enhanced exchange rate flexibility has been accompanied by measures to facilitate foreign exchange transactions. Current account cross-border RMB business procedures have been simplified, and a policy of gradually making the RMB convertible for certain capital account transactions has been put forth. Also, the restrictions placed on the opening of foreign exchange accounts have been removed.

6. China has become the world's largest trader (excluding intra-EU trade). During the period under review, both exports and imports of goods expanded rapidly, with exports totalling US$2.21 trillion and imports amounting to US$1.95 trillion in 2013. The share of both merchandise exports and imports on GDP has, however, declined to 24% and 21.3%, respectively, in 2013 (down from 26.7% and 23.7% in 2010). In 2013, manufactured products remained the dominant component of China's exports, accounting for 94% of the total. Among manufactured products, office machines and telecommunication equipment and textiles and clothing continued to be China's main exports. Intra-industry trade is of growing importance to China, as manufactures accounted for 58% of China's imports in 2013. China's main manufacturing imports include office machines and telecommunications equipment, and chemicals. Fuels and other mining products accounted for almost 30% of China's imports in 2013, while imports of agricultural products accounted for some 8% of the total.

7. In 2013, the main destinations for China's merchandise exports remained the EU; the United States; Hong Kong, China; Japan and the Republic of Korea, as well as ASEAN countries. The main

sources of its imports were the EU; the Republic of Korea; Japan; Chinese Taipei; the United States and Australia, as well as ASEAN countries. In 2013, services represented 8.7% of China's total exports and 14.4% of its imports.

8. China remains a large recipient of foreign direct investment (FDI). FDI inflows reached US$117.6 billion in 2013. The main sectors attracting FDI are manufacturing, real estate, and wholesale and retail trade. The sources of FDI inflows continue to be highly concentrated: Hong Kong, China remains, by far, the main source of FDI to China, accounting for 62.4% of total FDI in 2013. It is followed by Singapore, Japan, the EU, the British Virgin Islands, the Republic of Korea, the United States, and Chinese Taipei. In 2012, outward FDI totalled US$70.1 billion, with the main destination being Hong Kong, China, with two-thirds of the total.

9. The Ministry of Commerce (MOFCOM) continues to have main responsibility for policy coordination and implementation of all trade-related issues within the overall national economic and social development policy devised by the National Development and Reform Commission (NDRC). Other Ministries involved in trade policy formulation and implementation, include: Agriculture; Environmental Protection; Finance; Industry and Information Technology; Land and Resources; and Transportation. During the period under review, a National Leading Group for Comprehensive Deepening Reform was established, tasked with setting a roadmap to deepen economic reform including by allowing the market to play a more decisive role in allocating resources, reforming State-owned enterprises, and encouraging private ownership. With respect to trade and investment policy reform, measures envisaged include: the reform of the investment regime to make it more open and predictable; the acceleration of the implementation of free-trade agreements and of the development of the China (Shanghai) Pilot Free Trade Zone (CSPFTZ); and the opening-up of border areas.

10. China became a WTO Member on 11 December 2001. China is an observer to the Plurilateral Agreement on Government Procurement (GPA) and is in the process of negotiating its accession thereto. China is an observer to the Plurilateral Agreement on Trade in Civil Aircraft, and a participant in the Information Technology Agreement (ITA). China's notifications to the WTO cover a wide range of agreements; however updated notifications appear to be necessary in the area of subsidies. Between 2012 and 2013, China was involved in 4 dispute settlement cases as a complainant, 8 cases as a respondent, and 15 cases as a third party.

11. China has concluded 12 FTAs with over 20 States and regions. China has FTAs in force with Chile, Costa Rica, New Zealand, Pakistan, Peru and Singapore. Since its last Trade Policy Review, China has signed free trade agreements with Switzerland and Iceland, but they are yet to enter into force. It is currently negotiating FTAs with the Gulf Cooperation Council (GCC) countries, Australia; Norway; the Republic of Korea; and Japan. Supplementary agreements were added to the initial Closer Economic Partnership Arrangements (CEPA) with Hong Kong, China and Macao, China. Unilateral preferences are granted by China to LDCs. These preferential margins have improved substantially since the previous Review.

12. China's trade and investment policy is managed and fine-tuned through a number of legal instruments, including Central Government Five-Year Plans, sectorial and provincial Five-Year Plans and different Catalogues that guide in the implementation of the overall policies and list the industries that can receive preferential treatment and the sectors in which investment is encouraged, just permitted or prohibited. It is not always clear how the different Catalogues should be read, as they sometimes overlap and even conflict, reflecting the different agendas at the different levels. The different layers of regulation add an additional level of difficulty when trying to unravel specific policy measures in China.

13. China encourages direct inward FDI as well as joint ventures between Chinese and foreign companies, particularly with regard to R&D activities. FDI is directed towards the areas in which China has a strategic interest. FDI has been encouraged in areas such as high-end manufacturing, high-tech industries, service industries, new energy and energy-saving environmental protection industries. China actively guides foreign investment in the central and western regions, where projects may benefit from less restrictive policies. Foreign investment projects are classified in four categories: encouraged, permitted, restricted, and prohibited. Projects in the encouraged category are eligible for preferential treatment as specified in the relevant laws and regulations, while projects in the restricted category must undergo a more thorough examination and approval process.

14. In its quest to attract FDI, China took measures aimed at simplifying rules and easing restrictions on the use of capital for direct investments. For example, foreign invested enterprises (FIEs) are now allowed to extend loans to offshore shareholders, and to own some shares in State-controlled enterprises in certain sectors. There are no restrictions on lending by domestic banks to FIEs. In December 2013 China introduced changes to the examination and approval procedures for foreign-invested fixed asset investment projects to facilitate establishment. There are now two categories of investment projects depending on their required modality of registration: (a) projects subject to verification (examination of the project); and (b) projects subject to filing. The *Catalogue of Investment Projects Subject to Government Verification* lists the fixed-asset investment projects subject to verification; for projects not listed in the Catalogue, only filing is required.

15. In August 2013, the State Council officially approved the establishment of the China (Shanghai) Pilot Free Trade Zone (CSPFTZ), a pilot project to test the further liberalization of trade in services and capital account transactions. The CSPFTZ is also meant to facilitate trade by simplifying customs procedure and allowing goods to be cleared at the port, simplify investment procedures, and to grant on a trial basis, pre-establishment MFN treatment for FIEs. A Negative-List approach is used for investment projects; those included in the List require verification. Regarding the trial measures to liberalize services introduced, in telecommunications, ownership conditions have been relaxed at varying degrees for eight value added services, while in financial services, foreign investors registered in the Zone have been allowed to participate in domestic futures trading, to make investments in foreign and domestic securities and futures markets, and to issue RMB-denominated bonds in domestic markets. The provision of insurance and insurance intermediation services has also been liberalized within the Zone.

16. In order to increase its competitiveness, China has also adopted measures to gradually liberalize the provision of services outside the CSPFTZ. For instance, in telecommunications China has adopted measures to extend the geographical scope of universal services. In financial services, measures were adopted to open up to foreign providers the market for third party compulsory automobile insurance. In air transport the only major development is the long-awaited regulation on computer reservation services which does not entail any new liberalization but clarifies the legal responsibilities of the various actors involved. China also adopted prudential measures regarding financial services, to tackle systemic risks such as non-performing loans and real estate assets bubbles, and reinforced prudential regulations notably regarding compliance with the Basel Committee recommendations and anti-money laundering.

17. In the area of trade in goods, China has continued its efforts to facilitate trade, which date back to 2006, by launching a series of reforms, including the introduction of paperless customs clearance procedures. However, despite these efforts, customs procedures across the country still require harmonization. In addition, none of the trade facilitation measures implemented so far apply to goods subject to licensing or other restrictions.

18. The tariff regime has not changed substantially since the last review. China's applied MFN tariff in 2013 consisted mainly of *ad valorem* rates (99.5% of the total number of lines). The non-*ad valorem* rates comprise specific and alternate rates, and formula duties. China's average applied MFN rate in 2013 was 9.4%, almost unchanged since 2011 and 2009 when the average stood at 9.5%. The applied tariff continues to be higher for agricultural products (WTO definition), at 14.8%, showing a slight decline from the averages for 2009 and 2011. The average tariff on non-agricultural products has remained unchanged since 2009, at 8.6%.

19. Import licensing, restrictions and prohibitions are maintained on grounds of state security; public morality; human, animal and plant health; environmental protection; balance of payment reasons; and to comply with international commitments. China uses both automatic and non-automatic licensing. Goods subject to any of these restrictions are listed in Catalogues issued by the relevant agencies. However, these lists can be adjusted as necessary, and imports of goods that are not included in the Catalogue can be restricted or prohibited on a temporary basis by the relevant authorities.

20. China's main legislation with respect to trade remedies was not modified during the period under review. The legal framework to conduct anti-dumping (AD) investigations and apply measures is provided by the Foreign Trade Law, as amended, by the relevant regulations, and by a number of published Rules, some of them provisional. During the period under review, the number

of AD duty orders in place declined slightly, from 117 reported for December 2010 to 113 as at 31 December 2013. Chemical products account for 62.8% of these orders, while 22.1% involve resins, plastics, and rubbers. Imports from 16 countries or territories were affected. The number of final AD orders issued fell from 15 in 2010 to 6 in 2011, 5 in 2012 and 8 in 2013. However, the average length of the application of measures increased to slightly over six years, as all sunset reviews conducted during the period led to the duties remaining in force. Initiations of AD investigations increased from 5 in 2011 to 9 in 2012 and 11 in 2013. Of the 22 investigations initiated between 2011 and mid-2013, around 60% resulted in provisional measures.

21. China initiated three countervailing (CV) investigations in 2012, involving saloon and cross-country cars (new shipper review), originating in the United States, and solar-grade polysilicon, originating in the EU and the United States. No investigations were initiated in 2011 or in 2013. As at 31 December 2013, there were three CV measures in place affecting imports from the EU and the United States. China has not initiated any safeguard investigations pursuant to the WTO Agreement on Safeguards since its previous Review.

22. The procedures to set standards, technical regulations and SPS measures have not been subject to changes since the last Review. No information was available regarding measures at the provincial level and their impact on trade.

23. Export restraints are an important feature of China's trade regime. China imposes export taxes on certain products, and quotas or even bans on others. The list of goods subject to "statutory" and interim export taxes is issued every year. Exports that are subject to interim taxes may also be subject to special export duties, which are applied seasonally and may be substantially higher than interim duty rates. In 2013 the special export duty rate was 75%, while interim duty rates varied from 5% to 35%. Export taxes were applied to some 4.2% of all tariff lines at the HS 8-digit level in 2013; as China is the leading world exporter of certain products subject to export taxes, their application may have an impact on the world price of these products.

24. As in the case of imports, MOFCOM in collaboration with other relevant departments, issues a catalogue of goods restricted or forbidden for export. Export licences may be required for goods subject to export restrictions. These measures are in place mainly to protect the environment and to preserve natural resources. However, it would appear that, in practice, these and other measures affecting exports have been used as policy instruments to encourage or discourage exports as necessary to meet industrial development goals.

25. The extent to which China supports exports and the different sectors of the economy is not clear; specific information regarding this was not provided to the Secretariat in the context of this Review. In addition, China's most recent notification (2011) to the WTO SCM Committee covered the period of 2005-2008 and the latest (2014) notification to the Agricultural Committee, in which China states that it did not maintain export subsidies, covered the year 2012.

26. China maintains a large number of support programmes at the sectorial, regional and enterprise level to attain different economic and social goals. The different support programmes range from those designed to attain major policy goals (i.e. economic growth) to those aimed at boosting specific industries, but they are intertwined. The application of these programmes is not always transparent. A full identification of these programmes was not possible for the Secretariat in the context of the current Review, as specific support measures are often the result of internal administrative measures that are not always easy to identify and generally only available in Chinese. In addition, the budget is not a public document hence it is not possible to identify outlays. Support is also provided through different financial mechanisms.

27. China also provides industry-specific subsidies for inputs, land and technology to firms that the central and provincial governments perceive as strategically important or to revitalize them as the NDRC calls for in its National Old Industrial Base Adjustment and Renovation Plan (2013 - 2022). Under this plan, State-Owned Enterprises (SOEs) and favoured companies can purchase inputs below cost and directly from each other, affecting competitiveness.

28. Credit policy continues to be of major importance in China. Efforts continue to be made to enhance the coordination between credit policy and industrial policies, by speeding up rural financial products and service innovation, improving the provision of financial services for small-

and medium- sized enterprises, and by adopting measures to prevent and alleviate local debt-related risks. The People's Bank of China (PBC) has guided financial institutions to intensify financial support to areas such as scientific and technological innovation, emerging industries of strategic importance, and service industries. Financial institutions were also guided to extend credit support for railways, shipping, thermal power and steel, and were encouraged to use credit products flexibly to support profitable export-oriented enterprises. Credit policy was also made to play a guiding role in promoting the implementation of regional development strategies.

29. Agriculture continues to receive support to guarantee farmers' income, develop rural areas, and ensure food security and price stability of agricultural products in the domestic market. The four main subsidies in place to support the sector are: the subsidy to promote the use of superior strains and seeds, the subsidy to purchase agricultural machinery and tools, the comprehensive subsidy for agricultural inputs, and the direct subsidy to farmers.

30. During the period under review, China began implementing the provisions regarding competition policy adopted in the course of the previous Review and that aim at reinforcing observance and combating monopolistic practices as the economy liberalizes. Measures adopted include provisions on the implementation of reviews of concentrations of undertakings (anti-trust reviews), and reviews of foreign companies' mergers and acquisitions of domestic companies relating to "national security" (national security reviews), with a view to increasing transparency. Provisions were also adopted with respect to measures related to price abuse of dominant positions, price-related administrative monopoly, and price fixing. China's competition law covers all types of enterprises; however, immunity against the provisions of the law is granted to State-owned enterprises (SOEs) that are considered vital to the Chinese economy and to safeguard national security, or that have been granted legally-exclusive production and sales rights. Concentrations above certain thresholds must be notified and are subject to a prior anti-trust review.

31. China applies price controls to commodities and services deemed to have a direct impact on the national economy and people's livelihoods. They are set both at the central and provincial levels. Price controls may take the form of "government prices", fixed prices set by the authorities, or "government-guided prices", for which a range within which prices can fluctuate, is determined. The determination of government prices or government-guided prices varies in accordance with the type of product or service, based on criteria such as market situation, average social costs, the effect on the standard of living of the population, as well as on economic, regional and seasonal factors. Although the methodology for setting prices is the same across provinces, prices may be set at different levels depending on the particular province.

32. Under the Government Procurement Law, the Government is required to procure domestic goods, construction projects and services, subject to certain exceptions including: unavailability in China, lack of availability on reasonable commercial terms, procurement for use abroad, or when it is otherwise provided for by other laws and administrative regulations. Government procurement can be centralized or decentralized. The threshold for procurement under the central budget in 2013 was RMB 500,000 for goods and services, and RMB 600,000 for construction projects. Centralized procurement accounted for 87.6% of government procurement in 2012. Decentralized procurement of items not listed in the Centralized Procurement Catalogue, but with a value above a certain threshold, which is specified by governments at various levels, is carried out by the procuring agency itself. China uses five methods for the procurement of goods, services and works: public tendering, selective tendering, competitive negotiations, request for quotation, and single-source procurement.

33. During the period under review, China has continued to implement measures aimed at improving its Intellectual Property Rights (IPRs) protection regulatory environment, including amendments to legislation and regulations, as well as departmental rules. One of the main changes during the period under review was the enactment of the third amendment to the Trademarks Law in August 2013, effective 1 May 2014. China also promulgated the Administrative Measures on Prioritized Examination of Invention Patent Applications in 2012. Despite efforts undertaken by the authorities to combat infringement, enforcement of IPRs continues to be a major challenge in China.