

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

Spec(88)13/Add.8

15 October 1991

WORKING PARTY ON CHINA'S STATUS AS A CONTRACTING PARTY

Communication from China

The following communication, dated 7 October 1991, has been received from the Permanent Representation of the People's Republic of China with the request that it be circulated to members of the Working Party.

Upon the instruction by the Chinese Government, I have the honour to forward to you the document entitled "Additional Information On China's Foreign Trade Regime" attached herewith. It would be appreciated if the document could be promptly circulated to the members of the Working Party on China's status as a contracting party.

ADDITIONAL INFORMATION
ON CHINA'S FOREIGN TRADE REGIME

At the Ninth Session of the Working Party on China some contracting parties requested China to provide additional information on China's foreign trade regime and subsequently asked the Chinese delegation to elaborate on the relationship between the Decision made by the Central Party Committee on Further Economic Readjustment and Deepening of Reform (referred to as "39 points") and the Outline of the Ten-Year Programme and of the Eighth Five-Year Plan for the National Economic and Social Development, as well as the further development of China's foreign trade system during the past two or three years. In response to these requests, the Chinese delegation wishes to provide the following information:

I. RELATIONSHIP BETWEEN THE DECISION AND THE OUTLINE:

1. The economic readjustment consists of effective measures taken by the Chinese Government to restore the equilibrium of the national economy.

China's open policy and economic reform since the 1980s has made remarkable progress and brought about evident strengthening of the national economic capability. Comparing 1990 with 1980, the gross national product rose from RMB 447 billion to RMB 1,740 billion, a 136 per cent increase on the basis of constant prices, representing an average annual increase of 9 per cent. The national income rose by 131 per cent as calculated in constant prices from RMB 368.8 per cent to RMB 1,430 billion, or an annual increase of 8.7 per cent.

However, the continuous high economic growth gave rise to overheating, reflected in an excessive large scale of investments, disorder in marketing and distribution, and high inflation rates and sectoral imbalance. In order to resolve these problems the Chinese Government took a decision in September 1988 on economic readjustment and further economic reform.

Subsequently, in November 1989, the Party Central Committee made a similar decision to rectify the economic order, improve the economic environment and deepen economic reform. The decisions aim to: (1) curb overheated economic growth, overcome the consequential sectoral imbalance and the high inflation rate - thus putting the economy on the track of sustainable, steady and coordinated growth; (2) create a favourable environment for economic reform and further opening to the outside world.

2. In the process of economic readjustment, economic, legal and administrative means have been used in combination to curtail the scale of capital investment, and control the amount of currency in circulation and the credit level. The open policy and economic reform had neither discontinued nor retrogressed. It kept on moving forward steadily with increasing momentum. Following are the main features:

(1) Steady Progress in the Rural Reform. Policy decisions have been reaffirmed to consolidate and improve the household responsibility system with remuneration linked to output and to further develop village and township enterprises. At the beginning of the economic readjustment, these enterprises faced the same difficulties as state-owned enterprises due to decline in demand and availability of capital resulting from tightened credit availability. Some of them were compelled to close down. But this situation did not last long. The dynamics resumed soon after. In 1990 the output value of the township enterprises reached RMB 950 billion, accounting for 54.6 per cent of the total output value of the economy and representing 30 per cent of the total national industrial output value. These enterprises generated an export earning of US\$ 13 billion and created job opportunities for 92 million people.

(2) Intensified Enterprise Reform. In the urban economy there has been further improvement in all different kinds of contract responsibility systems for large- and medium-sized state-owned enterprises. Contract-based targets, previously subject to profit surrendering and taxation, have developed into a system of efficiency targets (profit, tax and labour productivity), development targets (capital productivity and technological advance) and management targets (quality, cost and

consumption). The director (manager) responsibility system has been maintained in implementation of the Enterprise Law. By the end of 1990, 88.6 per cent of the state-owned enterprises which had completed their first round of responsibility contracts had signed the second round of contracts. These contracts have taken full account of the independent management of enterprises. In order to take advantage of economies of scale, horizontal integration, merger and enterprise grouping have grown to some extent. Some enterprises continue their experiments with share-holding and leasing.

(3) Price Reform Has Taken Major Strides. Prices of ten categories of commodities subject to state pricing were adjusted or liberalized in 1989. And 15 more broad categories were added to the list in 1990. The margins of upward adjustment range from 10 to 30 per cent involving a total amount of some RMB 60 to 65 billion. The objective of price adjustment is to make sure that state pricing reflects more accurately or closely the actual supply-demand situation and to bridge the gap of the two-tier prices, with the ultimate goal of establishing a rational price system that can precisely reflect the supply-demand situation. This substantial price rise did not cause social unrest thanks to an overall supply-demand balance. It has actually given an impetus to the recovery of the economy and industrial restructuring. It indicates that along with the increase of personal income, the consumers begin to be adaptable to the impact of price fluctuation in the market and thus create favourable conditions for a fully-fledged price and economic system reform.

(4) Increasing Role of Market Forces and Further Development of the Market System. Presently, products for which production and price are determined by market forces account for approximately 70 per cent in terms of product category or 60 per cent of value of the total industrial and agricultural output. In order to facilitate the normal functioning of the market mechanism, a major task at present is to establish and refine market law and regulation. We are now preparing conditions for the full implementation of the Law on the State-owned Industrial Enterprises and the Bankruptcy Law. A Fair Competition Law is in the offing. The following factual data shows the role of market forces:

- Rapid growth of various types of product exchange markets. Now nearly 200 large-scale steel markets have been set up and about 400 large-scale trade centres for means of production have been established, more than 800 trade centres for consumer goods, 3,000 wholesale markets for small industrial goods, nearly 1,300 for agricultural and sideline products and 70,000 urban and rural free markets have also been set in place. In October 1990, the first Central Grain Wholesale Market of a forward market nature opened in Zheng Zhou. Subsequently, a number of provincial wholesale markets for grain were set up formally or on a trial basis in Jiangxi, Anhui, Jiling and other provinces.

- Rapid development of the financial markets. Presently, a diversified financial and credit market system has begun to take shape. In 1990, the short-term capital markets reached nearly RMB 300 billion. Long-term financing in the form of securities, bonds and shares amounted to RMB 200 billion. In 1990, there were 46 specialized security and stock companies throughout the country; transaction value in the stock markets kept on expanding. There are more than 90 foreign exchange swap centres throughout the country, the transaction value for 1990 amounting to US\$ 13.16 billion, representing an increase of 37.4 per cent.

- Other markets such as service, technology, information and housing estates have grown.

(5) Effective Macro-Economic Control Through Economic, Legal and Administrative Means. The first thing done was to restructure investment policies by imposing an investment orientation regulatory tax and differential tax rates aimed at rationalizing the investment structure. The second measure taken was to adjust the intensity of the credit squeeze in accordance with national industrial policies, giving priority to key sectors and backbone enterprises and choosing the appropriate time to relax credit supply to stimulate production and revitalize the market. The third thing was to adjust financial policies including raising bank reserve levels, introducing indexed bank deposits, adjusting borrowing and lending interest rates four times and exchange rates twice. Minor exchange rate

adjustments were made frequently this year. The difference between the official rate of RMB and the floating rate in the swap centres has been narrowed to less than 10 per cent, laying a sound foundation for an eventual unified managed floating rate system.

(6) Housing and Social Security System Reform in Progress. A sound social security system is the prerequisite for the effective implementation of the Law on State-Owned Industrial Enterprises and the Bankruptcy Law. By the end of 1990, 75 million employees in the state-owned enterprises and 25 million in large collective enterprises participated in the pension scheme. Presently, 14 cities and counties have started full-scale housing system reform. Thirteen counties and more than 300 towns have started reform in particular aspects. The housing system reform in Beijing and Shanghai is guided by comprehensive reform programmes based on a detailed implementation plan. A principle of cost sharing by the State and collective institutions and citizens is reflected in rent increases, sale of public houses and joint housing construction.

(7) Further Opening to the Outside World. In April 1990, China decided to open and develop the Pudong District of Shanghai by applying policies adopted in respect of economic and technological development areas and special economic zones. In addition to attracting foreign investment, financial business has been liberalized to some extent. About 20 foreign banks have applied to establish branch offices or financial corporations in that area. Six of them have been approved. We have made our initial commitments in 6 sub-sectors of services including financial services. Details are contained in the submission to the negotiating group on trade in services.

(8) Further Improvement of Investment Climate and Efficient Use of Foreign Capital. In April 1990, the Third Session of the Seventh National People's Congress adopted the Amendment to the Sino-Foreign Joint Venture Law to the effect that foreign investment will not be nationalized and foreign partners can assume the presidency on boards of directors. There will be no rigid limitation on the terms of a joint venture contract. In

May of the same year, the State Council promulgated the Interim Rules Concerning the Administration of Tract of Land of Development Operation with Foreign Investment and Provisional Regulations of the People's Republic of China concerning the Transfer and Assigning of Right to the Use of the State-owned Land in Urban Areas, with a view to encouraging long-term foreign investment in the development of tracts of land. The Yangpu area of Hainan Province was set as such land development area. In 1990, 7,276 new foreign investment enterprises were registered, representing the largest entry since the adoption of the open door policy. The number of wholly foreign-owned enterprises has been doubled. As it stands now, there are more than 30,000 foreign investment enterprises.

(9) Further Improvement of the Foreign Trade System. The contract responsibility system for foreign trade corporations has been renewed, focusing on the institutional reform of enterprises. The foreign exchange retention rate has been unified. Measures have been taken to overhaul and streamline foreign trade corporations, rectify the economic environment and improve the economic order. Export subsidies have been eliminated as from January 1, 1991. Subsidized imports have been reduced to five products.

Significant foreign trade reform this year has put foreign trade enterprises on the right track of unified policy, fair competition, independent management, self-accountability for profits and losses, integration of industry and trade, and practice of the agency system. The major steps include: (a) eliminating the subsidies that the government provides to foreign trade enterprises operating at a loss; (b) changing differential foreign exchange retention rates by geographical location into a unified retention system by product category; (c) further invigorating foreign exchange markets and expanding rights of enterprises to dispose of their retained foreign exchange; (d) progressive reform of administration on importation. Detailed information regarding changes on China's foreign trade regime is contained in section II of this document.

3. Evident Success in the Economic Readjustment and Harmony Between Development and Reform. More than two years of effort has brought about

evident success in the economic readjustment. The excessive high social demand has been brought down and inflation brought under effective control. The retail price index dropped from 18.5 per cent in 1988 to 2.1 per cent in 1990, and this low rate has been maintained for the first half of this year. We have had a bumper harvest for two years running and industrial growth returned to normal levels. Economic order was stable. In 1990, gross national product grew by 5 per cent, 6.9 per cent for agriculture output, 7.6 per cent for total industrial output. Major objectives for the economic readjustment have been achieved. Our national economy has turned for the better. This creates a relaxed environment for further deepening of reform. Therefore, the National People's Congress at its Fourth Session held in April 1991, adopted The Outline of the Ten-Year Programme and Eighth Five-Year Plan for the National Economic and Social Development as the general policy guidance for the next ten years.

II. THE OUTLINE SETS THE MEDIUM AND LONG TERM OBJECTIVES FOR NATIONAL ECONOMIC DEVELOPMENT AND REFORM IN THE LIGHT OF THE CURRENT SITUATION.

The Outline clearly defines that firm efforts will be made to push forward the reform and open door policy in the next ten years on the basis of the great success achieved in the 1980s, and in particular the favourable environment which has emerged from the economic readjustment. In light of the Outline, the objectives of further economic reform in the 1990s are to initially establish a new system of planned commodity economy and an operational mechanism that combines plans with market regulation. Basic requirements are as follows:

- To establish an ownership structure with public ownership as the predominant factor allowing simultaneous growth of all other forms of ownership. Such a structure will continue to support collective economy, develop appropriately the individual or private economy, and encourage foreign investment or joint ownership. Supervision and management will be strengthened in accordance with relevant laws.

- To establish a social system that basically meets the needs of socialized mass production. Administrative functions should be separated from management responsibility of enterprises, and ownership of enterprises should be separated from their management authority so that enterprises will become fully independent economic entities responsible for their profits and losses, exercise self-restraint and pursue expansion and development by relying on their own initiative.

- To establish a unified market system for fair competition under clearly defined common rules and regulations. There will be further improvement in markets for consumer goods and expansion of markets for means of production and development of various markets for commodities and production factors. As far as pricing is concerned, with the exception of State pricing for a few products and utilities having a strong bearing on the national economy and people's livelihood, production and sales of all other products will be liberalized and regulated by market forces.

- To establish a macro-economic control system with indirect control as the principal means and direct control as the supplementary means; central control as the principal means and local control as the supplementary means.

- To establish a personal income distribution system based chiefly on the principle of "to each according to his work", supplemented by other forms of distribution, establishing a sound social security system. The goal is to keep a proper balance in the income distribution relationship between the State, the collectives and individuals and between the central level and local level.

Future reform will focus on the following six major areas:

(1) enterprise system, (2) rural economic system, (3) market circulation and pricing system, (4) the system of labour and pay, social security and housing, (5) open policy and foreign trade system, (6) macro-economic control system.

(1) Reform of the Enterprise System. The primary task is to refine the contractual responsibility system and continue with the director's responsibility system laid down in the Enterprises Law to ensure the independent management of enterprises and, to that end, draft an implementing regulation for the Enterprises Law. The second course of action will be to select large enterprises in the petroleum, petro-chemical, coal, iron and steel, non-ferrous metal and railway industries to enter into comparatively long-term input-output responsibility contracts. In the competitive industrial sectors, State-owned enterprises will be progressively transformed into companies of limited liability, and limited share-holding companies with State-owned legal entities as the majority share-holders. Experiments with various kinds of share-holding systems will continue. Legislative procedures will be pursued to formulate laws on limited liability companies or limited share-holding companies, in order to define and protect the interests of participants and investors, and reduce administrative interference. Initiatives should be taken to push the movement of production factors, develop enterprise groups, enhance the degree of speculation, and take full advantage of economies of scale. Measures will also be taken to encourage the development of foreign investment enterprises and invite foreign businessmen to invest in domestic enterprises. In order to raise the running efficiency of State-owned assets, it is necessary to establish a rational monitoring system to look after State-owned assets.

(2) Rural Economic Reform. In addition to continued emphasis on the household responsibility system, great efforts should be made to develop the market system. The reform on the township enterprises system should be carried further. It is necessary to design appropriate policies to promote to some extent concentration in the deployment of township enterprises and advancement of horizontal integration.

(3) Reform of Market Circulation System and Pricing System. In market circulation, efforts will be focused on the establishment of a unified national open market so as to raise efficiency in a nation-wide context. The ratio of mandatory-planned allocation will be reduced and the

method of formulating and implementing mandatory plans should be reformed. Comprehensive market law should be established to prevent monopoly and unfair competition, penalize illegal conduct and protect legitimate business activities. A rational price formation mechanism should be established with a view to pushing forward the comprehensive economic structural reform. On the basis of aggregate supply-demand equilibrium, actions should first be taken to adjust the heavily distorted prices for a number of products and then move on to establish a rational pricing system in which prices are liberalized for the overwhelming majority of products with exception for only a few products having a strong bearing on the national economy and people's livelihood, which shall continue to be subject to State pricing. Prices for coal, petroleum, rail transportation and urban utilities should be raised. The double-track prices for means of production should be eliminated or reduced. Prices for intermediate goods and consumer goods should be liberalized.

(4) Reform of the System of Labour and Pay, Social Security and Housing. Great efforts should be exerted to develop collective enterprises, particularly in the tertiary and newly-emerging agri-industries, appropriately develop individual, private and foreign investment enterprises, and expand the exportation of labour services with a view to opening up new channels of employment opportunities. The labour contract system will be recommended in order to achieve the ultimate goal of free choice for both the employers and employees. In respect of the pay system reform, an operational regulatory mechanism should be established to ensure the balance between normal pay increases and aggregate pay expenditure. Linkage should be established between aggregate pay expenditure and economic efficiency. A salary system will be established for civil servants. Personal income structure should be modified, particularly, welfare subsidies should be incorporated into the regular pay.

In respect of social security, in order to maintain social stability and the smooth implementation of the Enterprise Law and Bankruptcy Law, it is envisaged to establish a retirement pension and unemployment insurance

system with the cost to be shared by the State, the enterprises and the employees.

The housing reform includes: (i) raising rent to cover the real cost and reduce State housing subsidies; (ii) encouraging employees to buy public-owned apartments at favourable prices; (iii) opening up new channels of construction financing.

(5) Open Policy and Foreign Trade Structural Reform. The open policy will further extend its scope. While efforts will be made to consolidate and develop the existing special economic zones and coastal open cities, the open policy will progressively extend to the interior and frontier areas such as the North-East, North-West and South-West. Real effort should be made to implement the Shanghai Pudong Development Programme, improve investment environment and promulgate unified nation-wide laws and regulations to attract foreign investment.

In respect of foreign trade reform, a major task is to establish a foreign trade management system basically compatible with international trade principles and rules, in which foreign trade enterprises exercise independent management and responsibility for their profits and losses, and are integrated with industrial entities and engage in fair competition. To that end, China will actively participate in the multilateral trading system, reform the exchange rate operation mechanism and the foreign exchange swapping system, adjust the RMB exchange rate, develop a managed floating rate system to create the conditions for the eventual elimination of the multiple exchange rate, reform the swap market and ensure free transaction in the swap market.

The reform of the foreign trade administration system includes further tariff cuts, the elimination of the import regulatory duty, substantial reduction of products subject to import licensing, increasing market access and increasing transparency of foreign trade laws and regulations.

(6) Reform of the Macro-Control System. The main task is to establish a sound macro-economic control system with comprehensive use of planning, financial and monetary means to ensure the aggregate supply-demand balance and stable growth and normal circulation of the national economy. The function of economic planning will shift towards aggregate control, economic development and broad structural adjustment. Enterprise management, technological transformation and other general economic activities shall be regulated by market forces. It is envisaged to further reduce the scope of mandatory plans, increase the scope of guidance plans and let market forces play a greater role. The financial and fiscal system will be reformed so as to increase the macro-regulatory role of finance and taxation. The major task of the financial and monetary reform is to intensify the macro-regulatory role of the Central Bank, its main functions being to ensure the stability of the RMB value, prevent inflation and great austerity, and support the sustainable, stable and harmonious development of the national economy. The objective of the monetary reform is to authorize the Central Bank to regulate money supply and credit level, reinforce research and forecasting on macro-economic activities and formulate monetary and credit policy. Another aspect of the reform is to streamline the interest rate decision-making process, strengthen the leading role of the Central Bank over the specialized banks and the administration of foreign exchange and external debts. A corporate management system should be established to provide for independent accounting and management by the specialized banks. Further development of the financial market includes the establishment of stock exchanges in major cities, the perfection of the automatic stock-selling system, and the completion of the network linkage of the financial market and the foreign exchange market so as to unify the financial market and expand the issuance of securities and stocks.

III. CHANGES IN CHINA'S FOREIGN TRADE REGIME

2.2.1 Foreign Trade Corporations

The overhaul of foreign trade corporations is drawing to a conclusion. By August 1991, MOFERT has screened more than 5,000 foreign trade corporations given foreign trade rights. Of these, 1,402 have been either dissolved or merged with other corporations and 3,673 have been permitted to continue their operation. This resolved an important problem which gave rise to chaos in foreign trade operations.

Work for the next step is to examine the business scope of each foreign trade corporation. Foreign trade rights will be granted to more large and medium-sized production enterprises, particularly qualified production enterprises and enterprise groups in the machinery and electronic sectors. The 13 import products handled by designated foreign trade corporations have been adjusted to 14 by adding wool (including non-cleansed wool, cleansed wool and wool strip). The 21 categories of export products handled by designated foreign trade corporations remain unchanged.

2.2.2 Production Enterprises

At present, there are 431 production enterprises given foreign trade rights.

3.1.2 Plan Targets

Currently, 30 products remain subject to mandatory planning, including steel, chemical fertilizer, petroleum, coal, grain, cotton and timber. Export products subject to mandatory plans accounted for approximately 22.2 per cent of China's total exports in 1990, export under guidance plans represented 12.3 per cent in China's total exports, while the remaining 65.5 per cent of exports were not subject to any export plan. Import products under mandatory plans accounted for 20 per cent of China's total

imports in 1990, another 20 per cent of total imports were subject to guidance plan specifying only a certain amount of import values for particular purposes, and the remaining 60 per cent were not subject to any plan.

3.1.3 Implementation of the Plan

Mandatory import plan targets are allocated to national foreign trade corporations and provincial foreign trade corporations. Currently, the State does not allocate such targets to production enterprises. Mandatory export plan targets are only allocated to national foreign trade corporations.

3.2.2 Exchange Rates

On June 30, 1991 the official exchange rate was US\$1 = RMB 5.35, and the swap centre rate was US\$1 = RMB 5.89. The difference between the two rates was 9.2 per cent.

3.2.3 Foreign Exchange Allocation Mechanism

From 1991 the new foreign exchange allocation system transformed the differential foreign exchange retention rates for different regions into a unified retention system by product categories. Twenty per cent of foreign exchange earnings has to be sold to the State at the official exchange rate, 10 per cent is retained by local governments, another 10 per cent is retained by the production enterprises and the remaining is retained by foreign trade corporations. In order to ensure foreign exchange availability for use by the State, the State purchases 20 per cent from foreign trade corporations and 10 per cent from export supplier enterprises, respectively, of their retained foreign exchange at the average rate of the swap centres. The remaining may be used by the enterprises for swap operation or for imports.

China allows foreign investment enterprises to retain all their foreign exchange earnings and requires them to balance their foreign exchange.

At present, China has about 90 foreign exchange swap centres. As the market mechanism needs to be improved, adjustment rates vary in provinces, autonomous regions, municipalities directly under the Central Government and the Special Economic Zones. The SEZs and the main open coastal cities have established open markets for competitive transactions and have worked out detailed transaction rules reflecting the principles of equity and fairness. The purpose of establishing foreign exchange markets is to liberalize foreign exchange administration. With the improvement of the international balance-of-payments position and perfection of foreign exchange swap markets, an operational mechanism combining foreign exchange control with market regulation will play an increasing role.

3.3.2 Import and Export Licensing System

Presently, the number of products subject to the import licensing system remains at 53. The importation of only a few of these products such as steel, lumber, petroleum, sugar, natural rubber, wool and tobacco products are handled by corporations designated by MOFERT. Import licenses for products such as motor vehicles, steel, petroleum oil, sugar, wool, plywood, wood pulp, tobacco products, rubber and lumber are issued by MOFERT and its Special Commissioner's Offices in the localities.

In 1991, the number of products subject to export licensing is 228.

3.3.3 Import Substitution Regulations

The exact meaning of "Import Substitution" is to encourage the production and use of advanced technology products in replacement of imported like products. This is reflected in advertising in industrial sectors to promote domestic-made products to domestic users. China's import licensing system does not contain an import substitution clause. It should be made clear that the import substitution list recommended by industrial sectors cannot be treated as the basis for import restrictions. Therefore, it cannot prevent enterprises from importing like products.

3.4.1 Import and Export Tariffs

Import Tariff

From April 1986 to August 31, 1991, the import duty rates were adjusted 18 times: the import duties of 83 dutiable items were adjusted downward and 140 dutiable items were adjusted upward.

The products covered by the downward adjustment include: hexamethylenediamine adipate, flours of meal and bone, waste and scrap of non-ferrous metals, special parts of the machines operated by numerical control systems, transformers of 400 mVA or more, precious stones, sheets for plywood, insecticides, polyamide tyre cord fabrics, blue-wet bovine hides, linseed oil, waveguide quartz tubing for optical fibre use, raw materials for the chemical industry, herbicides, synthetic rubber, pulp derived by mechanical or chemical means from any fibrous vegetable material equipment and pulse code, high voltage switches, sulphur, apatite, cellulose acetate, raw materials for fertilizers, plastic esters, etc.

The products covered by the upward adjustment include: cosmetic or toilet products, some home electrical appliances, colour film in rolls, chemicals for developing colour films and photos, magnetic tapes, electronic games, stored programme control switching systems of less than 5,000 lines, diesel engines of 50 horsepower or less, photochromic lenses, electronic watches, mixtures of two or more odoriferous substances, lemonade and like non-alcoholic beverages, fruit, seasonings, structures of aluminium, electrical generators, colour television receivers, wave carriers and facsimile apparatus, telewriters, wireless telephone sets, electronic musical instruments, B-type ultrasonic image diagnostic apparatus, edible oils, etc.

It should be noted that the foregoing upward adjustment of the import duties on the above products was implemented in compliance with the economic readjustment begun in 1988, particularly in view of the poor economic performance and international balance-of-payments situation. With the improvement of the economic performance and international balance of payments, and rationalization of the exchange rate of RMB, the import duty

on a wide range of raw materials and new technology products has been reduced. The above-mentioned duty reductions on some 83 items have, for the most part, been accomplished during the past one or two years.

These figures show that in recent years the tariff reduction has covered an increasing number of dutiable items and increasingly broader categories of products. The tariff reduction on the 83 items covers a trade volume of nearly US\$ 4.95 billion, which results in the revenue loss of about RMB 1.28 billion. China has notified its tariff reductions during the past two years to the GATT Secretariat. On January 1, 1992, China will further reduce its tariff on 86 items, which will by rough estimates cover a trade volume of US\$ 360 million and lead to a revenue loss of RMB 110 million. The tariff reduction gives tariffs a role to play as an economic lever to regulate the national economy and foreign trade. On the other hand, the tariff situation may be considered as a positive measure taken by China in the light of its commitment to make tariff concessions to contracting parties for the resumption of its contracting party status, as well as a contribution in the spirit of the Ministerial Declaration of the Uruguay Round. China is ready to negotiate further tariff cuts with contracting parties in the context of resuming its GATT status.

Export Tariff

Since 1985, the items and rates of the export duty have been adjusted 12 times. In 1990 and 1991, the export duty was reduced on 15 items. The products covered by the reduction include: lead ores and concentrates, zinc ores and concentrates, wrought bar, rods, angles, shapes of aluminium, ferro-silicon, ferro-manganese, lead, phosphor, etc. At present, the export duty is being imposed on 29 products found in 57 items in the Export Tariff.

3.4.2 The Tariff Schedule and Structure

The Chinese Customs has already completed the transposition of the present tariff schedule based on the CCCN to the new tariff schedule based

on the Harmonized Commodity Description and Coding System (hereinafter referred to as the "HS"). The new tariff schedule will be promulgated on November 1, 1991 and put into effect on and from January 1, 1992. China is at the moment studying the International Convention on the Harmonized Commodity Description and Coding System with the intention of acceding to it.

The new tariff schedule adds 1,828 7-digit subheadings and 298 8-digit subheadings on the basis of the "HS" 8-digit coding system. There are 6,255 dutiable items in the new tariff schedule, 4,047 items more than the present tariff schedule, the latter also currently in use for classification purposes.

The established principle for the transposition of the present duty rates to the new ones is to keep the new rates virtually on the same level as the former rates and to keep unavoidable changes at a minimum. For the case of combining or splitting of the headings or subheadings in the course of transposition where the change of duty rates in the new tariff schedule is imperative, three methods of transposition of duty rates have been employed for establishment of the new duty rates with a view to minimizing the effect of the changes of duty rates resulting from the transposition on the trade flow. They are:

(1) Use of the present duty rate of the principal product accounting for 70 per cent or more import value of all the products concerned as the duty rate of the new item. This method applies mainly to the case where several products merge into one dutiable item. There are 295 items in the new tariff schedule so established.

(2) Balance of the duty rates of the related products, e.g. use of the same rate in line with the industrial policy for the products regrouped into one like or related product group in the new tariff, rates of which are on different levels in the present tariff. There are 168 dutiable items in the new tariff with application of this method.

(3) Use of the average rate of the different rates in the present tariff as the new rate for the item in the new tariff. There are 30 dutiable items transposed in the light of this method.

The average level of the duty rates so transposed in the new tariff on the whole is primarily in equivalence with that of the present tariff.

3.4.3 Customs Valuation

The principle of customs valuation was stipulated in Article 10, chapter 3 of the Regulation of the People's Republic of China on Import and Export Duties, as put into force on October 16, 1987. On January 3, 1989, the Customs General Administration in accordance with the principle of the above-mentioned article of tariff regulation, promulgated the Regulations on the Assessment of Duty-Paying Value of Import and Export Goods by the Customs of the People's Republic of China (hereinafter referred to as the Regulation). On May 1, 1991, the Customs General Administration promulgated the Rules on the Appraisal of the Import Goods by the PRC Customs (hereinafter referred to as Rules). The whole system of valuation on import and export goods was completed with the promulgation of these rules.

It is provided in Article 9 of the Tariff Regulation that: The duty-paying value of the goods to be imported shall be assessed according to the c.i.f price based on the normal transaction value verified by the Customs. It is also provided in Article 10 of the same regulation that when the transaction value of the goods to be imported cannot be assessed after the examination by the customs, the duty-paying value shall be the c.i.f price based on the transaction value of the identical or similar goods purchased from the same exporting country or area.

The Regulations on the Assessment of Duty-Paying Value of Import and Export Goods by the Customs of the People's Republic of China. Making reference to international practices and multilateral rules, detailed provisions were prescribed on the duty-paying value of imported goods in the Regulation. These are that the transaction price (normal purchase

price of goods in an open market) is the basis of customs valuation with the deduction and addition of fees and charges from/to the c.i.f price. It is also provided that, if the transaction price of import goods cannot be determined by the customs after examination, the duty-paying value of such goods shall be assessed according to the c.i.f value based on the normal transaction price of the identical or same goods from the exporting country or area. In case the duty-paying value still cannot be ascertained in accordance with the provisions mentioned above, the duty-paying value may be assessed according to the wholesale price of like or similar imported goods in the domestic market minus the import duties, other taxes at the time of importation and normal freight, storage fees, business operation expenses and profit incurred at or after importation. It is also prescribed that in case the duty-paying value of the goods cannot be obtained according to the provisions mentioned above, or the declared prices are considered obviously too low, then the duty-paying value may be otherwise assessed by the Customs using other reasonable methods.

For the purpose of implementing tariff policy, protecting the rightful interest of honest traders and preventing the under-declaration of price, price frauds and duty evasion, China Customs, from May 1, 1991, implemented the Rules on the Appraisal of Import Goods by the PRC Customs. This is in reaction to duty evasion through under-declaration of price and fraud. The Rules shall be applicable to the following cases where the prices declared are obviously too low. These are: (1) the declared prices are obviously lower than the prevailing prices of identical and similar goods imported by others and without lawful evidence and justification for the said prices; (2) the declared prices are obviously lower than goods which are supplied in the world market under normal conditions; (3) according to the information of Customs, that the buyer and seller are economically related to each other and ; (4) other special deals as deemed necessary to be appraised by the Customs.

When the Customs appraises the goods, the following order is to be applied: (1) the transaction price of the identical goods in the open market of the exporting countries; (2) the transaction price of like

and similar goods in the open market of the exporting country; (3) the transaction price of like and similar goods in the open world market; (4) the wholesale price of the identical goods in the domestic market after the reasonable deduction of duties, taxes, fees, profits, etc.; (5) other prices as appraised by the Customs through other reasonable methods.

3.4.5 The Import Regulatory Duty

Since its establishment in 1985, the rates and items of the import regulatory duty have been adjusted 8 times. At present, the import regulatory duty is being imposed on 18 products found in 26 items in the present tariff. These include: some home electrical appliances, cosmetics, motor cars, micro-computers, etc. With the development of the domestic industries in the years to come, China will gradually eliminate the import regulatory duty.

3.6 As from January 1, 1991, the Chinese Government ceased to provide subsidies to export enterprises suffering losses.

5.1 Bilateral Trade and Payment Agreements.

China has signed bilateral trade agreements with more than 110 countries and territories. Most of the payment agreements with a number of countries have turned into cash trade agreements. With the exception of continued payment agreements with Bangladesh, Cuba, the People's Democratic Republic of Korea and Albania, China's trade with all other countries are based on cash trade. The payment agreement with Albania will likewise turn into cash trade next year.

5.4 Rules of Origin

With a view to implementing the provisions on the application of the two columns of tariff rates provided in the Regulation on Import and Export Duties of the PRC, the Customs General Administration promulgated the Provisional Rules of the Customs of the PRC on Origin of Import Goods, as of December 6, 1986.

According to the "Provisional Rules", goods produced or manufactured wholly in a given country shall be taken as originating in that country. Where several countries have taken part in the production of the goods, the country having carried out the last substantial processing shall be the country of origin of the goods. "Substantial processing" means that, after processing, the tariff heading of a product in the applied tariff schedule has been changed, or the percentage of the value added is over 30 per cent of the total value of the processed product. The "Provisional Rules" coincide with international practice.

IV COMMITMENT TO MARKET ACCESS

The open door policy is an established long-term State policy. Export subsidies had been frozen since 1988. And further steps were taken to eliminate export subsidies to foreign trade enterprises as from January 1, 1991. This is a major stride in the reform of China's foreign trade regime in order to facilitate the participation in international trade, and economic and technological cooperation with other countries. We shall continue to carry out the open door policy and economic reform so as to achieve the goal of regulating import and export trade through economic leverage such as exchange rates, interest rates, tariff rates, and through legal means with administrative means being kept to the minimum necessary level. Such a reform will make China's trade regime more compatible with GATT requirements. Such a system will contribute to the cooperation between China and other countries on the basis of equality and mutual benefit. We will do our utmost in making trade concessions and liberalizing the domestic market. First of all, we will take appropriate measures to progressively reduce our tariff rates to an equitable level consistent with the level of our economic development as a developing country. From January 1, 1992, we will unilaterally reduce import tariffs for about 50 products. Details will be available in due course. We have also invited contracting parties to enter into tariff concession negotiations with China on a reciprocal basis. In addition, we have decided to remove the import regulatory duties within six months.

Import Licenses. We shall eliminate a series of products from our import license coverage list within six months, and revise the list of products subject to import license. Import license coverage will be cut by two-thirds within the next three years.

Transparency. In order to meet the obligation of ensuring transparency in foreign trade policies, laws and regulations, MOFERT is sorting out internal rules and documents concerning China's import and export administration and will make them available within six months. It will take about one year's time to collect and compile all laws, regulations, rules and decrees regarding China's foreign economic and trade activities published since the announcement of the open policy in 1979. This is intended for reprint and systematic introduction.

In the future, all new rules and regulations relating to import and export administration will be formulated and announced by MOFERT only.

Import Substitution. Import substitution lists published by industrial departments are intended for disseminating information and recommending domestic-made products to consumers. These lists are not for the purpose of restricting or prohibiting imports of like products from other countries. They have no legally binding force preventing enterprises from importing like products.

Import Control. A general review will be undertaken in 1992 on voluntary import control introduced by industrial departments. The quota system will be implemented in accordance with relevant GATT procedures for products in need of protection.