

**THE ISSUE OF CHINA'S  
PARTICIPATION IN THE  
MULTILATERAL TRADING SYSTEM**

Mr. Li Zhongzhou  
Division Chief for GATT Affairs  
Ministry of Foreign Economic Relations and Trade  
Beijing, China

Occasional Paper #3

*Presented at the conference on Foreign Trade Policy Issues organized by  
CAPI and IRPP, with funding from IDRC, held in Victoria in April 1990.  
Translated by Dr. Ralph Huenemann, CAPI.*

1993

## Table of Contents

	<u>Page No.</u>
I. Economic Reform in China and Resumption of Seat in GATT	2
A. Ownership Structure, Methods of Operation, and Enterprise Autonomy	3
B. Decentralized Powers and Enlarged Autonomy of Enterprises	4
C. Strengthened Role of Market Mechanism	5
D. Reform of the Planning System and Strengthened Macro-Economic Management	5
E. Implementation of the Open Policy and the Development of an Outward-Looking Economy	6
II. The Foreign Trade System Reform Conforms to the Requirements of GATT	6
A. The Contractual Management Responsibility System	6
B. Decentralization of Foreign Trade Powers	7
C. Reform of the Import and Export Administrative Systems	7
D. Reform of the Foreign Trade Planning System	7
E. Reform of the Foreign Trade Accounting System	8
F. Reform of Foreign Exchange Allocation and Control	8
III. The Gains and Losses from Participation in GATT	9
IV. Objections of the Main Contracting Parties	12
V. The Participation of China in the Uruguay Round	15
A. Agricultural Trade Issues	15
B. Textile Trade and the MFA	15
C. The Protection of Intellectual Property	16
D. Trade in Services	17
E. Developing Countries' Access to the Markets of Developed Countries	17
F. Trade-Related Investment Measures	17
G. The Subsidy Issue	18
VI. The Participation in GATT by Hong Kong, Macao and Taiwan	18

**THE ISSUE OF CHINA'S PARTICIPATION  
IN THE MULTILATERAL TRADING SYSTEM**

Li Zhongzhou

Owing to historical reasons, the relations between China and the General Agreement on Tariffs and Trade (GATT) were suspended for over 40 years. It began with the blockade and embargo imposed on China by the western countries, followed by the institution of a comprehensive economic planning system in China and the adoption of a production and distribution system incompatible with the level of China's production capability. The positive role of the market mechanism in the expansion of productivity was neglected, and constructive effects of international trade on national economic development were underestimated. The country was virtually closed to international intercourse in the period of the "Cultural Revolution". Under these circumstances, a discussion on joining the multilateral trading system was out of the question. Along with changes in the international political tides, great changes have also taken place in the economic relationship between China and the international community. The western economic powers started to turn their attention to the huge potential Chinese market. In 1978, China adopted a basic national policy of opening the door and enlivening its domestic economy. In line with this basic state policy, China started to carry out a comprehensive economic reform, to underline the positive role of the market mechanism, to implement a shift from the old models of economic development strategy and the economic system to new ones, to foster and perfect the socialist market, and to increase economic efficiency. China has adopted a brand new attitude towards international economic relations, casting aside the policy of seclusion, taking an active part in the international division of labour, and using comparative advantage to promote national economic development, to open the market to foreign investment, and to actively absorb capital from abroad. Efforts were made to combine internal and external factors of production with a view to promoting national economic development, and the external sector has been playing an ever increasing role in the national economy.

The share of external trade (exports plus imports) in GNP rose from 9.9% in 1978 to 19.6% in 1989 (MOFERT data). There were no foreign-invested enterprises before the reform. By the end of 1988, foreign investment projects totalled 15,997 in number,

with a contractual invested value of US\$28.165 billion. Foreign direct investment has exerted significant effects on the changes in China's market structure, industrial structure and consumption pattern. The rapid development of the external sector has certainly pushed forward our national economic development. Meanwhile, however, it also means that our country will be more exposed to world economic fluctuations, and a heavier foreign debt burden, with concomitant vulnerability to international financial fluctuations and the trade environment. The expansion of the external sector in the national economy requires us to participate in international economic organizations and to strengthen policy coordination and cooperation so as to ensure the smooth development of this relationship. But there exist quite a few factors left over from the old days hampering the development of economic and trade relations between China and foreign countries, so the huge potential market of China cannot quickly turn into a reality. In international trade relations, many non-tariff measures aimed especially towards China constitute the major barriers in the development of Sino-foreign trade. These include the attaching of various conditions to Most-Favoured-Nation treatment, which constitutes an element of uncertainty and a psychological deterrent for foreign and Chinese business people. Thus they don't have a free hand in doing business. This has also brought a strong political colour to trade. Other obstacles, such as discriminatory quantitative restrictions and discriminatory anti-dumping and safeguard measures, are also important factors hampering the development of trade. It is essential for China to maintain a steady and sustained trade expansion and actively participate in multilateral economic organizations. Of course, since China is a country with 1.1 billion population, foreign trade still constitutes a small share in its national economy, and its production is based chiefly on domestic consumption.

In light of the open door and reform policy, China in 1980 resumed its seat both in the World Bank and the IMF, thus closely linking the Chinese financial and monetary system with the world financial and monetary system. GATT has been one of the three pillars of the world economic system since the Second World War. Without joining GATT, the participation of China in the world economic system would be incomplete. This situation will give rise to a lack of coordination between financial and monetary policy and trade policy. The restoration of the seat in GATT is an integral part of the

reform and opening up. This also means China is willing to accept obligations stipulated in multilateral conventions on economic policies, and in cooperation with others to seek ways to speed up world economic growth.

### **I. Economic Reform in China and Resumption of Seat in GATT**

To meet the needs of the opening up and enlivening of the domestic economy, China has undertaken a series of economic structural reforms. First of all, this includes parallel actions of modifying the ownership system to develop different management models and increase the autonomy of enterprises. The function of government has gradually shifted from the direct administration of enterprises to macro-economic control. There has been a considerable expansion of individual businesses and private enterprises. The implementation of opening up and the encouragement of foreign investment has set in motion a transition from a closed economy to an open economy.

Drawing upon the past 30 years experience of economic construction, China in 1979 came to the conclusion that the Chinese economy is still at its primary stage of development. In this period, the commodity economy is the basic character of our economy. "Commodity Economy" means that social products are mainly exchanged through a monetary intermediary instead of direct distribution. The institution of a commodity economy helps to bring personal initiatives into full play and promote the development of productivity--in other words, using the Invisible Hand of market forces to push people to create wealth and develop social productivity. But China is still economically backward, with a low per capita income. To guarantee the basic needs of our 1.1 billion population is our top priority, since otherwise social stability won't be secure. Therefore, a delicate balance must be sought between efficiency and income distribution. It is extremely naive to take the idealized and absolutely free economy as a panacea to solve the economic problems in China. The reform and opening up by China since 1979 are intended to find an economic model combining planning and the market which will suit Chinese characteristics. The experiments made over the last ten years are basically successful, bringing about long term and high speed economic growth. Although this high speed caused a structural imbalance in the economy, it will not be too difficult to find a solution. The following are the major economic reforms

carried out in the last ten years:

**A. Ownership Structure, Methods of Operation, and Enterprise Autonomy**

In the countryside, the three-tier ownership of the people's commune has been replaced by the household contract responsibility system with the family as the basis in organizing production. Mandatory agriculture planting targets have been abolished. The farmers arrange their production according to agricultural goods purchasing contracts signed with the government on the basis of market demand.

In urban areas, various operation methods, such as contracting and leasing, have been popularized in state-owned enterprises to explore ways to separate ownership rights from management rights. Individual businesses and private enterprises have been encouraged. Now, the individual business households amount to 15 million people working in this manner, producing 2.1% of total industrial output and accounting for 17% of aggregate retail sales.

**B. Decentralized Powers and Enlarged Autonomy of Enterprises**

The urban reform starts first of all with the efforts to strengthen the vitality of the state-owned enterprises and gradually turn them into economic entities independent of the administrative departments, while at the same time not introducing fundamental changes into the existing ownership system. The reforms enable enterprises to have decision-making powers in the following six aspects of their work:

**(1) Production and Management Planning Power**

The enterprises have the authority to adjust their own plans for product and production management according to market demand and their production capacity.

**(2) The Power to Purchase and Sell Products**

The industrial enterprises can directly enter the market to buy or go to areas of origin to purchase raw materials according to production needs. Apart from the fulfilment of the mandatory production plan, products can be sold either directly on the market or through sales agents. Commercial firms can select and purchase goods directly from production enterprises.

**(3) Price Fixing Power**

For goods which belong to the scope of market regulation, enterprises are allowed

to fix prices according to costs and market supply and demand. Even for goods subject to state pricing, enterprises are free to determine the price of any output in excess of the mandatory state plan targets.

**(4) *Funds Utilization Power***

The proportion of the profits retained by enterprises rose from 3.7% in 1978 to 43% in 1987. Enterprises generally have a free hand in using their funds, but particularly large capital investment projects must be reported to higher authorities for approval.

**(5) *Salary and Bonus Distribution Power***

Within the range of annual increase of aggregate salary amounts established by the government, enterprises can decide the salary and bonus distribution methods.

**(6) *Horizontal Association Power***

Enterprises have the right to enter into cross-sectoral, cross-regional and cross-ownership associations involving financial, technological and production cooperation and mutual holding of shares from each other.

**C. *Strengthened Role of Market Mechanism***

The basic requirement for the development of the commodity economy is to enlarge the exchange of goods and factors of production. Since the reform, such markets have been gradually established and developed. The market for agricultural and sideline products and industrial goods has already taken shape with retail sales of social commodities reaching 510 billion yuan in 1987. The means of production, which used to be allocated by government authorities through central planning, are now exchanged on the market. A money market is also beginning to take shape. In 1987 the amount exchanged among financial institutions nationwide stood at 200 billion yuan with a continuous increase in the issue of bonds, stocks and securities. Foreign exchange swap centres have been set up in various parts of China to conduct free transactions in foreign exchange. The pricing system has been transformed to one which includes some state-pricing, some state-guidance prices (within a set range), and market-regulated prices. The scope of the state-fixed prices has been gradually reduced. In the total volume of agricultural goods, the proportion of commodities handled at the state-fixed price fell from 92% in 1978 to 35% in 1987. The share of the state-guidance price and the market-regulated price went up from 7.4% to 65%. In retail sales of consumer goods, the

proportion of the state-fixed price decreased from 97% to 47%, while for light industrial goods the proportion fell from 100% to 60%. In a word, the market mechanism has made substantial headway and is being gradually perfected.

#### **D. Reform of the Planning System and Strengthened Macro-Economic Management**

The categories of industrial goods subject to state administration under the mandatory plan have been decreased from 300 to 60. The items of means of production distributed by the state went down from 250 to 20 and that of commodities under the planned administration by the Ministry of Commerce from 180 to 22. The share of the distribution of means of production by the state has only accounted for 20% of the needs of enterprises, and the remaining 80% is regulated through the market.

Among the total funds needed for production and construction, the part provided as grants by the Ministry of Finance has decreased from 77% to 32%, while that provided through bank loans has gone up from 23% to 68%. Of the funds needed for capital construction, the proportion provided by the central budget has decreased from 83% to 33%, while that raised by regions and enterprises has gone up from 17% to 67%. Investment, financial and monetary policies have played an important role in regulating the total social demand, and in guiding capital flow, as well as in promoting the reform of the industrial structure and the activities of enterprises.

#### **E. Implementation of the Open Policy and the Development of an Outward-Looking Economy**

Since 1978, China has taken the following four major steps. In 1980, special policies were introduced in the two provinces of Guangdong and Fujian, and four special economic zones of Shenzhen, Zhuhai, Shantou and Xiamen were set up. In 1984, China further opened 14 cities in the coastal area and in Hainan administrative region (now renamed Hainan Province). In 1985, the deltas of the Changjiang (Yangtze) river and the Zhujiang (Pearl) river and a triangular area in Fujian were opened further. The fourth step was the institution of a coastal economic development strategy in 1987. The obvious effect of this opening up is the rapid inflow of foreign investment. Before the reform, there was almost no foreign investment in China. By the end of 1988, the aggregate number of approved foreign investment projects totalled 15,997, with a contractual value of US\$28.165 billion and an actual disbursement of US\$12.1 billion.



The exports of foreign investment enterprises reached more than US\$1 billion, and their imports were twice this amount.

## II. The Foreign Trade System Reform Conforms to the Requirements of GATT

To adapt to the needs of the reform and opening up, the following major reforms have been undertaken in the direction of letting foreign trade enterprises take responsibility for their own losses and gains and have a free hand in doing business, of combining trade with industry, and of promoting the agency system.

### A. The Contractual Management Responsibility System

In order to enable foreign trade corporations to conduct business independently while not changing ownership, the contractual management responsibility system has been implemented. The specialized foreign trade corporations and the production enterprises with foreign trade management power negotiate a contract with the central government covering a target for export earnings, the amount of foreign exchange to be handed over to the state and the financial results. The contracted corporations and enterprises can handle business freely, and the Ministry of Foreign Economic Relations and Trade is not supposed to interfere in their activities.

### B. Decentralization of Foreign Trade Powers

To increase the vitality of foreign trade enterprises, the branch companies affiliated with a dozen national specialized foreign trade corporations have been divorced from their head offices to become economic entities with self management power and independent accounting. A large number of production enterprises have obtained foreign trade management powers through a set of approval procedures. The number of specialized foreign trade corporations and production enterprises engaged in export and import business increased from a dozen in 1978 to over 5,000 at present. They compete with each other and establish various economic relations on a voluntary and mutually beneficial basis.

### C. Reform of the Import and Export Administrative System

In order to promote export without running counter to the international trade rules, China has introduced a reimbursement of product tax and value added tax on export

goods. Owing to the imperfection of the tax system and difficulty in avoiding duplication and overlapping tax imposition (the value added tax is only imposed on some products), the tax refund is only partial. However, this partial refund arrangement still plays a positive role in promoting exports. The reform is shifting the focus from administrative means to economic means. In keeping with the industrial policy to energetically develop light industry, the three sectors of light industry, arts and crafts, and garments are now allowed to retain most of their export earnings for themselves while undertaking responsibility for their own gains and losses without any subsidy from the government. As for the electronics and motor vehicle sectors, they are allowed to keep all of their export earnings so that they can develop to meet international competition. Vigorous efforts have been made to promote the import and export agency system, enabling the production enterprises to closely link production with international market demand, take comparative cost into full account, arrange production and operation according to international technical standards, and advance towards the internationalization of operation. At present, the agency system has been carried out in over 90% of enterprises and the agency system is also being encouraged to expand further on the export side.

#### **D. Reform of the Foreign Trade Planning System**

When foreign trade corporations assume the responsibility of independent accounting, the items under the mandatory import and export plan have been gradually reduced while the scope of guidance planning and market regulation has been enlarged. The share of export value for products under the mandatory export plan has fallen to about 30% and that for products under the mandatory import plan to about 20%.

#### **E. Reform of the Foreign Trade Accounting System**

Since the decentralization of foreign trade powers, enterprises doing foreign trade business have come to number several thousands. They are responsible for their business operations, so the government departments don't interfere and no longer take

responsibility for their gains and losses. The state financial departments are not in a position to shoulder the losses for so many enterprises. Since 1987, the state has frozen its temporary economic assistance to some foreign trade corporations. The imported commodities receiving a state subsidy have decreased from 28 to only 5. They are important products like chemical fertilizers, pesticide, wood pulp, and grain which have a direct bearing on people's livelihood. Owing to China's income levels, the government has adopted a low price policy for grain in order to guarantee basic needs. Thus, the import subsidy for grain will be maintained.

#### **F. Reform of Foreign Exchange Allocation and Control**

Like many other developing countries, China has had a chronic foreign exchange shortage and has been forced to impose controls. Before the reform, all foreign exchange was under central control and the government decided on its use. Since 1979, the foreign exchange retention system (with enterprises retaining a portion of foreign exchange earned) has been gradually expanded with the aim to encourage enterprises to develop exports and guarantee the earning of foreign exchange to pay for imports. At present, only 75% of total export earnings is sold to the central foreign exchange bank (Bank of China) at the official exchange rate, while 12.5% is kept by enterprises and 12.5% by regional governments. For foreign exchange earned in excess of the contracted target, 20% must be sold to the Bank of China, and 80% is kept by enterprises. In some sectors, all or nearly all earnings can be retained. Enterprises can use this foreign exchange freely, as long as they act according to state policies. With the growth in exports, the retained portion will grow accordingly. To facilitate foreign exchange swap among enterprises, a national foreign exchange swap centre has been set up in Beijing, along with over 40 other swap centers in different regions in China, where foreign exchange dealings are conducted under the supervision of the State Foreign Exchange Administration. Transaction prices are determined by the buyers and sellers on the basis of supply-demand changes. In 1988, the volume transacted in foreign exchange swap centres nationwide amounted to US\$6.26 billion, and went up to US\$8.56 billion in 1989 (an increase of 36.8%). The ultimate goal of foreign exchange swap centres is to narrow the gap between the official exchange rate and the market rate and eventually to unify the exchange rate, and at the same time to appropriately adjust the official rate according

to the foreign trade situation and changes in domestic consumer prices so as to ensure a balance between imports and exports and the smooth development of foreign trade. Owing to rises of domestic consumer prices in the past two years and the increase of export costs, the central government has run into financial difficulties and has already frozen the subsidy for exports. In the course of the recent austerity drive, the supply of credit has been tightened, so foreign trade corporations are now facing a shortage of funds and the export trade is in serious difficulties. In order to avoid a drop in exports, the central bank decided in December last year to make a downward adjustment of the RMB exchange rate by 21.2% to boost the competitiveness of our export commodities, to reduce imports, and to guarantee the balance of international payments so as to be fully prepared for the peak of debt repayment that will occur in 1991. Whether a freely convertible foreign exchange system could be adopted for RMB depends on the growth of our export earnings and the increase of our foreign exchange reserves. The trend of the two exchange rates being unified does facilitate the development towards convertibility. But it is hard to accomplish it in a short period of time. In summary, the present foreign exchange administrative system is continuously moving towards marketization.

### **III. The Gains and Losses from Participation in GATT**

The resumption of China's GATT status is an important economic decision made by the government after weighing advantages and disadvantages. The open trade system and the non-discriminatory principles of GATT provide a relatively good opportunity for Chinese products to enter international markets. But China also has to pay a price for this opportunity. From the Chinese viewpoint, the resumption of GATT contracting party status will bring benefits in the following nine aspects:

1. The changes in the world economic pattern and industrial structure offer us a very favourable chance to use international exchange to promote our national economic development. Participation in GATT will strengthen economic ties between China and the outside world and enhance the role of China in the multilateral trading system. It also helps China to resist the protectionist trend in other countries and promote industrial restructuring, which will create more

opportunities for Chinese manufactured goods to enter international markets and help China to optimize its export commodity structure, hence diversifying the economy.

2. The trade volume among the contracting parties of GATT makes up close to 90% of the world total. The trade volume between China and the contracting parties accounts for over 85% of total Chinese foreign trade. The resumption of contracting party status in GATT will facilitate China to take advantage of the free trade principles of GATT to actively participate in international exchanges and competition, promote the rational allocation of resources, speed up Chinese economic development, contribute to the expansion of aggregate global demand, and inject new vitality into the slow growth of the world economy. And the growth of global demand will in turn furnish China with even bigger export markets for Chinese products.
3. The trade treatment will be improved. At present, the major industrialized countries have not yet given GATT treatment to China in many aspects. The vestiges of the blockade and the embargo remain, hampering the development of China's trade with those countries. For example, some countries have given China Most-Favoured-Nation treatment with conditions attached. Taking into account the exclusive arrangements arising from the world trend toward regional economic groupings, we can say that what China enjoys today is "least-favoured nation treatment". Some other developed countries have imposed on China discriminatory quantitative restrictions, discriminatory anti-dumping procedures, and selective safeguard measures. Through its participation in GATT, China hopes to require the contracting parties to grant MFN treatment with no conditions attached and to eliminate their discriminatory trade practices adopted in violation of GATT, which will ensure fair trade treatment for China.
4. As a low income developing country, China expects to receive the more favourable treatment granted by GATT to developing countries, including the permission of developing countries to apply restrictions on imports for balance of payments purposes, the retention of a flexible tariff structure and the provision of protection and assistance to infant industries, as well as the provision of subsidies

to exports.

5. Using rules and dispute settlement procedures of the multilateral trade system will strengthen China's position in trade negotiations.
6. Participation in GATT will enable Chinese enterprises to raise their efficiency in international competition, rationalize industrial structures, and overcome the blindness of industrial policy.
7. According to the requirements of GATT, China can increase the transparency of its foreign trade system and unify its foreign trade policies and laws, gradually eliminate the distorted elements in trade, and push forward its economic reform, thus accelerating its transition towards a socialist market.
8. Participation in GATT will strengthen the confidence of the contracting parties in the stability and continuity of Chinese economic and trade policy which will improve the investment environment, thus enabling China to attract foreign capital and technology and creating a favourable international environment for the development of an export-oriented economy.
9. The formulation of new international rules on trade in services, investment issues, and intellectual property rights is under negotiation in GATT. These negotiations will exert a major impact on the world economic and industrial structure in the early part of the next century. Only by taking an active part in the negotiations can China assure its position in the world economy in the future.

However, to effectively enjoy the benefits of GATT, China must also incur the following six costs:

1. China must reform its economic and trade system to meet the requirements of GATT. Though China's reform plans and the GATT requirements are generally consistent, this does mean that our economic policies will face some constraints.
2. China requests resumption of its contracting party status on the basis of tariff concessions. Compared with developed countries, tariff rates are still quite high in China. The contracting parties will ask an even more expensive admission fee from China. The tariff in China plays a dual role in protecting domestic industry

and providing government revenue. As domestic industries are accustomed to this protection, and the government is facing fiscal deficits now, a big reduction in tariffs will increase the difficulties for domestic industries and for government finances.

3. The traditional bilateral agreements signed with other countries to balance trade year by year will be criticized, and China will have to make greater efforts at policy adjustment to control its international balance of payments.
4. The rising share of foreign trade in the national economy will subject the Chinese economy to fluctuations in the external environment, such as the volatility of the international monetary, financial and exchange rate situation.
5. The demand for imported goods is very high owing to supply shortages and the overvalued RMB. The shortage in foreign exchange puts China in a dilemma because devaluation will produce inflation, while import restriction will be criticized in GATT.
6. China will be under pressure from the contracting parties to undertake price reform, reduce the role of planning, reduce export subsidies and relax foreign exchange controls. The licensing system, custom valuation method, technical standards and state trading practices must conform to GATT rules. Import restrictions and lifting of tariffs must be consistent with GATT procedures. China has to commit itself to increase the transparency of economic and foreign trade policy and promptly publish laws and regulations.

In the final analysis, the resumption of China's GATT status involves a full-fledged commitment to fulfil GATT obligations to further liberalize the domestic market and provide greater market access for contracting parties.

#### **IV. Objections of the Main Contracting Parties**

All contracting parties welcome China back to GATT at an early date, for China is a market with huge potential. But the major contracting parties seem to lay particular stress on the size of the private economic sector in China when considering the resumption of the Chinese seat in GATT. Therefore, China must seek a common ground

with the contracting parties for the understanding of the Chinese economic system. China's economy is a mixture of planning and market, or in Chinese phraseology, a planned commodity economy. The objective of the open policy begun in 1978 is to gradually develop and perfect the market mechanism, enhance macro-economic controls, and increase economic efficiency. It is not aimed at privatizing state owned enterprises and practising capitalism. It is aimed at establishing a multi-ownership system with public ownership as the predominant factor, and introducing a market mechanism into the state owned enterprises. Thus China can participate in international trade with about the same conditions as the other contracting parties. What the contracting parties care about is price reform in China: to allow prices to be decided by market forces. Over the past ten years, China has made much headway in relaxing price controls. Apart from a few important products which are of vital importance to the national economy and the people's livelihood, the majority of products are subject to market regulation or under state-guidance prices (within a floating range set by the state). The price reform, in coordination with reform in other sectors, has contributed to the steady development of the national economy in the past ten years. But the rapid development of the national economy and the structural reform have also given rise to imbalances in the economic structure and consequent serious inflation, which have hindered the further development of the national economy and the progress of its structural reform. China has to start an economic adjustment and retrenchment drive. Some contracting parties thus have cast doubt on the direction of China's open door and reform policy. During this adjustment and austerity drive, China has indeed adopted some retrenchment measures including some administrative measures to restore the balance in the national economy. Yet, the improvement and retrenchment rely mainly on macro-economic means. The following measures will be adopted in the future:

- to continue reducing total social demand through the tightening of financial measures and lending policy;
- to increase effective supply by adjusting the industrial structure and increasing investment in bottleneck sectors;
- to rectify economic order and overcome the chaos in production, construction, circulation and distribution;



- to improve the management of enterprises and raise economic efficiency; and
- to speed up the legislative process to codify the reform measures into law, as well as amend the existing foreign economic laws so as to further facilitate the reform and opening up.

We will continue to implement various reform and opening up measures provided for in laws enacted by the National People's Congress and its standing committee or regulations promulgated by the State Council. The reform measures which have already been implemented include the rural household contractual responsibility system, industrial enterprises contractual responsibility system, the factory director or manager responsibility system, the foreign trade contractual responsibility system, the foreign exchange retention system, and the financial system. Policies on individual economic activity and private businesses are still being carried out. A recent amendment has been made to the duration for Sino-foreign ventures with a view to attracting more foreign investment. The RMB exchange rate has also been adjusted downward by 21.2% to encourage exports so as to achieve a balance of imports and exports. The price reform continues in some aspects. In 1990, the state will raise the purchasing price for cotton and oilbearing crops and adjust prices of some products and some service charges to narrow the gap between the state fixed price and the market price so as to create conditions for the progressive elimination of the two-track price system. In the course of the austerity drive, the speed of the reform has slowed down but the reform's objectives and direction have not changed. There is no change in the basic prerequisite for China's participation in GATT.

Certain trade practices, such as dumping and subsidy, which are not totally consistent with GATT rules could be dealt with within the framework of the existing GATT articles or be treated in the protocol of resumption to be negotiated. But the situation has been complicated by the emergence of a political factor. Almost all western countries are imposing economic sanctions on China. Economic sanctions are the work of politicians, and totally incompatible with economic benefit. They hurt the interests of both China and the sanctioners. The longer the sanctions are imposed, the slower the integration of the Chinese economy into the world economy and the quicker the weakening of economic ties between China and other countries. Foreign investments in

China now total US\$28 billion, most of which have a successful and profitable operation with good prospects. China's foreign debt is US\$40 billion. Although China is now subject to various discriminatory trade measures and restrictions, as long as its main trade partners don't purposely adopt measures to devastate China's external sector, China is fully capable of appropriately adjusting its economic structure, repaying debts on time and expanding the external sector to strengthen ties with the world economy. Foreign capital has an important role to play in the economic growth of China. If the foreign economic powers retain sanctions for a long time, the investment environment in China will deteriorate as a result of external uncertainty and many large investment projects will be halted or be forced to rely mainly on domestic financial resources and equipment. The development projects assisted by the international financial development institutions will also be stopped and their attendant trade opportunities will also disappear. The votes won by the politicians may mean the loss of money for entrepreneurs. Under these circumstances, there are two ways out for China: one is to expand economic relations with those countries which are willing to cooperate on the basis of bilateral agreements, and the second is to shift the economic development strategy back to a more isolationist strategy with domestic needs as the main focus. China is trying to avoid the latter choice.

## **V. The Participation of China in the Uruguay Round**

According to the "Declaration of Ministers at Punta del Este", China has participated in the negotiations on all issues in the Uruguay Round with a full membership status. But owing to impediments in negotiations over resumption of its seat in GATT, China has not been able to play its proper role. Many issues being negotiated in the Uruguay Round involve major interests for China.

### **A. Agricultural Trade Issues**

The issue of trade in agricultural products arises because large nations have used their negotiating power to circumvent their obligations under GATT. This seriously harms the reputation of the multilateral trading system, and leads to the irrational use of resources and the disappearance of highly efficient agricultural producers. Producers heavily subsidized by governments constitute a very strong protectionist force. Only if the U.S. and EEC take the lead in rectifying their distorted trade policy can a

breakthrough be made in the negotiations. Being both an importer and exporter, China, from the point of maintaining the basic principles of the multilateral trading system and long term production and supply in the world, supports the goal of liberalizing agricultural trade by freezing and reducing export subsidies as the immediate objective and comprehensively improving agricultural trade disciplines as the long term objective. Adverse effects caused by sanitary and phyto-sanitary measures on the exports of agricultural and processed agricultural products from developing countries should be resolved as soon as possible. But China's special concern is that the results of the negotiations on agricultural trade should not hamper the agricultural development policy of the developing countries. China, with its 1.1 billion people, takes an adequate supply of food as its top priority in agricultural policy. China should be able to adopt all kinds of applicable measures to increase its grain production without being subject to the restrictions of multilateral trade rules, since these measures are not designed to obtain trade benefits.

#### **B. Textile Trade and the MFA**

Textiles and clothing are the main manufactured export goods for the developing countries. The MFA allows importing countries to restrict such products, especially from the developing countries. It is a gross caricature of the free trade and non-discriminatory principles set out in GATT to allow importing countries to restrict imports from developing countries alone. It constitutes a major setback to the credibility of the multilateral trading system. The Uruguay Round should begin as soon as possible serious negotiations on the modalities of returning to GATT. But the elimination of the MFA is also closely related to the improvement of the safeguard clauses. The developed importing countries should abide by their commitment on standstill and rollback and refrain from imposing new import restrictions. The Uruguay Round should reach agreement on transitional arrangements for the textile sector to return to the GATT system. The length of the transition could be decided by the exporting and importing countries through consultations. But during the transition, the restrictions in importing countries should be gradually reduced, and the import growth rate should be raised every year by at least 6%. The importing countries should remove restrictions on those products (like silk and ramie) that they don't produce. The items newly put under

restriction by the fourth MFA should be withdrawn immediately.

### **C. The Protection of Intellectual Property**

The main developed countries attempt to take advantage of the retaliatory mechanism of GATT to heighten their protection on intellectual property rights. Owing to the imperfection of national legislation on intellectual property rights, developing countries are the main targets for retaliation. The retaliation itself might constitute a barrier to legitimate trade. The attempts to set up a new system of intellectual property protection in GATT in disregard of WIPO may be counterproductive, for it only intends to protect the interests of owners but not users of intellectual property. Thus it may exacerbate the imbalance of benefits.

China attaches great importance to the protection of intellectual property. The "General Principles of the Civil Law" and the "Patent Law of the People's Republic of China" as well as the "Trademark Law of the People's Republic of China" have all clearly stated that intellectual property rights should be protected so as to facilitate new inventions and their popularization, to promote scientific and technological development, and encourage foreign investment. China supports the strengthening of multilateral cooperation and the protection of intellectual property rights. That is why it has joined the Paris Convention. The protection provided by existing international conventions is basically adequate. What is still needed is the strengthening of implementation measures. The protection involves the balance of interests of both owners and users. It is therefore necessary to avoid infringement as well as abuse of protection to monopolize technology. In order to facilitate the reaching of agreements, it is better to strengthen the implementation measures within the existing framework of GATT to redress adverse trade effects rather than to set up a new comprehensive protection system in GATT.

### **D. Trade in Services**

With the changes in the industrial structure of various countries in the world, trade in services has become an important component of world trade. It is certainly necessary to set up a framework of multilateral service trade rules. But this new framework should promote the economic growth of all trading partners and the development of developing countries. New rules should not simply take over GATT rules mechanically. Services

are one of the important factors of production. The competitiveness of manufactured goods of the developing countries is closely related with the supply of services, and full consideration should be given to the development of the service sector in the developing countries. At present, conditions in China do not permit a complete liberalization of trade in services.

#### **E. Developing Countries' Access to the Markets of Developed Countries**

The Uruguay Round has not given enough attention to the problems that concern the developing countries. Except for the obvious progress in the negotiation of tropical products, there has been little progress in products of major interest to the developing countries. Take textiles for example. The utilization of capacity in textile production in the main developed countries exceeds 95%, yet they still attempt to increase the level of protection. This is the greatest trade distortion. The proposal for amending Article XVIII concerning the protection of balance of payments and of infant industries might also reduce chances to enter OECD markets. The rationale of Article XVIII remains valid today. The accelerated economic growth of developing countries will contribute to the expansion of world trade.

#### **F. Trade-Related Investment Measures**

With regard to investment issues, we should first of all consider the positive effects of international investment. The negotiation should above all result in greater investment flow among countries, particularly that between developed countries and developing countries. International investment brings benefits to both the investing countries and recipient countries, but first of all to investing countries. It promotes the export of the technology, equipment, raw materials and components and parts of the investing countries and facilitates the opening of new sales channels and the development of new products as well as the lowering of production cost to strengthen competitiveness. Besides, transnational corporations frequently engage in restrictive business practices

in their investment activities. Should there be any trade distortion to speak of in international investment, it is first of all a distortion in favour of the investing countries. The measures adopted by the developing countries to encourage foreign-invested

enterprises to improve export performance, achieve foreign exchange balance and increase local inputs only partially offset the trade distortion that already exists unilaterally in favour of the investing countries. Investment measures often have broad objectives like the increase in debt servicing ability, the raising of import capacity, the improvement of balance of payments and the upgrading of the technical level. Without achieving these broad objectives, it is hard for investment activities to be sustained. Therefore, GATT should not attempt to prohibit certain investment measures by the developing countries. Prohibition of these measures would eventually obstruct international investment activities. In case of real distortive and restrictive effects on trade caused by trade-related investment measures, remedial measures may be taken on a case-by-case basis within the existing framework of GATT rules. Investment policy comes within the sovereign rights of states. GATT should not attempt to establish a comprehensive investment regime.

#### **G. The Subsidy Issue**

The greatest danger is the attempt to eliminate all subsidies. It is illusory to presume that by doing so one can create an absolutely fair competitive environment for international trade. As a matter of fact, completely fair competition no longer exists. It is not advisable to widen the concept of export subsidy to include "upstream" subsidies. This can only result in greater confusion and tension in international trade relations.

#### **VI. The Participation in GATT by Hong Kong, Macao and Taiwan**

By virtue of their important trading position, the participation in GATT by Hong Kong, Macao and Taiwan as separate customs territories of China has attracted great attention of the GATT contracting parties. Relevant articles of GATT provide that separate customs territories of a contracting party may participate in GATT as a separate contracting party under the sponsorship of the sovereign government having international responsibility for these territories.

The 1989 Joint Declaration by the Chinese government and the government of the United Kingdom on the question of Hong Kong confirmed Hong Kong's separate customs territory status. In 1988, Hong Kong became a separate contracting party on the strength of parallel declarations by the government of the United Kingdom and the

government of the People's Republic of China. The 1987 Joint Declaration by the government of China and the government of Portugal confirmed Macao's separate customs territory status, which enables it to become a separate contracting party.

Taiwan is different from Hong Kong and Macao. The Chinese Government has repeatedly stated that Taiwan is an inalienable part of China's territory. The Taiwan authority has no right to take it upon itself to apply for accession to GATT. Only when the issue of resuming China's contracting party status is resolved, is it possible to consider Taiwan's participation in GATT upon approval by the Central Government of China. A satisfactory solution can be found through consultations on both sides of the Taiwan Strait.