

China after

WTO



Compiled and Edited by

Laurence J. Brahm

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About the Editor



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Preface

WTO Opens An Era Of New Opportunities

Shi Guangsheng

Minister

Ministry of Foreign Trade and Economic Cooperation

People's Republic of China

Since reform and open policy, China's foreign trade has developed rapidly. In 1999, China's total import and export trade value reached US\$ 360.7 billion, ranking ninth in the world. The value of exports was US\$ 194.9 billion and imports US\$165.8 billion. While the scale of foreign trade is constantly expanding, the structure of commodity exports from China has clearly been optimized. Chinese commodities, with their low prices and high quality are generally welcomed by people of all countries in the world. China's trade partners are spread all over the world, reaching the present 227 countries and regions from just a few dozen in 1978.

Absorbing foreign capital was the initial move in opening China to the outside. Upon entering WTO, China cumulatively approved more than 340,000 foreign investment projects and actually used US\$ 307.851 billion in foreign capital. China, which is undergoing constant development, has provided a huge market and commercial opportunity for capital and technology coming from all countries of the world. At present, investments in China have originated from more than 180 countries and regions. Among the world's top 500 large multinational corporations, approximately 400 have invested in China. Other large multinational corporations are also preparing to come to China to make investments, especially following China's entry into WTO which creates yet even better conditions.

After entering WTO, China will take a more active stance to further expand its openness to the outside. China will further open its markets in the areas of commodities trading and trade services. China will gradually open further to the outside in the areas of commerce, foreign trade, finance, insurance, securities, telecom, tourism and agency services. The Chinese market has huge potential and broad prospects. Along with the constant deepening of China's open policy and increasing economic strength of China, the relationship between China's economy and the world economy will be increasingly closer. The huge market potential of China will be gradually transferred to actual purchasing power, thereby providing more commercial opportunities for industrial and commercial organizations in countries the world over.

Of course, while on one hand WTO entry brings opportunities to China, on the other hand, development in China is relatively low and the reform of state-owned enterprises has not yet been complete, thus, the international competitiveness of certain professions is not strong. In addition, the legal and regulatory systems needed to adapt to a modern market economy have not yet been completed.

After entering WTO, the economic administrative system of China may not be able to adapt and will need to be further perfected. Certain industries and enterprises may, to some degree, suffer some negative effects from the assault. However, after 20 years of reform and openness, the comprehensive national power of China has been constantly strengthened. China has accumulated experiences that will enable it to cope with the complicated and varied international economic situation. China's international competitiveness and capacity to withstand risk have greatly increased. The deeper reforms and openness are implemented, the stronger our capacity to withstand the risk. Therefore, we are confident and determined to channel this pressure into motivational power through deepening reform and expanding openness, welcoming the challenges brought by WTO and promoting the national economy to constantly achieve new horizons of development.

We deeply trust that China's entry into WTO will certainly push forward the development of Chinese foreign economic trade into a new era and push forward economic trade cooperation between China and the world to a new epoch. This will create new opportunities for the world economy, and for stable prosperity in the new century.

Foreword

China After WTO

Laurence J. Brahm

CEO

Naga Group Limited

China after WTO will be a China of rapid change and dynamic entrepreneurial spirit. WTO will serve as catalyst for further investment and trade liberalizations which will in turn bring China's complicated investment environment closer in line with international standards and in turn encourage foreign investment on a larger and broader scale than anticipated before.

China's entry into WTO will witness profound structural changes in the investment and trade regime of China, opening up unforeseen opportunities in a range of industries and services. The following highlights key areas where relaxation of former restrictions will effect foreign businessmen creating the most immediate positive impact and opportunities:

- restrictions on foreign equity control will be relaxed in all but

the most sensitive of sectors;

- ☐ income tax exemptions and restrictions already afforded to investors in China's coastal regions will be extended to those making new investments in the interior;
- ☐ foreign participation will be encouraged in previously guarded sectors such as insurance, finance, foreign trade, commerce, securities, telecommunications and tourism in order to promote the service industry;
- ☐ foreign investment in retail and commercial shopping malls which was previously limited to certain coastal cities and select enterprises will be extended to all regions;
- ☐ foreign investment approval procedures will be simplified with former approval ceilings on local investment lifted giving local authorities greatly leeway in facilitating inbound foreign investment;
- ☐ the scope of operations of holding companies established by foreign investors will be expanded giving them greater flexibility in management and operations.

At the same time, one must understand that change will progress at different rates depending on the sector and region involved. The vastness of China as a nation and in turn its business landscape will require patience, conscious due diligence, and in depth understanding of market trends and developments in order for foreign businesses to be successful in trading and investing in China. A realistic approach to the opportunities presented by WTO will be important advice to be heeded by all.

In seeking to provide the most up to date picture of change in "China after WTO", I have invited the leading specialists on the ground in

China to provide straight-forward advice on how to conduct business in this changing environment and to provide insight into how such changes post-WTO entry will effect the way in which one goes about investing and doing business in China.

Efforts have been made to provide the most current information available. However, as China's dynamic business environment is in the course of change as it is still a transitional economy, it is advised to seek professional assistance on specific matters and not rely solely on the contents herein before making critical business decisions.

In this respect, professionals leading their fields have been invited to contribute to this book and greatest of thanks are extended to Minister Shi Guangsheng for writing the preface and lending his support, to Minister Zhao Qizheng for his support and encouragement, Bureau Director Guo Changjian and Madam Wu Wei for their efforts and support, and to all who have contributed to the various chapters within, which have made this book a reality. Through the hard endeavours of all involved, "China After WTO" is now arguably the most current publication introducing foreign investors and businessmen to the regulatory and operational environment in China as it evolves in the post WTO era.

Prologue

China WTO Accession

Michael Furst

Executive Director

American Chamber of Commerce

China's WTO accession is important to foreign companies for two reasons:

Firstly, and most obviously, trade barriers are dropping and will continue to do so, according to the negotiated schedule in China's WTO Accession Protocol. Tariffs and other trade barriers, in a wide range of sectors, are being reduced more or less as agreed, so far. The American Business Community in China is optimistic that China will abide by its commitments. Certainly, at the top of the Government, there is an often re-emphasized commitment (and not a little effort) to rapidly revamp both laws and practice.

Secondly, China's WTO accession is by no means a mere trade arrangement. It is first and foremost a political statement and a

commitment on the part of the Chinese leadership that the current policy of reform and opening up will continue and intensify. In fact, the Chinese government sees WTO accession as a monument to its leadership. President Jiang Zemin hopes history will remember him by this major innovation, among others. In addition, reformers within the Chinese government want to use WTO accession as a lever to pry open the resistance to positive change. Currently, China's reform program stands at a crossroads: the huge but inefficient state sector seems virtually incurable; domestic demand in many areas is sluggish; unemployment is rising; corruption is proliferating.

To the reformers in the Chinese system, there is no single remedy that will address all those issues except, perhaps, for the rules-based WTO, which prompts a much greater reliance on rule of law, accountability, transparency of government process, national treatment of foreign businesses, international compliance, and more foreign investment. In short, the WTO provides China with a path to market economics, which will help break local and departmental monopolies that have proven so hard to crack from inside. Reformers can now point to the expectations and requirements of the WTO system as a justification for necessary reforms.

The face factor is also at work. To China, WTO membership affords it long overdue face and dignity. As Vice Minister Long Yongtu of MOFTEC explained once to an audience of SOE managers, China is a member of the United Nations, the World Bank, the International Monetary Fund, the international Olympic movement and countless others; so why can't it join the WTO?

On the diplomatic front, WTO membership has solved China's Normal Trading Relations problem with USA permanently, removing a long-standing obstacle to improved relations between the two countries. This annual ritual, with its outcome always predictable, wastes a

tremendous amount of resources from both sides and leaders of both the US and the Chinese governments earnestly have wanted to put it behind them. The American business community could hardly agree more. Business dislikes almost nothing more than uncertainty, even if it is transitory.

Sometimes claiming that the current international order is not fair enough, China hopes to be able to rewrite some of the rules of the game in the international arena; staying outside WTO does little to advance that goal. China's leaders, watching growing globalization gallop along, wants to be a part of the race towards prosperity. China has chosen, probably irrevocably, to be part of the process of the globalization of the world economy.

Culturally, China's WTO accession, if sustained by future events, represents a milestone event in Chinese history – this is China's "coming out party." 2001 was truly a banner year: Capped by WTO accession, last year we saw China's national team make the World Cup's final rounds as well as Beijing being awarded the Olympics – the popular euphoria that resulted from that announcement, many people have said, rivaled the emotional outpouring after the Gang of Four were dumped from office.

The big news is that all of these barriers and obstacles – except the rule requiring minimum 50 percent domestic ownership of vehicle assembly operations – are addressed in the U.S.-China WTO Agreement. The quota for vehicle import licenses will be raised immediately to US\$ 6 billion per year and will increase each year until it is eliminated in 2005. Tariffs will drop to 25 percent by mid-2006. Foreign investment enterprises will gradually obtain the right, over a three-year transition period, to import, distribute, sell, and service vehicles. Foreign non-bank financial institutions such as Ford Credit and GMAC will have the right, immediately upon China's accession, to establish companies

in China to provide auto financing. Also upon accession, local content, technology transfer, and foreign exchange balancing requirements for vehicle assembly operations will all be eliminated. Obviously, we expect that these rule changes will have a far-reaching impact on both foreign and domestic auto companies.

The potential is there, but our natural optimism needs to be tempered by a sense of reality. Until very recently, most parts of the Chinese government, and certainly the vast Chinese public, have had no idea what had been committed to by China's negotiators. It will take quite a number of years and lots of hard work to bring Rule of Law, Transparency, National treatment, let alone Regional treatment.*

Ultimately, what will make China attractive to foreign investors – and, in fact, for Chinese investors – is a business environment that rewards sound commercial decision making. People and organizations, hopefully, will make buying decisions based on price, quality and suitability in a competitive environment – and NOT base commercial decisions on opaque political factors. This is not only true for China as a whole, but also holds for initiatives like the Central Government's "Go West" campaign.

If the changes that are now transforming China's economy are successfully implemented over the next years, a good bit of the great potential of this country can be realized.

* Regional and local protectionism has a very long history in China. The cultural and "procedural" momentum is very well established (over 4,000 years) and will take a long time to change.

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