China and Trade

China's Accession to the World Trade Organization (WTO)

- China was officially admitted to the WTO in 2001, after a 15 year process beginning with its application under the GATT, which was the predecessor to the WTO.
- In order to be accepted in the WTO, China made numerous commitments to changes in its trade regime, including the removal of certain trade barriers, opening of markets to foreign investment, and reductions in agricultural tariffs, among others.
- China also agreed to increase openness, including the establishment of contact points for foreign governments and businesses to seek information concerning Chinese law and policy and more readily available access to existing and proposed laws and policies.
- A number of provisions are to be phased-in over a seven-year period beginning in late-2001, so the provisions' effects are just beginning to be seen.
- Protection of intellectual property rights is another area of increased commitment.
- State-owned enterprises are also required to adhere to WTO rules and make buying and selling decisions based on commercial factors. Despite this, state-owned banks have continued to make low-interest loans that resemble subsidies in some areas.
- Other Protections for WTO members include the ability to restrict Chinese imports that disrupt a market (in place until 2013). In particular, textile exporters like the US have been wary of China's power to flood apparel markets and drive competition out with low prices.

(*Source, Office of the United States Trade Representative, "Background Information on China's Accession to the World Trade Organization," Dec. 2001*)

Key Facts about Chinese International Trade

- China's economy has averaged over 9% annual growth since 1978.
- Per capita GDP has risen from $148 US in 1978 to $1,700 US in 2005.
- Percentage of Chinese living in poverty has dropped from 73% in 1990 to 32% in 2003.
- In 2005, China's total trade in goods represented about 64% of GDP.
- In 2004, China's total trade in goods made up 6.7% of global trade.
- Despite these gains, distribution of incomes is widening. Urban incomes are 3.2 times that of rural Chinese. This has led to some social unrest in rural areas, which are home to many of China's ethnic minorities.
- China has made great strides to comply with many of its obligations under the WTO, however, some areas remain problematic, including export restrictions, Value Added Tax rebates, intellectual property protection, and others.
- China has encouraged foreign investment by creating a relatively favorable tax climate for foreign companies, with lower rates than domestic companies enjoy.
- State-owned enterprises are being phased out in many areas, but do continue to

dominate some areas, such as banking (four banks controlled by the state represent 54% of China's bank assets).

- China has massive energy needs and vast reserves of coal, yet it also is increasingly playing in global energy markets to ensure supplies for continued growth. It has invested billions in the Sudan, including work on a pipeline to the Red Sea, and other countries like Ecuador, Syria, and Russia.
- Manufacturing accounts for over 90% of China's merchandise exports.
- China's latest Five Year Plan calls for doubling of year 2000 GDP per capita by 2010.
- Restructuring of the economy, particularly with respect to state-owned enterprises and agriculture, will likely require the creation of 100 million new jobs in the next decade.
- Much of the labor force is low-skilled and China's shift away from increasingly competitive markets for these low-skilled, labor intensive industries will require great strides in workforce development. As a result, higher education in China is undergoing rapid growth.

(*Sources: World Trade Organization, "Trade Policy Review: People's Republic of China" June, 2006; Business Week, "China's Widening Income Gap" Feb. 16, 2007; Energy Information Administration, "Country Analysis Briefs: China" August 2006; Susan Porter, American Council on Education, "Higher Education in China: The Next Superpower is Coming of Age"*).

Recently Filed Trade Disputes Between the U.S. and China

- The US has recently filed a "Request for Consultations" in two separate matters, which represents the first step in invoking the WTO's dispute settlement process. One request challenges China's enforcement of its existing intellectual property laws and the other addresses various types of tax subsidies.
- The WTO dispute settlement process begins with a 90-day consultation period between the parties, and then escalates to hearings and decisions by various bodies before a final decision. If a violation is ultimately found, a party is given certain amounts of time to comply or settle before retaliation is authorized by the offended party. Retaliation need not be in the same sector as the violation.
- The intellectual property dispute centers mostly on laws that restrict enforcement of intellectual property rights to cases rising to vaguely-described levels of severity, such as "relatively large" or "huge" cases. Also, enforcement is inconsistent and doesn't meet international standards.
- The subsidies dispute involves numerous types of subsidies, like VAT rebates, that essentially favor the purchase of domestic goods and give foreign goods less favorable treatment. Also, some subsidies condition tax reductions, rebates, and the like on export performance. In response to initial consultations, China has repealed some of the complained of provisions, illustrating impacts of pursuing WTO settlement.

(*Source: World Trade Organization, Requests for Consultation by the United States, dated April 16, 2007 and February 2, 2007; Office of the United States Trade Representative, "WTO Case Challenging Chinese Subsidies" January, 2007; World Trade Organization, Addendum to Request for further*

Consultations by the United States, May, 2007).

Chinese Energy Needs

- Chinese production growth has increased pressure on China's energy resources and required China to increasingly seek resources beyond its borders.
- China accounts for roughly 38% of the global growth in demand for oil.
- China maintains domestic price controls on oil that are preserved with subsidies as global oil prices increase. Although wishing to decrease subsidies on refined oil, dependence on those sources will make decreasing subsidies difficult and gradual.
- According to one journal, China has 18.3 billion barrels of proven oil reserves, but the recent announcement of a newly discovered field increases that number by another 7.35 billion barrels. (US reserves total roughly 22 billion barrels according to the Energy Information Administration, although some discoveries in the Gulf of Mexico could add significantly to that figure.)
- Overseas acquisitions are being aggressively pursued, with China buying interests in exploration and production companies from Africa to Asia and South America to North America.
- Pipeline construction, both domestically and internationally is also on the rise, as is refining capacity, although there have been some struggles with refiners because of the domestic price controls.
- Although natural gas has represented a small fraction of energy consumption, the Energy Information Administration expects continued increases in natural gas production and consumption.
- China is the world's largest producer and consumer of coal; it makes up 69% of China's total energy consumption.
- China has the third largest coal reserves in the world, behind the US and Russia.
- China is moving to consolidate its coal mining industry into state-owned holding companies in order to maximize its resource by eliminating inefficiencies of small, local coal mines.
- The Chinese government is also promoting the development of coal-to-liquids technologies.
- Electrical generation is largely coal-based, but expansion of gas-fired power plants is a priority.

(*Sources: Energy Information Administration, "Country Analysis Briefs: China" August 2006; Ministry of Foreign Affairs of the People's Republic of China, "China's newly found oilfield boasts reserve of 7.35 bln barrels," May 4, 2007; Energy Information Administration, Basic Petroleum Statistics 2005.)*

Dollar vs. Yuan

- Prior to July, 2005, the Chinese government set a fixed exchange rate of the yuan against the dollar, which kept the yuan artificially low. After pressure from the United States, China agreed to let the yuan float to a small degree based on the performance

of a "basket of currencies." There has been some effect, with the yuan recently hitting highs against the dollar.

- The artificial weakness of the yuan versus the dollar exacerbates the China-US trade deficit by making Chinese goods cheaper for American consumers.
- In response to the growth of the yuan, China has been requiring more reserves be held by Chinese banks to cool down the increases.

(*Sources: Xinhua News Agency, May 8, 2007; Energy Information Administration, "Country Analysis Briefs: China" August 2006.*)

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