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The Economic Legacy of the Hu-Wen Era

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20 February 2013
Institute of Chinese Studies
Delhi

The two guideposts for the Chinese economy in 2002 was first, the framework of 'Economic Development and Restructuring' unveiled in Jiang Zemin's report at the 16th Party Congress and second, the commitments taken while acceding to the World Trade Organization (WTO) which compared to other economies were more stringent with higher costs.

The salient features of the economic development and restructuring could be outlined as charting out a new road to industrialization and implementing the strategy of rejuvenating the country through science and education and that of overall sustainable development, boosting the rural economy and speeding up urbanization, improvisation of the market system and tightening and improving macroeconomic control, opening up by 'bringing in' and 'going out'. This would imply China's response to the new situation of economic globalization and entry into the WTO to participate in international economic and technological cooperation and competition on a broader scale in more spheres and on a higher level. The leaders stressed on making the best use of both international and domestic markets, optimize the allocation of resources, expand the space for development and accelerate reform and development by opening up. In adopting this strategy, China implemented the strategy of market diversification, bringing into play the comparative advantages to consolidate the existing markets and open new ones in an effort to increase exports.

After 15 years of hard bargaining, China was able to secure membership of the WTO in 2001, but its terms of accession were substantially more stringent than other entrants. China was given a shorter transition period to comply with their commitments and in several areas, including investment, China had to accept excessive commitments. India, in comparison, was given a tenure period to lower its indirect and direct tariffs policies while China faced the pressure to reduce their tariffs immediately. China also faced the commitment to attract foreign investment which was far in excess of the WTO guidelines and US and other developed countries exceeded their brief in extracting the FDI from China. Some of the excessive commitments that China had to comply included binding of tariffs for all products in its schedule on market access for goods, the elimination of tariffs on all information technology products, maintaining transparency in foreign investment policies, price controls not be used for purposes of affording protection to domestic industries or services providers, textiles quotas which continued until 2008 (as against the 2005 phase out for other developing countries), all the state owned enterprises would make purchases and sales based solely on commercial considerations, e.g., price, quality, marketability and availability. The enterprises of other WTO Members would have an adequate opportunity to compete for sales to and purchases from China's state-owned enterprises on non-discriminatory terms and conditions, the government would not influence, directly or indirectly, commercial decisions on the part of state-owned enterprises, including on the quantity, value or country of origin of any goods purchased or sold, commitment not to establish any new SEZs and the elimination of the special preferential tariff policies applied to SEZs.

Import policies for agriculture to be based solely on commercial considerations and that it would not maintain, resort or revert to guidance plans or administrative guidance at the national or sub-national level that regulated the quantity, quality or treatment of imports, or constituted import substitution practices or other non-tariff measures, including those maintained through state trading enterprises at the national or sub-national level. It also included that China would not maintain or introduce any export subsidies on agricultural products and subsidies for providing cheap imports and price support (minimum support price) to agriculture to be limited to 8.5% of annual value of agricultural production (10% of other developing countries).

Two major policy measures were involved in the process of internationalization of Chinese Yuan – first, policies of easing capital controls and second, the use of Yuan in trade transactions. With regard to the first policy measure, China has been easing capital controls to allow foreign investors to invest their money in companies and projects in China. Since 2007, "Dim Sum Bonds" which are issued by China and Hong Kong based companies to be bought by foreign investors. Chinese companies were allowed to settle trade transactions in Yuan in 2009 through banks in Hong Kong that led to a surge in Yuan deposits in Hong Kong banks. The United Kingdom became the first European off-shore hub for issuing Yuan-denominated bonds in early 2012. By the end of 2012, London accounted for 28 % of the Yuan trade settlement worldwide. For the second policy measure, China has been promoting the use of Yuan in settling trade transactions with its trade partners in order to reduce dependency on US dollars. The measure was first undertaken in July 2009 with a pilot programme whereby a few exporters in five Chinese provinces were allowed to settle trade in Yuan. It was decided that all trading partners could engage in settling their bilateral trade with China in Yuan. Between 2008 and mid-2012, China entered into bilateral currency swap agreements with 18 partner countries allowing settlement trade in their respective local currencies