



China and WTO compliances: A Step Closer or Miles Away?

Speaker: Sanchi Vahal, Intern, ICS

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29 July 2015

Institute of Chinese Studies, Delhi

At the outset, it was informed that Sanchi Vahal's presentation is a part of a larger study being undertaken at the ICS on China's Market Economy Status and the implications for its neighbours. The presentation by Vahal began by analysing the issues accruing out of China's accession to the WTO in 2001 in terms of the country's economic progress and if and how the accession has proved beneficial for China's economy.

The speaker informed that the Chinese economy has moved from being the 6th largest economy to the 2nd largest, and performed exceptionally well in trade and goods, ranking first for the second consecutive year in 2014. The speaker also spent ample amount of time discussing the period preceding China's WTO accession. She discussed some of the key issues and events that transpired during the 15 years long negotiation period. After having lost its GATT (General Agreement on Tariffs and Trade) seat to Taiwan after the civil war, China reapplied for a GATT membership in 1986 and became the 143rd member in 2001. Despite desperate attempts by China to liberalise and amend laws to bring them in line with the expectation and requirements of the organisation, disputes, majorly with the US and the EU, political reasons and pressure from lobbying groups in the US, dampened China's accession process. The speaker opined that even though the accession came about finally in 2001, after 15 years of negotiation, it came at a cost. Many discriminatory provisions were included – such as product specific safeguard mechanisms that were provisional in nature; quotas on textiles; a set of WTO plus and WTO minus commitments, and finally, further concessions and policy relaxations. Analysing the success of China's compliance to the commitments it made to become a member of WTO, the speaker divided the years since the accession into several phases, with each phase highlighting a new milestone reached by China.

At the outset, the speaker highlighted the changes carried out by China since the WTO accession in 2001. By 2006, China had given MFN status to most of the WTO members; achieved 100 per cent bound tariffs on all products; discontinued import quotas; and in an attempt to attract foreign investments, lowered the tax rate for foreign enterprises. Although import quotas were eliminated, tariff rate quotas for agricultural goods and fertilisers remained. Managed floating exchange rate system was adopted under the exchange rate reform of 2005 with the aim of achieving current account convertibility. Between 2006 and 2008, owing to the policy thrust that everything is not necessarily state owned, the law on enterprise bankruptcy was initiated. With

enterprise income tax law, two-tax system was abolished and all tax incentives were equalised for both domestic and foreign firms. However, reforms in the banking sector lagged behind. In the next phase, that is, till 2010, the aim was to accelerate the development of the service sector. Laws and regulations were thus amended in sectors related to insurance, telecom, securities, tourism, and postal services. With the Law on Enterprises' State-Owned Assets, the State Council invested on behalf of the state in large scale invested enterprises. Major emphasis between 2010 and 2012 was on easing the Intellectual Property Rights (IPR) regulations and relaxing the laws on outward and inward investment. In the final phase, till 2014, two major pilot projects were initiated by China viz. Shanghai Pilot Free Trade Zone, SPFTZ, and the VAT Pilot Program. The SPFTZ aimed to facilitate trade by easing custom procedures, liberalising financial services, simplifying investment procedures. Under the VAT Pilot Program, business tax was replaced by VAT initially in transport and other services. The program was rolled out nationwide in 2013 after being launched in two provinces and six sectors on a pilot basis. After reviewing China's progress with respect to WTO compliance, the speaker highlighted two cases that illustrate how China still lags behind in its compliance efforts. The speaker analysed the issue of government procurement for her first case study. Though China's government procurement market has increased ten folds in the last ten years, it is still half the size of the US government procurement market. The debate revolves around the issue of China's flawed method of calculating the size of its market – that it fails to take into account the purchases made by the Chinese SOEs. This has been a major cause of concern in the Government Procurement Agreement (GPA) of the WTO. Two sets of laws guide government procurement in China – the Tendering and Bidding Law and the Government Procurement Law. In line with the new thinking that public spending should be regulated, efficient and transparent, significant problems have come to plague China's government procurement system. Lack of transparency is only one of the issues. Another problem prevalent in the system is 'local branding' which involves unwritten/informal quotas being passed down to local governments requiring purchasing of certain brands. Currently, China is an observer to the GPA of WTO. It initially applied in 2007 to become a member and made the first offer in 2008. Since then it made three revised offers but is still could not get the membership.

The second case study pertained to IPR in China. China's struggle to enact stricter IPR began right after its accession. Under pressure from US, China initiated nine IPR laws in the 1970s as an attempt to gain support for accession. Since then, its struggle has continued. Enforcement has been a major hindrance in China's IPR framework. Loopholes in related laws – such as the trademark law, which has been revised thrice and the patent law, which again has already been revised four times – have made China's IPR framework quite vulnerable. For example, China has been named as the major source of counterfeiting APIs (active pharmaceutical ingredients). Some of the reasons for this include – problems in proving infringement; difficulty in enforcing patent rights against exported goods; and lack of a mechanism to ensure proper marketing approval procedures for pharmaceuticals.

The speaker concluded by highlighting some more instances that demonstrate China's drift away from its WTO compliances. US investigation reports reveal instances of non-compliance by China. The EU countries also raise similar concerns. Examples cited include the ban on steel and solar panels from China. On the whole, it was emphasized that China is faltering on its WTO compliances and still has a long way to go. In other words, despite its rapid economic progress, China still faces daunting challenges.

Discussion

The ensuing discussion involved a host of interesting questions and comments. As regards China's WTO compliance, it was argued that the issue of WTO giving China the status of a Market Economy (ME) is not entirely an economic question but has political overtones. In the speaker's view, the WTO membership of China or the ME status that China may get in 2016 is of extreme significance owing to the discrimination against a non-market economy. For example, the anti-dumping duties imposed on China is a strong reason for its focus on getting the ME status. The speaker expected China to get the status in another year and refuted any arguments that call for a longer delay. A related question was raised regarding the certainty of China receiving ME status in 2016 when it has not created the conditions for such a transition. The speaker responded by situating the question within the larger debate being addressed by the presentation, that is, the discrepancy between reality and the Trade Policy Review documents of WTO that says that China has complied by WTO regulations. In this context, it was also suggested that the part played by politics needs to be further examined.

An important concern was raised regarding the reduced scope of WTO in the wake of parallel groupings being formed at the regional and multilateral level. The speaker acknowledged the concern and cited the example of AIIB (Asian Infrastructure Investment Bank) gaining control of the Asian market. There were around 70 nations (mainly Latin American and South East Asian nations) who have already given China ME status. However, the speaker also noted that it will be a long time before regional trading arrangements become strong enough to bypass WTO on the international front.

Another pertinent question pertained to the relation between compliance with WTO standards and China's plan documents that say it is a consumer market economy. The speaker mentioned that domestic consumption was not related to compliance. WTO ensures that you are a consumer as well as a producer. That's why it wants China to relax FDI, IPR, quotas, tariffs, and so on, so that the other sellers feel welcome. With the announcement of a free trade zone in Shanghai and internationalisation of Chinese manufacturing, China is trying to prove to the world that they are opening up and they are complying with WTO standards. This also helps Chinese economy very well because the Chinese can develop their own brands, IPRs, and achieve high standards and quality.

With respect to the claim of the speaker that China is not complying with WTO standards, a relevant discussion took place on the actual reasons behind such non-compliance. It was argued that if 2016 is the focus for China, then compliance might become even less important after it gets the ME status. The speaker responded by saying that the scenario after 2016 is difficult to foresee. The discussion concluded on the argument that decisions pertaining to ME status are not taken entirely on the basis of compliance, rather, political considerations play an important role in it. Further, that it is possible that the WTO might lose its relevance.

Report prepared by Sanchi Vahal and Mahima Khosla, Research Interns, Institute of Chinese Studies.

About the Speaker

Sanchi Vahal has graduated in Economics from the University of Delhi. She is pursuing MA Economics from the Jawaharlal Nehru University (JNU), New Delhi. Her areas of interest include international and development economics, international trade, and econometrics. She is currently a research intern at the Institute of Chinese Studies.

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