# -China-

*last updated on 2001-11-14*

## Table of Contents

GENERAL FEATURES OF TRADE POLICY
TARIFFS AND DUTIES
TRADE DEFENCE INSTRUMENTS
NON TARIFF BARRIERS
RESTRICTIVE EXPORT MEASURES
INVESTMENT RELATED BARRIERS
IPR

# GENERAL FEATURES OF TRADE POLICY

China's population of 1.3 billion people comprises a potentially lucrative market for foreign goods and services. For the past twenty years, Beijing has been opening its market to foreign products and investment. Economic and financial reforms are gradually removing the privileges accorded state-owned firms, and introducing market forces.

China's shift away from the planned economy model to a market economy has been difficult but is being rewarded by sustained strong economic growth and improved living standards. Reforms have been particularly difficult in sectors that traditionally relied upon heavy state subsidies. The ageing state-owned industrial sector and the heavily protected agricultural sector are now under significant competitive pressure. In the short term, after WTO accession, these pressures may intensify.

China officially estimated GDP growth at 8.0 percent in 2000, reversing the deceleration in economic growth since the early 1990s. Burgeoning exports, increased government infrastructure investment, and stronger urban consumer demand were the chief factors stimulating growth.

China uses an intricate system of tariff and non-tariff administrative controls to implement its trade policy. Non-tariff barriers are administered at central and provincial levels by the Economic and Trade Commission, State Planning Commission and the Ministry of Foreign Trade and Economic Co-operation (MOFTEC).

Chinese regulations are not transparent in nearly all areas of economic administration. Often there is a clear lack of written rules, and where they do exist, they are subject to individual interpretation and frequent change. Moreover, sometimes reference is made to non-published secret provisions. In conclusion, this lack of transparency, predictability and reliability means that business with China remains a high-risk activity which for the moment can only be taken on by major corporations and not yet by small and medium-sized enterprises.

Since 1986, China has sought to return to the GATT/WTO of which it was a founding father in 1947. Following its market access deals with Japan and Australia in July 1999, China concluded a market access agreement with the US in November 1999 and an agreement on accession to the WTO with the EU in May 2000. These deals paved the way for China's accession to the WTO by securing firm commitments on the reduction and binding of tariffs, on the liberalisation of services, on the elimination of quantitative restrictions, on improvement of SPS standards, on transparency in government procurement, on national treatment, and on participation in sector-specific multilateral agreements.

*The following table is an overview of the tradeflow between the European Union and China*

| Section | Year | Import(Euro) | Export(Euro) |
|---|---|---|---|
| Animals & animal products | 1996 | 516,180,260 | 83,585,150 |
| | 1997 | 553,779,500 | 145,629,490 |
| | 1998 | 621,740,720 | 180,710,580 |
| | 1999 | 581,671,610 | 174,031,720 |
| | 2000 | 698,148,900 | 224,270,950 |
| | 2001 | 852,003,740 | 239,138,500 |
| | 2002 | 520,274,460 | 247,006,360 |
| | 2003 | 584,761,760 | 259,796,000 |
| Vegetable products | 1996 | 438,519,660 | 66,357,860 |
| | 1997 | 454,195,920 | 48,265,270 |
| | 1998 | 510,668,870 | 157,899,670 |
| | 1999 | 527,682,770 | 324,280,490 |
| | 2000 | 634,343,390 | 156,758,930 |
| | 2001 | 697,475,390 | 120,960,890 |
| | 2002 | 705,631,410 | 113,241,090 |
| | 2003 | 777,205,290 | 140,992,940 |
| Animal or vegetable fats | 1996 | 9,602,750 | 75,473,630 |
| | 1997 | 17,555,280 | 100,188,380 |
| | 1998 | 15,994,280 | 107,169,760 |
| | 1999 | 15,216,160 | 36,934,830 |
| | 2000 | 18,204,210 | 23,030,970 |
| | 2001 | 19,175,190 | 8,624,710 |
| | 2002 | 15,416,560 | 27,373,220 |
| | 2003 | 27,197,670 | 9,885,170 |
| Prepared foodstuffs | 1996 | 297,230,890 | 41,418,680 |
| | 1997 | 306,471,530 | 77,264,250 |
| | 1998 | 314,888,180 | 93,716,440 |
| | 1999 | 370,368,460 | 108,484,060 |
| | 2000 | 503,230,420 | 145,839,980 |
| | 2001 | 487,643,100 | 128,792,400 |
| | 2002 | 471,974,800 | 142,954,100 |
| | 2003 | 491,995,690 | 145,476,820 |
| Mineral products | 1996 | 437,024,020 | 42,699,020 |
| | 1997 | 573,487,930 | 89,165,080 |
| | 1998 | 625,943,400 | 75,450,330 |
| | 1999 | 562,532,730 | 275,166,470 |
| | 2000 | 721,560,630 | 248,382,820 |
| | 2001 | 1,006,063,540 | 234,736,460 |
| | 2002 | 908,640,550 | 420,936,150 |
| | 2003 | 1,085,174,730 | 247,987,770 |
| Chemical products | 1996 | 1,401,841,600 | 797,114,530 |
| | 1997 | 1,695,497,490 | 872,519,170 |
| | 1998 | 1,814,283,920 | 1,003,717,270 |
| | 1999 | 2,002,060,210 | 1,171,081,350 |
| | 2000 | 2,494,855,280 | 1,705,860,010 |
| | 2001 | 2,654,069,230 | 1,881,684,140 |
| | 2002 | 2,820,379,300 | 2,187,094,940 |
| | 2003 | 3,080,916,420 | 2,565,834,950 |
| Plastics & rubber | 1996 | 1,176,093,110 | 250,579,760 |
| | 1997 | 1,503,658,650 | 334,973,060 |
| | 1998 | 1,723,640,320 | 344,527,760 |
| | 1999 | 1,994,598,560 | 430,941,880 |
| | 2000 | 2,786,911,300 | 670,540,140 |
| | 2001 | 2,860,880,240 | 889,304,390 |
| | 2002 | 2,938,206,350 | 1,082,084,930 |
| | 2003 | 3,118,277,840 | 1,305,152,940 |
| | 1996 | 2,111,118,630 | 53,226,580 |
| | 1997 | 2,491,962,880 | 128,949,160 |

| | | | |
|---|---|---|---|
| Hides & skins | 1998 | 2,580,978,330 | 94,226,530 |
| | 1999 | 2,745,399,120 | 116,089,400 |
| | 2000 | 3,502,727,370 | 236,226,670 |
| | 2001 | 3,685,642,530 | 257,194,960 |
| | 2002 | 3,643,602,270 | 264,842,650 |
| | 2003 | 3,476,191,180 | 311,825,630 |
| Wood & wood products | 1996 | 391,266,930 | 20,939,310 |
| | 1997 | 449,509,100 | 64,564,920 |
| | 1998 | 479,628,800 | 154,482,760 |
| | 1999 | 583,646,940 | 302,150,550 |
| | 2000 | 763,094,900 | 531,492,690 |
| | 2001 | 823,420,110 | 396,929,680 |
| | 2002 | 895,809,770 | 283,426,930 |
| | 2003 | 992,246,570 | 212,666,380 |
| Wood pulp products | 1996 | 216,339,320 | 251,520,600 |
| | 1997 | 281,481,480 | 270,204,790 |
| | 1998 | 321,650,470 | 278,674,180 |
| | 1999 | 416,150,480 | 373,004,490 |
| | 2000 | 556,250,400 | 493,771,100 |
| | 2001 | 626,168,070 | 565,267,840 |
| | 2002 | 653,295,230 | 724,575,170 |
| | 2003 | 762,995,630 | 822,115,370 |
| Textiles & textile articles | 1996 | 5,269,481,130 | 207,583,750 |
| | 1997 | 6,459,794,420 | 237,334,430 |
| | 1998 | 6,775,976,220 | 224,217,570 |
| | 1999 | 7,845,237,620 | 285,036,520 |
| | 2000 | 9,665,292,900 | 450,139,730 |
| | 2001 | 10,233,246,080 | 510,563,670 |
| | 2002 | 11,176,812,230 | 554,359,360 |
| | 2003 | 12,150,484,140 | 652,941,660 |
| Footwear, headgear | 1996 | 1,874,251,070 | 7,731,940 |
| | 1997 | 2,127,305,940 | 13,640,930 |
| | 1998 | 2,094,735,590 | 16,990,910 |
| | 1999 | 2,242,653,230 | 12,405,240 |
| | 2000 | 2,889,052,800 | 13,597,380 |
| | 2001 | 3,096,437,950 | 17,604,850 |
| | 2002 | 3,121,893,690 | 20,586,900 |
| | 2003 | 3,330,394,780 | 23,057,800 |
| Articles of stone, plaster, cement, asbestos | 1996 | 372,723,930 | 114,721,410 |
| | 1997 | 503,020,570 | 191,818,690 |
| | 1998 | 615,788,000 | 193,781,570 |
| | 1999 | 776,860,600 | 177,467,620 |
| | 2000 | 1,029,244,530 | 227,517,720 |
| | 2001 | 1,067,108,090 | 262,516,530 |
| | 2002 | 1,091,581,540 | 255,501,780 |
| | 2003 | 1,270,729,920 | 260,303,560 |
| Pearls, (semi-)precious stones, metals | 1996 | 233,801,080 | 77,733,990 |
| | 1997 | 325,939,330 | 147,346,770 |
| | 1998 | 426,798,620 | 228,278,690 |
| | 1999 | 555,043,350 | 284,178,140 |
| | 2000 | 889,698,540 | 435,711,290 |
| | 2001 | 1,046,794,890 | 453,104,560 |
| | 2002 | 1,111,290,100 | 591,637,450 |
| | 2003 | 1,116,871,540 | 651,655,750 |
| Base metals & articles thereof | 1996 | 1,666,482,680 | 814,839,480 |
| | 1997 | 2,087,709,790 | 820,570,000 |
| | 1998 | 2,415,536,920 | 810,407,680 |
| | 1999 | 2,657,659,760 | 1,045,112,640 |
| | 2000 | 3,846,592,090 | 1,423,232,650 |
| | 2001 | 3,983,675,690 | 1,753,305,640 |
| | 2002 | 4,118,438,600 | 2,133,807,550 |

| | | | |
|---|---|---|---|
| | 2003 | 4,638,932,980 | 3,217,520,870 |
| **Machinery & mechanical applicances** | 1996 | 6,829,013,940 | 8,125,162,380 |
| | 1997 | 8,802,222,130 | 7,688,821,590 |
| | 1998 | 10,937,420,050 | 8,403,623,120 |
| | 1999 | 13,972,807,140 | 9,155,443,540 |
| | 2000 | 23,247,731,810 | 12,304,494,110 |
| | 2001 | 25,638,848,080 | 15,243,440,080 |
| | 2002 | 30,068,143,230 | 16,761,986,520 |
| | 2003 | 39,077,170,480 | 18,882,252,640 |
| **Transportation equipment** | 1996 | 189,980,170 | 933,181,080 |
| | 1997 | 236,940,910 | 1,004,380,230 |
| | 1998 | 406,397,620 | 1,102,354,060 |
| | 1999 | 606,508,260 | 1,016,540,820 |
| | 2000 | 1,187,814,210 | 1,514,720,170 |
| | 2001 | 1,210,614,390 | 2,274,260,070 |
| | 2002 | 1,053,084,360 | 2,510,985,800 |
| | 2003 | 1,657,177,270 | 3,977,691,700 |
| **Instruments - measuring, musical** | 1996 | 1,365,720,840 | 395,837,590 |
| | 1997 | 1,799,037,570 | 452,609,560 |
| | 1998 | 2,088,434,950 | 485,530,020 |
| | 1999 | 2,365,656,380 | 586,435,340 |
| | 2000 | 3,227,856,420 | 803,373,680 |
| | 2001 | 3,596,524,370 | 1,131,237,750 |
| | 2002 | 4,093,607,360 | 1,489,069,810 |
| | 2003 | 4,151,965,440 | 1,790,455,500 |
| **Arms & ammunition** | 1996 | 4,264,310 | 1,858,530 |
| | 1997 | 4,869,930 | 575,770 |
| | 1998 | 2,045,230 | 505,270 |
| | 1999 | 2,681,390 | 875,070 |
| | 2000 | 2,330,340 | 1,419,170 |
| | 2001 | 4,178,720 | 1,389,330 |
| | 2002 | 5,252,430 | 3,407,640 |
| | 2003 | 6,868,430 | 3,635,950 |
| **Miscellaneous** | 1996 | 3,988,808,930 | 88,624,520 |
| | 1997 | 5,030,842,240 | 103,571,730 |
| | 1998 | 5,402,991,770 | 114,470,850 |
| | 1999 | 6,717,958,270 | 112,083,920 |
| | 2000 | 9,155,972,510 | 180,283,700 |
| | 2001 | 9,413,071,250 | 236,843,230 |
| | 2002 | 10,423,912,630 | 257,552,530 |
| | 2003 | 11,943,853,830 | 364,780,260 |
| **Works of art** | 1996 | 9,327,330 | 643,550 |
| | 1997 | 14,394,160 | 3,244,050 |
| | 1998 | 23,881,530 | 5,157,140 |
| | 1999 | 16,677,450 | 4,180,120 |
| | 2000 | 30,331,020 | 4,388,320 |
| | 2001 | 23,977,630 | 5,920,100 |
| | 2002 | 48,859,130 | 4,114,590 |
| | 2003 | 15,069,810 | 5,537,180 |
| **Other** | 1996 | 52,393,000 | 83,469,080 |
| | 1997 | 37,141,370 | 77,828,330 |
| | 1998 | 59,632,970 | 67,063,710 |
| | 1999 | 64,223,570 | 97,006,470 |
| | 2000 | 102,080,530 | 143,189,020 |
| | 2001 | 116,869,280 | 142,214,170 |
| | 2002 | 119,939,280 | 211,335,420 |
| | 2003 | 141,205,600 | 149,078,050 |

**Agriculture and Fisheries**
**last updated on**

*A major difficulty of the Chinese market is the lack of transparency and the lack of responsibility encountered when dealing with Chinese authorities. Whether the Ministry of*

2001-11-15

Agriculture, the China Animal and Plant Quarantine Service or the Ministry of Health, it seems to be very difficult to get someone in charge to deal with a certain problem or question. Following its bilateral agreements, China will reduce its tariffs upon accession to the WTO. In the framework of the WTO accession negotiations, the EU and China signed an SPS agreement that will provide for compliance by China with the WTO's SPS agreement, as well as resolving a number of bilateral trade frictions. In its bilateral WTO accession negotiations, China has committed not to provide any export subsidies for agricultural products.

**Aircraft**
**last updated on 2001-12-10**

The Chinese market for civil aircraft and aircraft engines is large and it is expected to grow very fast over the years ahead. Due to the enormous investment necessary for the development of a national aircraft industry, China is seeking international alliances. China is applying a 3 to 5% import duty on civil aircraft products. Aircraft can only be acquired through the civil aviation purchasing authority. Under the EU-China agreement on WTO accession, China has agreed to eliminate industrial export subsidies and offset requirements in the civil aircraft sector.

All airlines in China are public.

**Automotive**
**last updated on 2004-03-17**

The country currently has over 120 producing companies with more than 200 assembly plants with annual production capacity ranging from 100 units, in small garage factories, to 150,000 units, in modern joint-venture facilities and the component sector is even more scattered.
Three domestic manufacturers, however, dominate the market and they have been chosen by the Chinese authorities to become key players in the forthcoming industrial reform programme.
The market share of these three manufacturers (which includes the domestic share of their foreign joint venture partners) amounted to 49% in 2002.
The automotive market is undergoing progressive liberalisation in accordance with China's WTO commitments. The import quotas and licensing system is due to be phased out in 2005; foreign companies will be granted full trading rights by 11 December 2004; wholesale and distribution rights for wholly foreign owned enterprises are scheduled for 11 December 2004; car import tariffs are set to steadily decrease to 25% on 1 July 2006 (34.2% in 2004; 30% in 2005 and 28% for the 1st semester of 2006). China is also delivering on its commitments for auto financing and has recently issued regulations and implementation rules allowing foreign companies to offer financing services.
By the end of 2002 approximately 60% of the car industry's foreign direct investments in China were attributed to European manufacturers. In 2002, European invested JVs in China accounted for approximately 66% of the total number of cars produced in China by JV companies and accounted for approximately 49% of the total production of cars in China.

**Ceramics and Glass**
**last updated on 2001-11-15**

In its agreement with the EU on WTO accession, China has committed itself to reduce tariffs on 11 key ceramics products from 24.5%-35% to 10%-15%. In addition, tariffs on 6 particular glass products will be reduced from 24.5% to 5%.

**Chemicals**
**last updated on 2001-11-15**

China has committed itself, in its WTO accession agreement with the US, to reduce its tariff levels in chemical products to the level of other WTO members. This means that for 70% of chemical products tariffs will be lowered from 35% to 5.5% or 6.5%.

**Electronics**
**last updated on 2001-11-15**

In the context of its WTO accession negotiations, China has agreed to sign the Information Technology Agreement (ITA). This will eliminate tariffs on semiconductors, computer equipment, telecommunications equipment and other information technology products by 2005.

**Iron, Steel and Non-Ferrous Metals**
**last updated on 2001-11-15**

The reduction of steel production is a result of a sharp drop in demand from neighbouring countries and a parallel increase of cheap steel from South Korea and Russia.

**Machinery**
**last updated on 2001-11-15**

Following the EU-China agreement on WTO accession, 52 products in the machinery and appliances sector will be cut from nearly 35% to 5-10%. China eliminated its system of "controls" for machinery products. Difficulties to obtain import licenses for certain types of equipment.

**Mining**
**last updated on 2001-11-15**

China has agreed to open the crude and processed oil sectors to private traders following the conclusion of the bilateral agreement on WTO accession with the EU.

**Pharmaceuticals**
**last updated on 2001-11-15**

Following the EU-China agreement on accession to WTO, tariffs on key cosmetics products will come down to a level of 10%. Their current level is around 30%.

**Services - Business**
**last updated on 2001-12-10**

Legal services:

Upon China's accession to the WTO, foreign law firms will be able to also offer services on Chinese law. In particular they will be able to provide information to their clients on the Chinese legal environment. It has been recognised that solicitors (although not members of a bar) will also be covered by the agreement.

Accountancy services:

Accountants will be able to provide taxation and management consultancy services under the same conditions as accounting services, and will no longer be required to have a partner. China has also agreed to allow unrestricted access to foreign professional licensed as accountants in China and will apply national treatment and transparent procedures when issuing such licences.

Architects:

Architects will now have an extended access on a cross-border basis, by
allowing them to provide scheme design services.

Market research:

The Chinese Decree imposing extremely burdensome requirements that might affect the confidentiality of market research reports will be substantially amended. Reports will no longer be pre-examined by Chinese authorities
before being given to the client, but firms will merely have to send copies of questionnaires to the authorities (not of the replies and results).

**Services - Communications & Audiovisual**
**last updated on 2001-11-15**

China has to establish a nation-wide basic telecom infrastructure. The market of telecom services remains monopolistic. China Telecom acts under the authority of the Ministry of Post and Telecommunication, MPT. The only licensed competitor is China Unicom, but the success of this company is still unsatisfactory with a reported stock of only 30,000 clients.

Mobile communication is a rapidly growing market. In this sector foreign investment is already strong with Nokia, Ericsson, Motorola, Siemens and others. Most of these companies built production capacities (e.g. Motorola with 2.1 million phones, Ericsson with 300,000 mobile phones and a foreseen capacity of 600,000).

| | |
|---|---|
| **Services - Construction & Engineering**<br>**last updated on 2004-03-17** | The joint-venture requirement has been relaxed to allow foreign majority on accession. Within 3 years, wholly foreign owned enterprises will be permitted to carry out projects financed by foreigners (including those funded by the IMF, World Bank etc.) and Chinese-funded projects where Chinese construction firms justify the need for international assistance.<br>European construction companies have a larger share of the Chinese market than US, Japanese or Korean companies. Estimates indicate a turnover for EU companies in China at over 1 billion Euro in 1999. The market is foreseen to increase significantly in coming years. |
| **Services - Distribution**<br>**last updated on 2001-11-15** | Foreign firms currently suffer from numerous limitations to their distribution capacity in China. However, China's commitment on distribution under the WTO accession agreement addresses wholesaling, direct sales, retailing, maintenance and repair, and transportation. China has agreed to phase out limitations to distribution services during the next three years including the specific 50-50 joint venture restriction applicable to large retail stores (removing the 20,000m 2 size limit), as well as that for virtually all retail operations with more than 30 outlets in China. |
| **Services - E-commerce**<br>**last updated on 2001-11-15** | So far, the government has been suspicious about the internet. A 1996 regulation introduced the mandatory registration of computer networks and a ban of political information as well as of pornography. However, recent estimations show an enourmous growth of internet users in China which account to about 200,000. The first joint venture for Internet services has been recently realized by the US firm Prodigy together with China North Industries. |
| **Services - Financial**<br>**last updated on 2004-03-16** | Securities:<br><br>Foreign securities firms may establish representative offices but are not allowed to establish subsidiaries or branches. There is no domestic mutual funds market. Foreign banks may not sell foreign mutual funds or any other form of foreign securities to Chinese citizens or institutions.<br><br>In addition to the two officially recognised exchanges, there are "securities exchange centres" in 18 of China's larger cities and two electronic trading systems, the National Electronic Trading System (NET) and the Securities Trading Automated Quotation System (STAQ).<br><br>As a result of the WTO accession negotiations, China and the EU have agreed to establish a regulatory dialogue on the development of the securities market in China.<br><br>Banking:<br><br>Compared to international standards, the Chinese banking sector is still underdevelopped. Transparency is very low, which leads to low ratings for Chinese banks. Distributors and other non-financial institutions will be able to give credit facilities for the purchase of all motor vehicles, including trucks, buses, tractors, motorcycles etc, rather than just cars.<br>Almost all major EU banks have established a commercial presence in China. Due to high capital requirements, this represents massive investment for those that have embarked on Renminbi business, and especially for those that pursue a retail banking business model. The capital requirement is RMB 100-600 million (€ 12-72 million) per branch compared to 5 million Euro for a licence covering the EU. 30 percent should be deposited with a Chinese bank (added risk + forced cheap funding to a Chinese banking competitor).<br>Progressive liberalisation set in the WTO commitments reaches its final stage in 2006 |

Insurance:

Foreign insurance companies not allowed to establish in the People's Republic of China except for the city of Shanghai in the form of a branch or a joint venture insurance company during an experimental period. However, the market is now opening up. 7 new licences will be immediately provided to EU companies, and 2 more companies will be able to establish in another city (sub-branches).

| | |
|---|---|
| **Services - Tourism and Travel** **last updated on 2001-11-15** | China has agreed to allow unrestricted access to the Chinese market for hotel operators. 100% foreign-owned hotels will be possible in 3 years time, while majority ownership in joint undertakings will be allowed upon accession. |
| **Textiles and Leather** **last updated on 2001-11-15** | A large number of EU operators indicated that tariffs remain too high for direct trade. The current level of customs duties applied to the import of textiles EU products is as follows: The Chinese market is characterised by a wide range of import and export restrictions which allow them to protect any product they consider sensitive - and textiles & clothing products are amongst the most sensitive products for the Chinese. A general information source is the Chinese government site: http://www.netease.com/hetong/. |
| **Wood, Paper and Pulp** **last updated on 2001-11-15** | China currently applies tariffs between 12-18% for wood and 15-25% for paper. WTO accession talks have led to commitments to tariff levels between 5% and 7.5%. |

**back to top**

# TARIFFS AND DUTIES

China has gradually reduced tariffs on selected products, though its overall tariff level is still very high. China uses prohibitively high tariffs in combination with import restrictions to protect its domestic industry. China's import tariffs represent a major barrier to commercial opportunities. Tariffs range from 3% on promoted imports to over 80% on discouraged imports such as automobiles. China imposes tariffs on both imports and exports of manufactured goods. The import tariffs are high with finished goods more heavily protected than upstream inputs.

The Chinese authorities acknowledge that tariffs are mainly aimed at regulating trade and providing protection to local industries, while revenue is a secondary concern. Tariff escalation is, accordingly, a major feature of their policy. An analysis of China's tariff schedule shows that import tariffs for products that compete with those of domestic industries the Chinese government seeks to protect remain especially high.

There are 5 Special Economic Zones (SEZs) where firms enjoy tariff preferences which feature the reduction or elimination of duties on imported items used within the zones. Such items need to be brought into the zone via import licences -"SEZ Import Approval Certificates"- issued by the city government. The imported items must be used to produce goods for export and cannot be sold internally without state approval.

China's accession to the WTO will reduce tariffs on industrial products. China has agreed to bind all tariffs but its accession will also require that it standardise its policies with respect to trade and that the practice of giving duty-free special treatment to a WTO members' products exported to the SEZ - a practice in violation with the MFN treatment principle -is gradually terminated.

China made several tariff offers in the context of its WTO accession negotiations and has gradually improved them over the last years. China has agreed to bind all tariffs in its WTO accession negotiations with the EU and US.

| | |
|---|---|
| **Agriculture and Fisheries** | **Tariff Levels** |

020024-*tax on beer* [2002-02-26]

China applies for beer a specific duty of 3 CNY per litre which corresponds to more than the bound tariff of WTO commitments for Year 2002.

**Automotive**

**Tariff Levels**

960004- *High tariffs* [2002-05-17]

China protects its automotive industry through very high tariffs. Although there has been some improvement bringing tariffs from prohibitively high levels up to 180% on automobiles to 100%, it is still extremely difficult to export cars to China.
According to WTO accession obligations, China should reduce its tariffs from 80-100% to 25% by July 2006.

**Electronics**

**Tariff Levels**

960026-*High tariffs for import of electronical products* [2002-12-11]

According to WTO accession tariff schedule, China should reduce tariffs applied to import of electronical products including semi-conductors no lather than 2005.
For more details, you can have a look at the electronic version of WTO accession **tariff schedule.**

**Textiles and Leather**

**Tariff Levels**

960019- *High tariffs* [2002-11-25]

Although tariffs have been lowered step by step since 1994, the overall average in textile and clothing tariffs were high.
According to China's WTO commitmaents and an EU-China bilateral agreement, China should reduce tariffs in textiles no later than 2005.

**back to top**

# TRADE DEFENCE INSTRUMENTS

As trade barriers come down, China's beleaguered state-owned enterprises increasingly are resorting to anti-dumping measures to address allegedly unfair imports. Since China first promulgated its Anti-dumping and Anti-subsidy Regulation in 1997, China has applied anti-dumping measures to imports of newsprint, steel and chemical products. Without exception, the Chinese complainants in these cases have been large state-run firms, employing large numbers of workers, suddenly facing pressure from both domestic reform and imports.

**back to top**

# NON TARIFF BARRIERS

A lack of transparency in customs valuation hinders imports into China. The same product may not only be subject to different rates of duty depending on the port of entry, but also to arbitrary determination of the customs value. The business activities of all enterprises involved in foreign trade are under the policy guidance of the Ministry of Foreign Trade and Economic Co-operation (MOFTEC). Only enterprises authorised by MOFTEC can engage in foreign trade. Two legal modalities are possible: Foreign Trade Corporations (FTCs) and production enterprises with foreign trade rights.

Regarding domestic sales and exports Foreign Investment Enterprises (FIE) are strictly restricted to their own manufactured products. That creates a serious problems in so far as FIE's engaged in production activities are not permitted to import complementary products to complement existing production lines.

The inspection of imported goods is exclusively performed by government agencies as no independent inspection agency is allowed to operate in Chinese ports. In the event of a dispute, the exporter has no opportunity to bring the case before a neutral dispute settlement body, e.g. the Independent Entity of Pre-shipment Inspection Agreement.

MOFTEC administers a nation-wide system of import licensing requirements and many products are subject to import licensing requirements. The applicants for import licenses must prove that they have the required foreign exchange and that the import is necessary. However, obtaining an import license is often a question of good relations and the result of a procedure lacking transparency and clear objective criteria..

China uses standards and certifications requirements as barriers to trade. For manufactured goods, China requires that a quality license be issued before the goods can be imported into China. Obtaining such licenses can be a time-consuming and expensive process.

Without the competitive tendering procedures of the GPA China could pay too much for procurement projects. Signature of the GPA could guarantee transparency and non-discrimination in China's procurement policies.

Under the State guidance pricing regime, the price administration authorities stipulate either (a) the basic price and a floating range, or (b) a ceiling price and a floor price. Enterprises can, within the limits set by the guidance and taking into account the prevailing supply and demand, make their own decisions on prices. Price liberalisation has resulted in substantial reduction of state pricing.

China uses a mixture of indirect subsidies to promote exports. State enterprises and state trading companies receive a variety of bank loans at preferential terms and many of these loans are not repaid. To encourage exports, state trading companies subsidise the difference between the low world price and the high domestic one. Therefore, the enterprises do not receive any additional profits per product sold, but the practice does encourage them artificially to export.

Nearly all foreign firms producing in China are held, through the private contract by which a joint venture is established (which is often the only way to set up a production plant in China), or through legal requirements, to export a fixed and major part of their production.

## Standards and Other Technical Requirements

960007- *Commodities inspections* [2002-05-14]

There are two different regulations applied to imported and domestic products. More than 700 imported products are subject to mandatory inspections under the Chinese law on import and export commodity inspections. This law covers a large number of sectors such as processed agricultural products, textiles, chemicals, raw materials, paper, steel, automobiles and machinery. As China applies different procedures and different rules for imported and for domestic products, discrimination of European products cannot be excluded.
A new system - Compulsory Product Certification System (CPCS) - has been established since May 1, 2002 and the old one will be annulled on May 1, 2003.
The old system, namely, the Safety Licence System for Import Commodities administered by the former State Administration for Entry-Exit Inspection and Quarantine of the People's Republic of China (SIQ), and the Compulsory Supervision System for Product Safety Certification administered by the former China State Bureau of Quality and Technical Supervision (CSBTS) will be replaced by the new CPCS.
The SIQ and the CSBTS have been recently merged into the State General Administration for Quality Supervision and Inspection and Quarantine of the people's Republic of China (AQSIQ).
The AQSIQ formulates the CPCS regulations, approuves and declares for implementation the Catalogue of Products Subject to Compulsory Product Certification.
The Certification and Accreditation Administration of the people's Republic of China (CNCA) is specifically responsible for the administration and organizing the implementation of CPCS.

## Registration, Documentation, Customs Procedures

960005- *Customs valuation, procedures* [2002-05-15]

A lack of transparency in customs valuation hinders imports into China. The same product may not only be subject to different rates of duty depending on the port of entry, but also to arbitrary determination of the customs value. Because there is flexibility at the local level in deciding whether to charge the official rate, in some cases actual customs charges are the result of negotiation between businessmen and Chinese customs officers, with corruption allegedly involved. The business activities of all enterprises involved in foreign trade are under the policy guidance of the Ministry of Foreign Trade and Economic Co-operation (MOFTEC). On 1 January 2001, the new chinese customs law came into force and modified the customs valuation system according to "transaction value" as provided for in the WTO customs valuation agreement. Two further pieces of legislation are to be introduced: "Import and Export tariff regulation of the PRC" and the "Customs regulation of the PRC concerning the verification and the determination of customs value of imported and exported goods". It remains to be seen whether an effective implementation of this new legislation is leading to the elimination of arbitrary valuations.

960006- *State trading in foreign trade* [2002-05-16]

The right to engage in direct import or export trade is reserved for state-owned Foreign Trade Corporations (FTCs). Individuals in China are forbidden by law from engaging in direct import or export trade. This would be a violation of Article XI GATT and will have to be liberalized in the context of WTO accession. The state trading system, at one time in the hands of a few state-owned FTCs directly subordinated to MOFTEC, has undergone significant decentralization recently with MOFTEC no longer supervising the day-to-day operations of FTCs. The number of entities holding trading rights amounts to over 8.800 today. In addition, roughly 60.000 foreign affiliated enterprises are authorized to import the inputs they need for production. The Chinese in 1997 offered to progressively liberalize the trading monopoly within three years of accession. Besides the above mentioned generic problem of state trading within the framework of the WTO, an additional aspect of state trading has to be underlined: in fact in many cases, the State is not only the supervising and controlling authority, but also the main competitor of foreign investors. A severe problem exists, where Chinese authorities request foreign companies to reveal confidential business data.
According to the WTO accession commitments, China will recognize for foreign firms the right to import and export freely within 3 years.

## Quantitative Restrictions and Related Measures

960011- *import quotas* [2002-07-17]

Until WTO accession China maintained quotas on some 385 products ranging from agriculture to motor vehicles and textiles.
According to WTO accession commitments, China should phase out import quotas no later than 2005. The schedule foresees the liberalisation of some products upon accession, of others on 2002, 2003, 2004.

960010- *import licences* [2002-12-06]

China requires import licences for a whole range of products.
MOFTEC administers a nation-wide system of import licencing requirements.
Applications for import licences could be submitted to the Quota and Licence Administrative Bureau of MOFTEC, or Special Commissioner Offices in 16 provinces, or Commissions of Foreign Economic Relations and Trade of various provinces, autonomous regions, and municipalities directly under the central government and those with independent budgetary status. Licensing agencies authorized by MOFTEC could issue import licences on the basis of import documents submitted by the applicants, approved by the competent departments. A licence could not be bought, sold or transferred, and was valid for one calendar year. Import licences could be extended once for up to three months.
In implementing the WTO Agreement and provisions of the Agreement on Import Licensing Procedures, China shall undertake a series of measures to facilitate compliance with these agreements.
China shall, inter alia, notify the WTO of all licensing and quota requirements remaining in effect after accession.
Except as otherwise provided for in the Protocol on the Accession, foreign individuals and enterprises and foreign-funded enterprises shall be accorded treatment no less favourable than that accorded to other individuals and enterprises in respect of the distribution of import and export licences and quotas.
According to China's engagements, the list of all entities responsible for the authorization or approval of imports should be updated and republished in the official journal, the MOFTEC Gazette, within one month of any change thereto.

## Subsidies

960014- *export subsidies* [2002-12-05]

Export subsidies are maintained mainly for agricultural products.
China shall notify the WTO of any subsidy within the meaning of article 1 of the Agreement on Subsidies and Countervailing Measures ("SCM Agreement"), granted or maintained in its territory, organized by specific product, including those subsidies defined in Article 3 of the SCM Agreement.
Subsidies provided to state-owned enterprises will be viewed as specific if, inter alia, state-owned enterprises are the predominant recipients of such subsidies or state-owned enterprises receive disproportionately large amounts of such subsidies.
China provided a list of prohibited subsidies falling within the scope of Article 3 of the SCM Agreement and a timetable for their elimination, in Annex 5B of the Protocol on the Accession.
China should eliminate all export subsidies, within the meaning of Article 3.1(a) of the SCM Agreement, by the time of accession.
To this end, China would, by accession, cease to maintain all pre-existing export subsidy programmes and, upon

accession, make no further payments or disbursements, nor forego revenue or confer any other benefit, under such programmes.
This commitment covered subsidies granted at all levels of government which were contingent, in law or in fact, upon an obligation to export.

**Agriculture and Fisheries**

## Competition Issues

970205- *tobacco, retailing conditions* [2002-05-16]

Import of cigarettes faces a variety of restrictions and barriers: Firstly, de facto quotas are imposed on imports in a intransparent way so that the market share of foreign brands is limited to an estimated 0.2% of the legal market. Import is fully controlled by China's tobacco monopoly, China National Tobacco Corporation (CNTC). Secondly, distribution is hindered by a CNTC organized complex and lengthy system as well as by the strictly limited number of retail outlets licensed to sell importes cigarettes. Moreover, imported cigarettes underly complex and high taxation which amounts to 244% compared to 108% for locally manufactured cigarettes.
From Chinese side there are commitments to grant imported tobacco and cigarettes a national treatment inluding unification of the licensing requirements so that a single licence would authorize the sale of all cigarettes, irrespective of their country of origine, and elimination of any other restrictions regarding points of sale for imported products.
A transitional period of two years has been established to unify the licensing requirements. Immediately upon WTO accession and during the two years transitional period, the number of retail outlets selling imported cigarettes wuold be substantially increased throughout the territory of China.

970308- *Distribution of imp. spirits* [2002-10-29]

Import of spirits faces a variety of restrictions and barriers. Import is fully controlled by Chinese state owned corporations or public authorities. The number of retail outlets licensed to sell imported spirits is restricted and the special permit is difficult to obtain.
In 1998, China introduced new "Administrative Measures on Imported Spirits in (the) Domestic Market". This regulation contains restrictive criteria for registration of importers, for import licences and for distribution rights.
The "Measures" represent additional and burdensome procedures that apparently do not replace other regulatory schemes at provincial and municipal level. Moreover, the type of criteria laid down in the Measures makes it unrealistic that foreign firms will be approved.
Although, in theory, all companies having a general import licence and fulfilling the other criteria to trade in wines and spirits can import, in practise this will not apply to foreign or joint venture companies until 2004/2005 and foreign traders are "advised" to operate through one of the four state companies.

## Sanitary and phytosanitary measures

030026-*China- Products of animal origin* [2004-09-10]

On the basis of a single finding in April 2002 of chloramphenicol (CAP) in casing from Netherlands, China banned all imports of animal based products from the Netherlands with a 6 week grace period for shipments underway.

Following a Cinese inspection mission to the Netheralnds, the ban was lifted in July 03 (on a provisional basis).

- Following a Cinese inspection mission to the Netheralnds, the ban was lifted in July 03 on a provisional basis. Efforts to have this changed to a permanent lifting have been unsuccessful up to May '04 but there is no practical impact on trade as a result of this.

040039-*China- Live bovines, bovine products and derivates* [2004-09-27]

Import ban on live bovines, bovine products and derivates, pet food and animal feed including milk and bovine semen because of BSE.
Affected Membes States: FR

- General statement on BSE to all Third Countries on 17/03/2004 in reaction on the statement of the USA

**Automotive**

## Quantitative Restrictions and Related Measures

960016- *retailing conditions* [2002-04-19]

European companies are not allowed to freely set up their own distribution network. The creation of dealer networks is of high importance for manufacturers to guarantee the quality and the safety of their products. Today, Chinese majority ownership and sales license is required. According to WTO accession obligations, foreign firms will be allowed to distribute freely their products within 3 years after the accession.

### Standards and Other Technical Requirements

020072-*Additional homologation test requirements* [2002-07-02]

In spite of the Agreement on technical barriers to trade (TBT), additional tests in Chinese laboratories are required for vehicles and parts although test results supported by foreign certificates are made available.

### Quantitative Restrictions and Related Measures

960017- *Import quota, licences* [2002-12-06]

Until WTO accession, China applied import quotas and import licences to automobiles.
According to WTO accession obligations, China should phase out quotas on automobiles by 2005.
Initial quota value should amount to 6 billions USD in 2001 with a early increase of 15%. In the first year, 25% of the quota will be allocated to new importers (i.e. 1.5 billions USD).

### Standards and Other Technical Requirements

030009-*certification system for tyres* [2004-03-19]

China Commodity Inspection Bureau (CCIB) certificate was required to import tyres into China until 30 April 2003.
On 1st May 2003, the China Compulsory Certification system (CCC) entered into force.
The Chinese authorities clarified that products which have obtained CCIB certification can directly obtain the CCC certification without additional test or inspection, and if there exists difference on the requirements, only the different items need to be tested or inspected additionally.
However, as far as the marking of standard rim is concerned, China seems to infringe the Technical Barrier to Trade Agreement (TBT) by imposing GB marking requirements on imported tyres, that are not in line with international standards i.e. ETRTO, ISO, JATMA, TRA.
Furthermore, testing methods for tyres have not yet been defined

- For the time being, there is a dialogue between the DG Enerprise and the Chinese State General Administration for Quality Supervision and Inspection Quarantine (AQSIQ). Next round of this dialogue is scheduled for autumn 2004.

**Chemicals**

### Registration, Documentation, Customs Procedures

020007-*Cosmetics registration* [2002-01-23]

China has established from 1st of May 1999 a new Health Ministry registration procedure for cosmetics.
According to the new system, domestic active products (e.g. sun-tan and wrinkle-preventing products) have to be registered at the Ministry of Health whereas the non-active ones are submitted to a more easy local control.
On the contrary, all imported cosmetics (both active and non-active) have to follow the new registration procedure at the Health Ministry.
Registration has a cost of about 200 Eur for each tested product: 3/4 for test cost and 1/4 for administrative fees. This cost is still more onerous, if it is considered that products which contain components of a same type can not be gathered in a group. For instance, lip-sticks of different colour have to be tested one by one unless they contain the same colouring-matter.
Furthermore, the new labelling law of 1st of April 2000 imposes on importers a procedure of labelling certification which can be a duplication of tests made by the Health Ministry. In fact, during the registration phase at the Ministry of Health, all packaging elements are already controlled.

**Cosmetics**

### Quantitative Restrictions and Related Measures

030025-*cosmetics containing ingredients of animal origin* [2003-02-13]

China published a new regulation in March 2002 which prohibited cosmetic product imports containing certain ingredients of animal origin from 18 countries which have officially declared cases of BSE.

The justification of this measure was to protect human health.
The cosmetic products from these 18 countries have to be accompanied by a certificate attesting that they do not contain these raw materials of bovine or ovine origin.
The European Community was informed of these new requirements only by the European exporters' when their cosmetic products which had been entering the market of the People's Republic of China for many years were suddenly refused entry without warning.
Three separate measures were notified to the WTO under the SPS Agreement ( several months after being implemented as “emergency measures”).

**Electronics**

## Quantitative Restrictions and Related Measures

960018-*Import quotas for electronical products* [2002-12-10]

According to Annex 3 (Non-Tariff Measures Subject to Phased Elimination) of the Protocol on the Accession of China to WTO Agreement, import quotas for some elecctronical products (colour televisions, electronic calculators, household satellite television receivers, printers casette and radio recorders, clock radios, laser disk players, household video camera recorders) should be phased out by 2004 as scheduled.
The schedule foresees the liberalisation of some products upon accession, of others on 2002, 2004.

**Pharmaceuticals**

## Registration, Documentation, Customs Procedures

020085-*active pharmaceutical ingredients* [2002-10-01]

In order to obtain permission from Chinese authorities for the import of an active pharmaceutical ingredient (API) into China, a foreign company must apply for a "Import Drug License" (IDL) for that specific API, to be issued by the State Drug Administration (SDA) of China.
APIs are the constituents that give medicinal products their pharmacological activity and are as such the most important ingredients of medicinal products.
The SDA regulation describing which requirements must be met in order to obtain an IDL is called "Provisions Governing Import Drugs".
Imports of APIs into China are jeopardised by the text of and the interpretation given by the SDA to article 15.5 of this regulation. According to this article: "The drugs in one of the following conditions shall not be approved for import registration: (...) 5. Those whose quality index is lower than (...) that of the enterprise with products registered in the same category".
The SDA's interpretation comes down to the requirement that any company applying for an IDL will have, at least, to meet all specifications filed by and imposed on another/other IDL holder/s for the same product, that has/have the strictest specifications.
Thus, to obtain an IDL, each applicant will have to meet the very highest quality specifications of all other IDL holders/applicants for that same API.
Indeed, the overall management of the import licenses system clearly favours local production over iports. The requirements and specifications for the IDL applications for APIs issued by the SDA are at present applied in a manner that can be in violation of article 2.2 of the TBT Agreement.
In addition, the way the overall system is handled is non-transparent and partial, resulting de facto in an obvious restriction of imports through an import license system. The application requirements and specifications change every time a new applicant includes one o more specifications that are additional or stricter compared to the already granted IDLs. All existing application holders must then adhere to the changed standard or have their IDL withdrawn.
Therefore, the regulation and practice seem to be in violation of WTO rules and not consistent with the WTO accession obligations.

## Competition Issues

020086-*distribution system* [2002-10-04]

The current distribution system in China means that imported products can only be ordered by and invoiced to licensed distribution companies.
Chinese pharmaceutical distributors may distribute both imported and domestically manufactured drugs.
An imported product can sometimes pass throug as many as 8 distribution levels before reaching hospitals. However, locally produced medicines are not bound by this rule and may enter the distribution chain at the will of the domestic manufacturer.
At present, distribution is mainly regional, no Chinese distributor having successfully established national distribution, and Chinese distributors have trouble establishing offices in jurisdictions other than the jurisdiction in wich the license was granted.
In addition, local drug manufacturers attempting nationwide distribution also face restrictions in certain jurisdictions.
A foreign pharmaceutical manufacturer is limited to distributing only products it manufactures in

China and meets various difficulties with regard to national distribution in many local jurisictions. According to WTO accession obligations these hurdles in the distribution system have to be removed within three years of China's accession. By then irrespective of its national origin companies will be allowed to distribute pharmaceutical products at the wholesaler level.

**Services - Financial**

## GATS Specific Measures

- 960185- *local currency restrictions* [2002-07-11]

Until recently, foreign banks have not been allowed to carry out business in local currency. Most importantly, this meant that lending to clients in local currency was completely excluded, even within the 14 cities where licenses are currently issued to foreign banks. It still means, for example, that banks without a licence to deal in local currency can not even pay their own staff and local expenses, forcing them to open an account in a local bank (where they are also obliged to open a foreign currency account giving the Chinese bank access to the foreign currency needed to attract foreign clients).
Chinese authorities have, in 1996, set guidelines allowing for the participation of foreign banks in Ren Min Bi business. Some foreign banks have been authorised by the State Council to deal in local currency "on a trial basis" in Shanghai's Pudong development zone.
To date the people's Bank of China (PBOC), the central bank, allows RMB business only in the areas around Shanghai and Shenzhen and attaches a very high number of regulatory measures in relation to the funding process and the foreign banks' loan portfolio.
These limitations in terms of area and customer type will be gradually phased out in accordance with the WTO agreement.
There are other limits imposed to foreign banks:
- RMB/foreign currency swap transactions are not allowed between local and foreign bank to facilitate the RMB funding of foreign banks;
- the lending of foreign banks in local currency is limited by specific capital or other ratios;
- insufficient RMB interbank limits assigned by PBOC which prevent foreign banks from creating an active and liquid "interbank market";
- huge disadvantage in RMB liabilities sourcing for foreign banks; the only option is to borrow at very expensive pricing bilaterally from Chinese Banks.

- 960186- *closed insurance sector* [2002-07-05]

Until the mid 1980s the insurance sector was monopolized by the People's Insurance Company of China (PICC). Since then, the industry has developed rapidly with an average annual growth of 35%. The monopoly of PICC was ended in 1986 when several new insurance companies were approved. Shanghai was opened to foreign insurance companies in 1992. Furthermore, by the end of 2000, 115 foreign insurance companies had established 200 representative offices in China, which are not permitted to conduct business.
In November 1998, China established a new regulatory body for the industry, the China Insurance Regulatory Commission (CIRC). This administers the sector within the legal framework provided by the Insurance Law (1995), Shanghai Provisional Measures Regulating the Administration of foreign funded Insurance Institution (1992) and Insurance Company Administrative Measures (2000).
By the end of September 2001, some European Insurance companies had been granted licences to operate in China.
Although the insurance terms to WTO accession represent a significant step forward, some issues remain:
1) lack of transparency in the licence-granting process (post WTO accession should resolve this);
2) foreign insurers can only offer life insurance through 50/50 joint-ventures;
3) foreign insurers can not engage in statutory insurance;
4) foreign insurers still operate under the 1992 Shanghai provisional measures;
5) brokerage activitis of foreign companies are limited to certain lines;
6) the legal form of establishment is limited to companies;
7) there are no China's WTO commitments in services auxiliary to insurance.

**Textiles and Leather**

## Quantitative Restrictions and Related Measures

- 960020- *import quota* [2002-11-25]

China applies import quotas to textiles.
According to WTO accession commitments, China should phase out import quotas upon accession.

- 960022- *export licensing, duties* [2002-11-28]

China applies export duties on raw materiels or limits exports through restrictive licensing.
Together with other tariff and non-tariff barriers, the textiles industry is subject to a cumulation of barriers.

Chinese authorities can influence through export licencing the flow of exports; due to the fact that only state enterprises have no problems in obtaining export licencing, European companies are not free in their choice of suppliers.
After WTO accession, China confirmed that the list of all entities responsible for the authorization or approval of exports would be updated and republished in the official journal, the MOFTEC Gazette, within one month of any change thereto.
The main criteria used in determining whether a product was subject to export licensing, as set down in the Foreign Trade Law, were: (1) maintenance of national security or public interests; (2) protection against shortage of supply in the domestic market or exhaustion of natural resources; (3) limited market capacity of importing countries or regions; or (4) obligations stipulated in international treaties.
According to Chinese authorities, the Foreign Trade Law would also be brought into conformity with GATT requirements. Moreover, export restrictions and licensing would only be applied, after the date of accession, in those cases where this was justified by GATT provisions.
China confirmed that upon accession, remaining non-automatic restrictions on exports would be notified to the WTO annually and would be eliminated unless they could be justified under the WTO Agreement or the Draft Protocol.
Moreover, China confirmed that upon accession, it would ensure that its laws and regulations relating to all fees, charges or taxes levied on imports and exports would be in full conformity with its WTO obligations, and that it would also implement such laws and regulations in full conformity with these obligations.

**Wood, Paper and Pulp**

## Sanitary and phytosanitary measures

030018-*China- Wood packing material* [2004-09-27]

On 28.6.2002, the General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine (AQSIQ) published Announcement No. 2002/58 laying down emergency measures for EC wood packing materials (WPM), entering into force on 1.10.2002.
These measures have an impact on all products exported from the EC to China.
At present, the EU exporting industry as well as wood packaging material producers are trying to ensure compliance with the Chinese emergency measures.
AQSIQ claims that their measures are based on the recently adopted FAO-International Standard for Phytosanitary Measures (ISPM) No. 15 on "Guidelines for regulating wood packaging material in international trade".
At the same time, China considers that ISPM No. 15 is not in force, following a recommendation from the FAO International Plant Protection Convention (IPPC) Secretariat to suspend the implementation of ISPM No. 15. This recommendation is based on the fact that one element of ISPM No. 15 refers to the use of a specific "no-bug" logo in marking applied to WPM, logo for which exists a problem in respect of its copyright.
The EC noted the following discrepancies between the said measures and ISPM No. 15:
- Requirement for a Phytosanitary Certificate in addition to marking of WPM: this clearly in contradiction with ISPM No. 15 that stipulates in section 1 that the requiring of phytosanitary measures beyond an approved measure as described in the standrad requires technical justification.
- Application to dunnage (practical difficulties in marking dunnage as recognised in section 4 of the standard);
- Requirement for bark-free WPM: this deviates from ISPM No. 15, that indicates that WPM be made from debarked wood. ISPM No. 5 "Glossary of phytosanitary terms (2001)" states that debarking means "removal of bark from round wood (debarking does not necessarily make the wood bark-free)".

back to top

# RESTRICTIVE EXPORT MEASURES

**Chemicals**

## Discriminating Export Licensing

020088-*Export licence fee on fluorspar* [2002-10-16]

Chinese government levies export licence fee on export of fluorspar, an industrial mineral which is the primary raw material in hydrofluoric acid (HF). HF is s the basic feedstock used in the production of fluorcarbons such as refrigerants and foam blowing agents used in various appliances and building insulation materials. China is the main source of acid grade fluorspar (70% of the world's reserves).
In 1994 China MOFTEC imposed the subject fee on certain low value added and low cost of production minerals and materials.

The current export license fee levied by MOFTEC is 60 dollars/ton; it rose 33% in 2001 alone. This fee inflates the absolute cost of export of fluorspar by apprximately 100%.
On the contrary, Chinese fluorcarbon producers pay only the absolute cost of fluorspar. They do not incur additional fees coparable to the export license fee paid by non-chinese fluorspar buyers.
By forcing foreign purchasers of Chinese fluorspar to incur far higher costs than local Chinese fluorspar users do to acquire this material, MOFTEC places non-Chinese firms at a competitive disadvantage against Chinese producers of fluorspar-based end products.

**Textiles and Leather**

### Export Prohibition and Other Quantitative Restrictions

960021- *export of raw materials* [2002-11-28]

China is an important producer of raw materials, some natural (wool, silk), some man made (acrylic fibers). For most of them, export is regulated and subject to the supply of licenses by government agencies. In the case of silk, China's authorities control 70% of the world market of silk production.
According to WTO accession commitments, China should progressively liberalize the right to trade in such goods by increasing the number of designated entities permitted to import goods in each of the three years of the transition period.
At the end of three years, all enterprises in China and all foreign enterprises and individuals would be permitted to import and export such goods throughout the customs territory of China.
During the transition period, none of the criteria applicable under the designated trading regime would constitute a quantitative restriction on imports or exports.
In respect of silk measures, China's WTO accession foresees a progressive abolishment of state trading, increasing and extending trading rights, granting the right to trade to all individuals no later than 1 january 2005

**back to top**

# INVESTMENT RELATED BARRIERS

China is making use of local content, technology transfer and co-production requirements to pursue two of its most important policy goals: economic development and self-reliance. There has been a recent proliferation of this type of requirements in major infrastructure procurement contracts. There have also been indirect offset requirements when granting procurement contracts to foreign firms (e.g. to win aircraft sales contracts, foreign manufacturers may be required to buy certain amounts of unrelated chinese goods).

Local content / export performance schemes and trade balancing/foreign exchange requirements are regularly imposed of FIE's and especially Wholly Foreign Owned Enterprises (WFOE) ranging up to purchasing obligations of the parent company abroad.

Foreign investment (FDI) from the EU into China has increased considerably in recent years. However, it still lags behind investments made by Japan, the US, Hong Kong and Taiwan. It should be noted that a large proportion of these funds is accepted to be Chinese capital channelled through Hong Kong to take advantage of preferential treatment given to "overseas" investment.

China has established since 1979, when it began accepting foreign investment, a complex legal framework on foreign investment and offers numerous incentives to encourage investment in favoured sectors (mainly export oriented manufacturing sectors and in the technology sector).

The WTO accession deals with the EU and the US have allowed for significant progress against trade distorting investment-related measures. China will have to comply with the TRIMs agreement upon accession without going through a developing country transition phase.

The Chinese Government strongly encourages foreign companies to reinvest profits in China rather than repatriating profits. The net profits which foreign investors receive from Chinese-foreign contractual joint ventures may be entirely remitted abroad from foreign exchange deposit accounts. However, foreign joint ventures cannot meet their foreign exchange needs by purchasing it at banks.

The Chinese currency is not yet fully convertible and although China is moving towards convertibility there are still important foreign exchange restrictions affecting foreign companies doing business in China.

back to top

# IPR

China improved its legal framework considerably, and is further revising its copyright and trademark laws to bring them into full compliance with TRIPS. Inadequate procedures for registering patents, trademarks, and copyrights continue to hinder foreign companies attempting to operate in China. Moreover, poor enforcement of existing laws and regulations, combined with weak punishments, mean that IPR violations are still rampant. Pirating is sophisticated and widespread: pirates find ways to get digital copies of blockbuster films and computer programs into the Chinese market almost immediately after they are released in the United States. Fake consumer products are readily available almost everywhere in China, and consumers are often unaware that they are purchasing IPR-infringing goods.

**Machinery**

## Enforcement problems on IPR

- 010002-*Counterfeiting of engineering equipment* [2001-05-21]

Allegations of European engineering companies on forging by Chinese counterfeiters of brand European engineering equipment