

Role of Trade & Investment Policies in Reform and Opening-up of China

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Mr. LU Xiankun

Professor, University of International Business and Economics

Distinguished Professor and Senior Counsel, New Huadu Business School

Senior Research Fellow, Shanghai Centre for Trade and Economic Governance

Since 1978, when Chinese leader Mr. DENG Xiaopeng launched the reform and opening-up process of China, trade and investment has been always playing a central role in leading China onto a path of rapid economic development. Its accession into the WTO in 2001 expedited that process and made it possible for China to emerge as a leading trader and economy in the world. China's GDP ranked only No.15 in 1978, No.6 in 2002 and No.2 since 2010¹. In terms of trade in goods, it was No.32 in 1978, No.6 in 2002 and No.1 since 2013². In terms of inward FDI, China has been the biggest destination of foreign investment for the past several decades. Of course, as the biggest developing country with a population of 1.4 billion, China still faces enormous challenges for a sustainable and environment-friendly development.

Some important characteristics of China's trade and investment policy in the past 40 years could be summarized, not in an exhaustive manner, as follows:

1. A gradual and steady transition from a centralized and planned economic regime to a more market-oriented and open one.

In September 1949, just one month before the People's Republic of China was established, because of the peculiar political and economic situation around the world

¹ Source: World Bank.

² Source: WTO.

then, China adopted a purely centralized and protectionist trade policy. It declared that “(a) control of foreign trade will be exercised and a protection trade policy be implemented.”³ This policy was strictly applied in China and, for almost three decades, China went through a bumpy development. For example, Chinese economy managed to grow by 8.9% during its first Five Year Plan (1953-1957) but slumped in the next three years into a continuous annual decrease of 4.9% of people’s living standards⁴. On average China grew only by 3% before 1978⁵.

In December 1978, China launched its reform and opening-up process with a shift towards a market-oriented economic regime by “systemically and boldly decentralizing” the economic governance. From then trade was upgraded to a strategic status within its economic development strategy⁶. From then until 1992, many new measures related to trade, unimaginable before 1978, were put into place. For example, trading rights were decentralized to companies, still state-owned but at regional levels; manufacturers were also allowed to trade their own products; export rebates of VAT began to be applied and the control on foreign exchange were relaxed. During this period, China’s economic growth on average reached 9.5% during 1978-1992 and its economic size in 1992 was 7.18 times bigger than in 1978⁷.

From October 1992, China entered into a stage to build a “socialist market economy”, with “market economy”, for the first time, written into the document of Chinese Communist Party⁸. This, together with China’s efforts to resume its contracting party status in GATT in 1986 and afterwards to join the WTO, has initiated a comprehensive process to reform and liberalize its economic system, including on trade and investment. In particular, a mercantilist trade policy was

³ Article 37, Chapter Four “Economic Policy”, *The Common Framework of China People’s Political Consultative Conference (CPPCC)*.

⁴ Page 109, *Research Report of 10 Five Year Plan of China*, Mr. LIU Guoguang, 2006, People’s Publishing House.

⁵ *Understanding China’s Economic Growth Past, Present and Future*, Mr. ZHU Xiaodong, Professor of University of Toronto, 2013, *The Journal of Economic Perspectives*, Vol. 26, No. 4 (Fall 2012), pp. 103-124

⁶ Speech by Mr. DENG Xiaoping, Chinese leader from 1978 until 1989, at the closing ceremony of the Working Conference on Economy of the Central Committee of the Communist Party of China on December 13th, 1978.

⁷ China State Statistics Bureau.

⁸ *Report of the Fourteenth Plenary Meeting of China’s Communist Party*, October 1992, followed by *Decision on Certain Issues regarding the Establishment of Socialist Market Economic System* in 1993.

pursued, focusing on purely “expanding exports by all means”⁹. The difficulties arising from the Asian financial crisis since 1998 further reinforced that policy orientation, under which trade surplus has become the sole objective of trade, sometimes subsidized and below cost¹⁰. That policy was substantially readjusted after China’s accession into the WTO in 2001, particularly in recent years, by implementing its extensive commitments on almost all aspects of its economy and by its own efforts to achieve sustainable development. The emphasis of its foreign trade was shifted from pure expanding exports to multiple purposes, including optimizing its industrial structure and achieving a balance between export and import. One substantial change is that, from 2012, as a long term trade policy of China, China began “to actively expand imports” including imports of services¹¹. In this period, i.e. 1993-2013, China managed to grow its economy by 10%¹², the highest in the world.

2. A faithful implementation of WTO accession commitments on all aspects to springboard China into a high development period of over 10 years.

It is widely recognized that, among all newly acceded Members of the WTO, China has made the most comprehensive commitments on almost each and every aspect of its economy, particularly on those related to trade and investment. Take agriculture for example, China’s average agriculture tariff is about 15%, only one fourth of the world average (62%), lower than EU (22%), Japan (33%) and Norway (49%)¹³. China also committed not to use amber (trade-distorting) agricultural subsidies nor export subsidies. Despite the obvious domestic pressure, both political and technical, Chinese government has made tremendous efforts to faithfully

⁹ *Report of the Fifteenth Plenary Meeting of China’s Communist Party*, September 1997.

¹⁰ Many articles have been written on the mercantilist trade policy of China, including by Mr. HE Xin in 2001, Ms. XIE Guoer in 2005, Mr. LIN Song in 2006 and Ms. ZHENG Qian in 2009 in some leading Chinese and foreign journals.

¹¹ *Article XI, Several Opinions by the General Office of the State Council to Promote Steady Growth and Improve the Structure of Import and Export*, March 2012.

¹² China State Statistics Bureau.

¹³ WTO statistics.

implement its commitments, which was recognized by the WTO community¹⁴. China itself also proudly declared that “(by) 2010, all China’s WTO accession commitments have been fully implemented”¹⁵. China also emphasized that “the most profound influence” brought by its accession was that “the rule-based WTO spirits have been fully accepted by China. ‘Non discrimination’, ‘transparency’ and ‘rule of law’ are no long trade jargons but terms commonly used by the general public”¹⁶.

The accession into the WTO, together with the full implementation of its commitments, has brought China into a continuous period of steady and high growth despite of the financial crisis since 2008. In 2003-2013, China’s economic growth was 10%, even higher than before accession (9.5% in 1978-2002)¹⁷.

3. An anchor of WTO accession and participation within China’s overall reform and opening-up process and development strategy.

China’s reform and opening-up process since 1978 was never a plain sailing¹⁸. On the contrary, it has always been accompanied with resistance, contestation and feuds, even in recent years. The famous “Speeches of South Tour” by Mr. DENG Xiaoping in 1992 was a vivid example¹⁹.

However, the overall process was always pinpointed at the right direction, to which trade and investment, in particular WTO accession and participation has contributed a lot as an external leverage to help overcome domestic resistance and push forward the reform process. As emphasized by leading Chinese politicians, the

¹⁴ Mr. Pascal Lamy, WTO Director-General wrote that “the political commitments and determination showed by the Chinese government (in implementing its commitments) is serious and responsible”. *China’s accession to WTO worth celebrating* by on 10th anniversary of China’s accession, *China Daily*, December 12th 2011.

¹⁵ *All China’s WTO accession commitments fully implemented*, *People’s Daily*, December 8th 2011.

¹⁶ Quotation of the speech by Mr. YI Xiaozhun, Deputy Director-General of the WTO and former Ambassador of China to the WTO on October 29th 2011 to celebrate 10th anniversary of China’s WTO accession.

¹⁷ China State Statistics Bureau.

¹⁸ Quotation of interview by Xinhua News of Mr. Alain Mérieux, President of Fondation Merieux, *Together With China-65 Years of Observation on China by Foreign Experts* by Xinhua News on September 29th 2014.

¹⁹ Among others, two points Mr. DENG made clear was that the policy of reform and opening-up since 1978 must be continued and expedited and the Communist Party must not get tangled into the political debate on the distinction between socialism and capitalism. <http://dengxiaoping.h.baik.com/article-1291195.html>.

purpose of China's commitment to abide by international rules and to progressively open its market was not merely to accede to the WTO, but "to further the process of China to establish socialist market economy, to open up to outside world and better prepare China to participate more actively in economic globalization"²⁰. Its accession was constantly regarded as a landmark in its domestic reform process leading China into "a new stage of opening-up". As it joined the WTO, China vowed to "further deepen reform, expand opening-up...and to push forward an all-around, multi-layer and broad opening-up so as to provide a strong engine for (its) economic development"²¹.

After the accession, while implementing its commitments, China has also been actively participating in the work of the WTO, such as trade policy review. Up to now, it has undertaken five trade policy reviews (once two years since 2006) and received over 1500 questions in recent ones, the highest in the WTO history of trade policy review²². Review reports were translated into Chinese and published so as to promote the awareness of the concerns and expectations of other WTO Members. More importantly, line ministries were mobilized not only to study and answer questions, but also to take into consideration in their future policy formulation or revision the concerns of the WTO community.

4. A careful planning to promote awareness, win support and ensure preparedness.

One distinct feature of the whole reform and opening-up process of China is that, instead of launching a big bang campaign, the Chinese government always prepares and implements its development strategy in an incremental and careful manner.

²⁰ Quotation of the speech by Mr. LONG Yongtu, former Chief Negotiator and Vice Minister of China for WTO accession negotiations, at Boao Forum on March 29th 2011.

²¹ Quotation of the speech by Mr. JIANG Zemin, former President of China who has provided political leadership to finish China's accession negotiations at the Workshop for ministers and governors on International Situation and the WTO on February 26 2002. http://news.xinhuanet.com/fortune/2002-02/26/content_289791.htm.

²² WTO statistics.

For example, long before its accession, China has done enormous amount of work on communication with the public, the enterprises, academia, congress, governments through media, live discussion, workshops, seminars, books, etc. Just for governments, this is done at central level as well as each and every regional level in each and every ministry and provincial governments. For example, just during February 20th to April 11th of 2002, the Province of Heilongjiang itself has held six workshops of six days each and trained over 1000 officials above Director-General level on basic knowledge of WTO, specific issues related to China's accession as well as how China and the Province could adapt to the new situation after accession²³. Such efforts have ensured that an overwhelming majority of the public supported its accession²⁴.

Another example is that China, in its reform process since 1978, has applied the so-called "pilot approach", i.e. to test some new policies or measures first in limited regions instead immediately all over the whole country. For example, for foreign investment, China firstly opened only five Special Economic Zones (SEZs) along the coast including Shenzhen, Zhuhai, Xiamen, Shantou and Hainan in 1979, and then another fourteen coastal cities in 1984²⁵. Economic & Technological Development Zones have been established in these cities with preferential policies such as tax breaks and needed facilities in place for foreign-invested companies. With their advantages of preferential policy, convenient location and sound facilities, in early years of opening-up, such Zones have played a central role in attracting foreign investment and acquiring better technology²⁶. Afterwards, China further refined the functions of various zones into Economic & Technological Development Zone, High & New Technology Industrial Development Zone, Bonded Zone, Export Processing

²³ *Summary of Workshops on WTO Knowledge for Leading Cadres of Heilongjiang Province*, 3rd Issue, Century Bridge (世纪桥), 2002.

²⁴ In October 2001, two months before its accession, a survey in six cities of Beijing, Shanghai, Xian, Shenyang, Chengdu and Guangzhou and for 420 urban families and 180 rural ones, by Outlook Weekly (瞭望周刊) and CCTV showed that 97.8% of the interviewees supportive of its accession and only 0.8% against. *Outlook Weekly*, 45th Issue, 2001.

²⁵ Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai.

²⁶ *Report on Investment, Construction, Transition and Upgrading of China's Development Zones 2014*, October 2014, *China's Economic Future*. http://www.cefuture.cn/_d276575284.htm.

Zone, Frontier Economic Cooperation Zones. By July 2014, there were 478 Zones at national level (with more preferential policies and better allocation of land) and 1170 at provincial level and many more at lower level²⁷. In 2006-2010, the Zones at national level alone accounted for 7% of the GDP, 12% of industrial output, 16% of export and 6% of tax of the whole China²⁸.

Such a seemingly cautious but well-thought approach by China is not simply owing to its complicated political and administrative system, but to make sure that all stakeholders are constantly posted of the rational, progress, results and challenges of the initiatives, without which necessary support, both political and technical, would be difficult, if not impossible, to secure. This also makes it easier for enterprises to familiarize with new policies and prepare themselves. This approach has proved very successful and is still applied in China. The China (Shanghai) Pilot Free Trade Zone established in 2013 took the lead to test some brand new policies such as trade facilitation measures and more relaxation for overseas investment and then spread to Guangdong, Fujian and Tianjin.

5. A comprehensive trade and investment strategy encompassing multilateral, regional, plurilateral and bilateral initiatives.

In recent years, China seemingly has become more and more active to participate in all kinds of trade liberalization initiatives. Multilaterally, it has been actively pushing for an early conclusion of the DDA negotiations. Plurilaterally, it has joined both the negotiations to liberalize IT products (ITA) and environmental goods (EGA) and has been negotiating its GPA accession. Regionally, it has been pushing to expedite the RCEP (Regional Comprehensive Economic Partnership, i.e. ASEAN plus six other countries) and to start FTAAP (Free Trade Area of the Asia-Pacific). It

²⁷ Statistics from Ministry of Commerce of China.

²⁸ *Development and Planning of National Economic & Technological Development Zones and Frontier Economic Cooperation Zones in 12th Five Year (2011-2015)*, December 27th 2012.
<http://wzs.mofcom.gov.cn/article/n/201211/20121108454518.shtml>.

has also declared to start FTAs negotiations with countries along the “One Belt and One Road”²⁹. For the moment, China has already signed 12 FTAs while negotiating 9 others including with other important countries such as Australia and Korea³⁰. As said, it has also launched some unilateral liberalization through various Pilot Free Trade Zones in Shanghai and other regions.

Among all these initiatives, China always emphasized that the multilateral trading system represented by the WTO remains “the basis” and “the main channel” for trade liberalization and facilitation³¹. Therefore, it is expected that China will continue to play an active role, and probably a leading one given its economic size and trading power, in the WTO.

²⁹ "One Belt and One Road" refers to the China-lead Silk Road Economic Belt and 21st Maritime Silk Road, which aim to strengthen China's relations with other countries and regions.

³⁰ Statistics from Ministry of Commerce of China.

³¹ President XI Jinping, while meeting for the first time Mr. Roberto Azevedo as the WTO DG on September 5th 2013, said that “(t)he MTS with the WTO at its core is the basis for trade liberalization and facilitation.” Mr. GAO Hucheng, Minister of Commerce of China, and Mr. YU Jianhua, Chinese Ambassador to the WTO, both said at various occasions that multilateral cooperation remains as the basis and the “main channel” for trade liberalization while regional and bilateral cooperation is “complimentary”.