SUMMARY

1. During the review period, the Chinese economy continued to be a major driver of global economic growth. However, real GDP growth has been moderating as the economy adjusts to the "new normal", which implies more stable, albeit lower, growth rates of around 7% per year in the foreseeable future; growth rebalances from investment to consumption, from external to internal demand, and from manufacturing to services. Real GDP grew by 6.7% in 2016, and is expected to be around 6.8% in 2017. Consumption was responsible for around two-thirds of the growth during the review period. The share of services in GDP exceeded 50% for the first time in 2015. Within services, e-commerce sales and tourism services imports have been particularly strong. In contrast, the share of merchandise trade in GDP has declined. Income inequality and poverty levels have declined. Excess capacity in some energy and manufacturing sectors and implicit assistance to state-owned enterprises (SOEs) have increased over a number of years.

2. The Government has been trying to address these issues by focusing on the quality and sustainability rather than the quantity of growth. Under the 13th Five-Year Plan (2016-2020), the authorities intend to continue the process of structural economic reform, which includes the promotion of private sector participation in the economy, as well as the reform of SOEs, while keeping the preponderance of public ownership. Other measures mentioned in the Plan include the promotion of competition, fiscal reform, financial sector reform to increase private capital participation in banking and expand the provision of financial services, and making the exchange rate and interest rate more market-oriented. Reforms have advanced across many areas, including the introduction of measures to reduce overcapacity, strengthen local government borrowing frameworks, and address financial sector risks.

3. In 2016, the People's Bank of China (PBOC) moved to a more market-based approach of conducting monetary policy. The new approach involves a closer management of liquidity in the banking system through an expanded range of instruments such as repos (or reverse repurchase agreements) and lending facilities to promote better capital allocation and guide market interest rates to more closely match the PBOC's objectives. Under the new system, the PBOC uses a corridor or an interest rate band, where the upper limit is set by its overnight seven-day and one-month standing lending facilities, while the lower rate is the interest paid by the PBOC on excess deposit reserves. China has a managed floating exchange rate regime, which uses a basket of currencies as a reference. During the period under review, the PBOC continued to increase exchange rate flexibility. It also introduced a counter-cyclical factor into exchange rate determination, with a view to better reflecting the fundamentals of the Chinese economy and the changes in the international foreign exchange market, as well as to offset pro-cyclical volatilities and to mitigate the "herding effect" in the foreign exchange market. Inflation, as measured by the consumer price index, increased to 2% in 2016, which is within the PBOC's desired range of 2-3%. In 2017, the inflation rate was 1.6%.

4. During the review period, China continued to pursue a proactive fiscal policy, which was guided by supply-side restructuring and adjusting to the "new normal". In 2016, the fiscal deficit rose to 3.8% of GDP from 3.4% in 2015. The increase was due to declining tax revenue as a share of GDP, which can be attributed to the nationwide implementation of the VAT pilot reforms, which reduced indirect tax revenue significantly.

5. China's current account surplus contracted during the review period. It totalled US$202.2 billion in 2016, and was equivalent to 1.8% of GDP. The lower surplus stems, to a large extent, from a decrease in the merchandise trade surplus, which fell due to a fall in exports. In 2017, the current account surplus was equivalent to 1.3% of GDP. The services deficit continued to widen during the review period.

6. Merchandise trade (imports plus exports) declined from 33.5% of GDP in 2015 to 31.2% in 2016, with both exports and imports falling. Exports continue to be dominated by manufactures, which accounted for 93.7% of total merchandise exports in 2016. Manufactures are also the largest import category, responsible for around 65% of the import bill. In 2017, merchandise trade amounted to 32.3% of GDP. In 2016 (the latest year for which data were available), the main destinations for merchandise exports were the United States; the European Union; Hong Kong, China; Japan; and the Republic of Korea; which combined represented about 60% of total exports. The main sources of China's imports were the European Union; the Republic of

Korea; the United States; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei); Japan; and ASEAN countries.

7. China continues to be one of the world's largest recipients of FDI. FDI inflows have been growing for a number of years and the trend continued in 2016. Hong Kong, China was the largest investor in China, accounting for over 80% of FDI inflows, followed by the British Virgin Islands, Singapore and the Cayman Islands. Major recipients of investment inflows were manufacturing, real-estate, leasing and business services and wholesale and retail trade. China is a significant overseas investor. Outward FDI has also been trending upwards for a number of years; however, the increase has not been as pronounced as for inward FDI. The main destinations for outward FDI are: Hong Kong, China; the United States; the Cayman Islands; and the British Virgin Islands. The main sectors invested in are leasing and business services, banking, manufacturing and wholesale and retail trade.

8. China is an active Member of the WTO. It is an observer to the Committee on Government Procurement and is in the process of negotiating its accession to the Plurilateral Agreement on Government Procurement (GPA). China is also an observer to the Plurilateral Agreement on Trade in Civil Aircraft, and, as a participant in the Information Technology Agreement (ITA), has agreed to its expansion. During the review period, China was involved in seven cases under the WTO dispute settlement system: in five cases as a respondent and in two as a complainant. It was also involved as a third party in ten cases brought to the Dispute Settlement Body (DSB). During the review period, China submitted to the WTO a number of notifications; nonetheless, some notifications including those on state-trading enterprises, domestic support, and subsidies provided by the central government remain pending.

9. During the period under review, China expanded its RTA network by signing two new agreements with the Maldives and Georgia, bringing the total number to 17. The volume of Chinese trade covered by FTAs remains small; it may rise considerably in the future, should some of the ongoing negotiations on new agreements and on the revision of existing agreements succeed since they involve major trading partners. China continues to grant unilateral trade preferences to LDCs. As of December 2017, duty-free treatment on 97% of tariff lines was granted to LDCs.

10. The Catalogue of Industries for the Guidance of Foreign Investment (Investment Catalogue), which is revised periodically, remains the main instrument used to guide FDI in China. The Catalogue was revised in 2017. Under the Catalogue, foreign investment projects are classified in the encouraged category and in a "Negative List", which contains a list of industries where FDI is restricted or prohibited. Projects that fall outside of the Negative List require record-filing. Projects in the encouraged category are eligible for preferential treatment, for example, customs duty exemptions for the importation of equipment. The 2017 revision of the Catalogue encourages FDI in, *inter alia,* advanced manufacturing, high technology, the energy saving and environmental protection industry, and the modern services industry. According to the authorities, no technology transfer requirements are imposed on foreign investment projects. During the period under review, China continued to encourage FDI in the central and western regions, where projects may benefit from favourable policies. FDI involving investments in Chinese domestic enterprises may be subject to national security reviews if the FDI is related to defence, or is deemed to have an influence on national security. Foreign-invested projects (FIPs) in China are subject to approval or to record-filing. Projects subject to approval are listed in a specific catalogue, while most projects not included in it are subject to record-filing. Approval requires the examination of the investment project, and a number of conditions must be met.

11. The pilot reform of the foreign investment system, which was initiated in 2013 through the establishment of the China (Shanghai) Pilot Free Trade Zone, was expanded to 11 pilot free trade zones during the review period. FDI access to these zones is based on a negative list approach. For industries not included in the negative list, foreign investors are to receive treatment similar to domestic companies with regard to the establishment and approval requirements and process. Except for the incorporation procedures regulated by the Company Law, foreign investors are not subject to government approval, but only to record-filing. The authorities consider that the negative list applicable to pilot free trade zones is more open than the Investment Catalogue applicable nationwide. Pilot free trade zones have become an important tool not only for investment promotion, but also to help increase exports. Companies located in a pilot free trade zone can produce either in bonded or non-bonded areas. Tariff payments by companies located in

bonded areas are suspended and only become effective when final products are sold to the rest of China. Total imports of China (Shanghai) Pilot Free Trade Zone in 2017 amounted to RMB 800 billion, while exports were RMB 600 billion.

12. China continued to make efforts to reform and harmonize its customs procedures. About one third of imports are now declared through single windows. Clearance times of imports were reduced to an average of 16.7 hours in 2017 from over 22 hours in 2016. China accepted the Agreement on Trade Facilitation in September 2015. It notified its Category A commitments, which cover the majority of measures, in June 2014, and its Category B commitments in June 2017. China does not have any Category C commitments. The indicative implementation date for most Category B commitments is February 2020.

13. The simple average applied MFN rate as of December 2017 is 9.3%, slightly lower than in 2013 and 2015. A tariff reform implemented in December 2017 reduced applied MFN tariffs for some 200 consumer products. Almost all (99.6%) tariff lines are *ad valorem*. The average tariff is 14.6% for agricultural products (WTO definition) and 8.5% for non-agricultural products. About 10% of tariff lines are duty-free. Tariff rate quotas apply to 47 tariff lines. All of China's tariffs are bound.

14. Imports, like domestically produced goods, are subject to Value Added Tax (VAT). VAT on goods has two rates: 11% (down from 13% in July 2017) and 17%. A consumption tax is levied on: products that are harmful to human health, social order and the environment; luxury goods; high-energy consumption and high-end products; and non-renewable and non-replaceable petroleum products. Tax rates continue to vary considerably depending upon the product; they can be *ad valorem*, specific or compound. Since 2015, consumption taxes have increased on cosmetics and luxury cars.

15. There have been no major changes in the application procedures and terms of import licences since China's previous Review. A catalogue of goods subject to automatic and non-automatic import licensing is issued annually. In 2017, China subjected 498 tariff lines at the eight-digit level to automatic import licensing and 89 tariff lines to non-automatic import licensing. Since January 2018, China prohibits the importation of 24 kinds of solid waste.

16. The legal framework governing trade contingency measures remained unchanged during the review period. As at mid-2017, China maintained 91 anti-dumping, one safeguard, and five countervailing measures. The total number of measures and investigations has remained relatively constant during the review period. Anti-dumping measures were mostly targeted at Japan, the United States, the European Union and the Republic of Korea. Chemical products and resins accounted for most measures during 2013-17.

17. Clearance times for exports were further reduced during the period under review, to a nationwide average of 1.1 hours in 2017. Export taxes apply mostly on metals and ores. As at October 2017, 102 tariff lines (at the HS eight-digit level) were subject to statutory export duties, the same number as in 2015, while 179 tariff lines carried interim duties, down from 314 in 2015. The number of tariff lines subject to export licensing is 524. In 2017, global export quotas applied to 100 tariff lines. The authorities indicate that China did not maintain or introduce any export subsidies on agricultural products during the review period. Exporters are entitled to VAT rebates, which are usually lower than the VAT paid.

18. To promote exports, the Trade Development Bureau (TDB) of the Ministry of Commerce organizes exhibitions in emerging markets and provides export-oriented training activities. It also maintains the websites of China Trade Promotion and provides, through various service platforms, background information about foreign markets.

19. The China Export-Import Bank (China Eximbank) provides public export finance and the China Export and Credit Insurance Corporation (SINOSURE) provides public export credit insurance. Foreign-owned companies are also eligible for the services of China Eximbank and SINOSURE. Disbursements of both institutions grew during the review period.

20. China submitted to the WTO a number of notifications on its subsidies up to 2014. However, for most projects no information was provided on the total subsidy amount and no subsidies were

notified for the period between 2015 and 2017. Furthermore, the authorities did not provide any information on subsidies that went beyond their notified programmes. Information available from other sources indicates that China has continued to provide substantial support for, *inter alia*, intelligent manufacturing, advanced technologies, new energy vehicles and fisheries. Outlays for these programmes are reported to be considerable.

21. A 2017 amendment to the Standards Law allows the adoption of standards by associations such as chambers of commerce or technology groups. Since 2016, 1,301 standards considered unnecessary have been eliminated. A revised Food Safety Law entered into force in October 2015. During the period under review, China submitted 94 TBT and 21 SPS notifications. Regarding TBT measures maintained by China, 22 specific trade concerns (STCs) were raised; 8 STCs were raised concerning SPS measures maintained by China.

22. Since China's previous Review, a noteworthy legislative development in the area of competition policy has been the amendment to the Anti-Unfair Competition Law, which entered into force on 1 January 2018. The new Law removes overlaps with the Anti-Monopoly Law by, *inter alia,* deleting provisions prohibiting public utility enterprises or monopolistic enterprises from requiring consumers to purchase designated products, and provisions on collusive tendering. Furthermore, the new Law introduces provisions on the prevention of unfair competition activities carried out by technological means on the Internet, such as malicious interference.

23. China applies price controls, both at the central and provincial levels, on commodities and services deemed to have a direct impact on the national economy and people's livelihoods. The commodities and services subject to price controls are listed in a Central Government Pricing Catalogue and in Local Government Pricing Catalogues. In January 2017, price controls were eliminated on certain items including explosive materials, tobacco leaves, certain drugs, and some construction projects.

24. State involvement in the economy remains considerable. According to a notification submitted in 2015, state-trading requirements concerned, *inter alia*: grain, sugar, tobacco, rice, maize, cotton, coal, crude oil, processed oil, chemical fertilizers, tungsten, tea, silk, antimony and silver. The state retains a majority share in all but one of the 100 largest publicly listed companies. No information was provided on public financial support for SOEs.

25. The government procurement legislative and regulatory regime remained largely unchanged during the review period. The total value of government procurement accounted for 3.1% and 4.2% of GDP in 2015 and 2016, respectively. This relatively low ratio may reflect the fact that important infrastructure projects implemented by SOEs are not covered by the Government Procurement Law. The majority of procurement takes place at the sub-central government level.

26. China's main laws concerning intellectual property rights (IPRs) have remained largely unchanged since its previous Review. Enforcement of IPRs continues to be a major challenge for China. China has continued to strengthen its IPR enforcement, both at the administrative and judicial levels. During the review period, the authorities issued various notices and measures with a view to strengthening China's capacity to protect and enforce IPRs, and 11 additional specialized IPR courts were established by the Supreme People's Court in various cities.

27. The value of production in the farming, animal husbandry, forestry and fisheries sector grew during the period 2013-17, albeit at a slower pace than other sectors. Employment in the sector continued to drop from 31.4% in 2013 to 27.0% in 2017. China continues to be a net importer of agricultural products. Imports of agricultural products, which represented 6.3% of total merchandise imports in 2017, declined during the period 2013 to 2016 (before rebounding in 2017); on the other hand, exports of agricultural products increased in 2017.

28. China's latest agricultural strategy is aimed at deepening the supply-side structural reform by improving structures, promoting "green" production, extending the sector's industrial and value chain, boosting innovation and consolidating rural development. China also plans to deepen the reform on pricing mechanisms for major farm products to strengthen the role of market mechanisms and to reform, on a pilot basis, the land management system so as to loosen control on the land operating rights, while maintaining the principle of collective ownership of land. The import and export regimes of agricultural products have remained stable during the review period.

This is not the case of the direct support regime, which is undergoing a complex structural reform. China has not yet completed the regrouping of support programmes into mega programmes or the modification and decentralization of their disbursement procedures (so-called "large special programmes + task list management model"); numerous targeted programmes are being tested in various regions on a pilot basis. Price support mechanisms in China are also undergoing reform; some schemes have been suppressed or reduced in terms of geographical scope or in terms of support prices. Stockpiling has started regressing for some products. China's overall level of support to agriculture continued to increase during the period under review.

29. Regarding the mining sector, the content of the prohibited category in the Investment Catalogue remained unchanged between 2015 and 2017; it includes exploration and exploitation of tungsten, molybdenum, tin, stibium, fluorite, rare earth, and radioactive minerals. Some changes have been made for the encouraged and the restricted categories related to mining. The use of new technologies in mining, particularly for the oil and gas sector, falls within the encouraged category, while exploration and exploitation of special and rare kinds of coal and of graphite as well as smelting and separation of rare earth and smelting of tungsten fall within the restricted category.

30. China is the world's largest energy consumer. China imports between 16% and 18% of its total energy consumption. Exports of energy remain marginal. Coal is a locally abundant and relatively cheap resource. It represents a declining but still very large (62% in 2016) part of its primary energy mix. China's policy based on environmental and overcapacity considerations has been implemented to reduce that share. The short-term objectives are that by 2020: the proportion of non-fossil energies in total primary energy consumption should be around 15%; the proportion of natural gas consumption should reach 10%; and the carbon dioxide emission per unit of GDP should decrease by 40%-45% compared to 2005.

31. Foreign investment in the exploration and development of oil of all types is encouraged; it is limited to Sino-foreign equity/co-operative joint ventures or other forms of Sino-foreign cooperation. These limitations have been abolished for oil shale and oil sand in the 2017 Investment Catalogue. Foreign investment is allowed in oil refining and oil distribution. FDI in shale gas and coal bed methane gas has been liberalized in the 2017 Investment Catalogue. Foreign investment is also allowed in the area of the importation and distribution of gas. Regarding electricity, the construction and operation of transmission and distribution networks fall within the restricted category in the 2017 Investment Catalogue. China is in the process of reforming its electricity market, liberalizing prices for eligible customers, creating trading agencies, liberalizing retail distribution and unbundling distribution from power generation.

32. The Government's main initiatives in recent years to promote manufacturing in China included the adoption of the "China Manufacturing 2025" plan, which was issued in May 2015. In order to implement the plan, China intends to set up pilot projects in cities as well as "national demonstration zones". The authorities state that the plan will apply on an equal basis for all enterprises established in China. Various sector-specific policies were introduced to promote the development of, for example, new energy vehicles, integrated circuits, and robotics. The authorities note that they recognize the issue of excess capacity in some manufacturing sectors, such as iron and steel, and have made efforts to reduce capacity in recent years.

33. In telecommunications, China introduced a new cybersecurity law in November 2016 aimed at, *inter alia*, "ensuring network security, safeguarding cyberspace sovereignty, national security and the societal public interest". This law imposes a number of security protection duties on "network operators" (including users of networks), as well as the certification or the inspection of "critical network equipment and specialized network security products". The law also includes additional obligations for operators of critical information infrastructure as well as data localization requirements. China has also tightened the implementation of the existing legislation regarding the prohibition (for individuals) or the limitation (for foreign companies) on using Virtual Private Networks (VPN) to access the Internet. China has also continued to expand its Mobile Virtual Network Operators (MVNO) pilot scheme and to deploy its LTE 4^{th} generation mobile network.

34. Regarding financial services, in June 2016 and June 2017, China issued two implementing regulations concerning the licencing of foreign bank card clearing institutions. In March 2017, China eased approval requirements for foreign-owned banks to supply certain investment banking services in the country and to invest in domestic banking institutions. China also partially

liberalized rating agencies services in July 2017 and announced in November 2017 that it would abolish restrictions limiting a single foreign investor's stake in a Chinese bank to 20% and capping total foreign ownership of any banking institution at 25%. During the review period, China opened the internet insurance market to both foreign and domestic operators, and allowed foreign insurers to engage in reinsurance in the Shanghai Pilot Free Trade Zone. China has also opened further its interbank bond market.

35. The practice of legal services by foreign firms in China is limited to representative offices, excludes Chinese law, and prevents foreign firms from employing Chinese qualified lawyers unless they relinquish their professional title. Foreigners cannot sit the Chinese national lawyer exam. There are 287 such foreign representative offices present in eleven provinces operating in China.

36. The practice of accounting services in China is allowed only in the form of partnerships or limited liability companies, established and run by Certified Public Accountants (CPAs) licensed by the Chinese authorities. Foreigners can sit the Chinese national accountancy examination. Foreign accounting firms are permitted to affiliate with Chinese firms and enter into contractual agreements with their affiliated firms in other WTO Members. Accounting firms can engage in taxation and management consulting services.

37. The practice of engineering services in China is allowed in the form of wholly foreign-owned enterprises. Foreign suppliers shall be registered architects/engineers or enterprises engaged in architectural/engineering/urban planning services in their home country. The examination for survey and design engineers is not open to foreigners. China has not concluded mutual recognition agreements on qualifications in engineering design with other countries or regions nor has it autonomously recognized engineering design qualifications obtained in other countries or regions.

38. Most of the pipeline trunk network in China belongs to three SOEs, which are listed on the Hong Kong, China stock market and have foreign shareholders. Foreign participation is allowed; the 2017 Investment Catalogue classifies pipelines as an "encouraged industry" and allows wholly foreign-owned pipelines, subject to a national security review. A third party access pilot regime was established in 2014 for a test period of five years.