



China, WTO and the Future of Asia Pacific Trade

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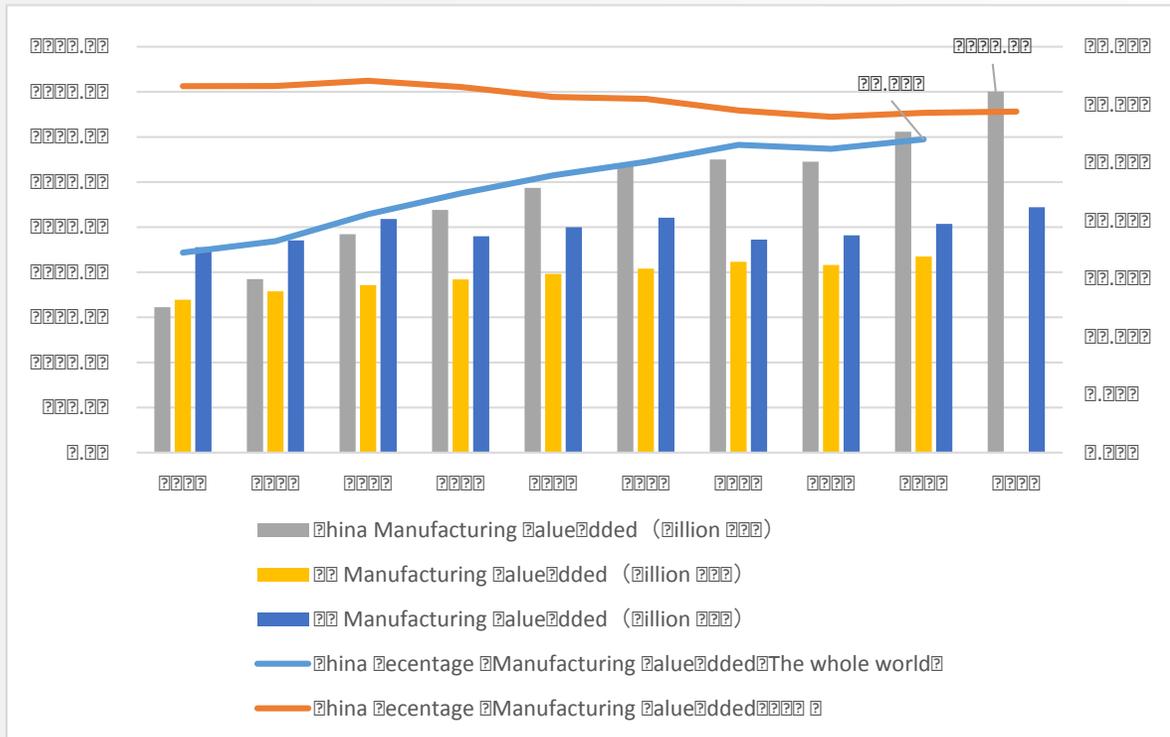
Part 1

Background and China's New Reform and Opening Up Measures

- ◎ China is the largest manufacturing hub and has the largest merchandise trade in the world
 - ◎ China has the most comprehensive industrial system
- ◎ Global value chain cooperation brings China and the rest of world even closer
 - ◎ China's new reform and opening up measures

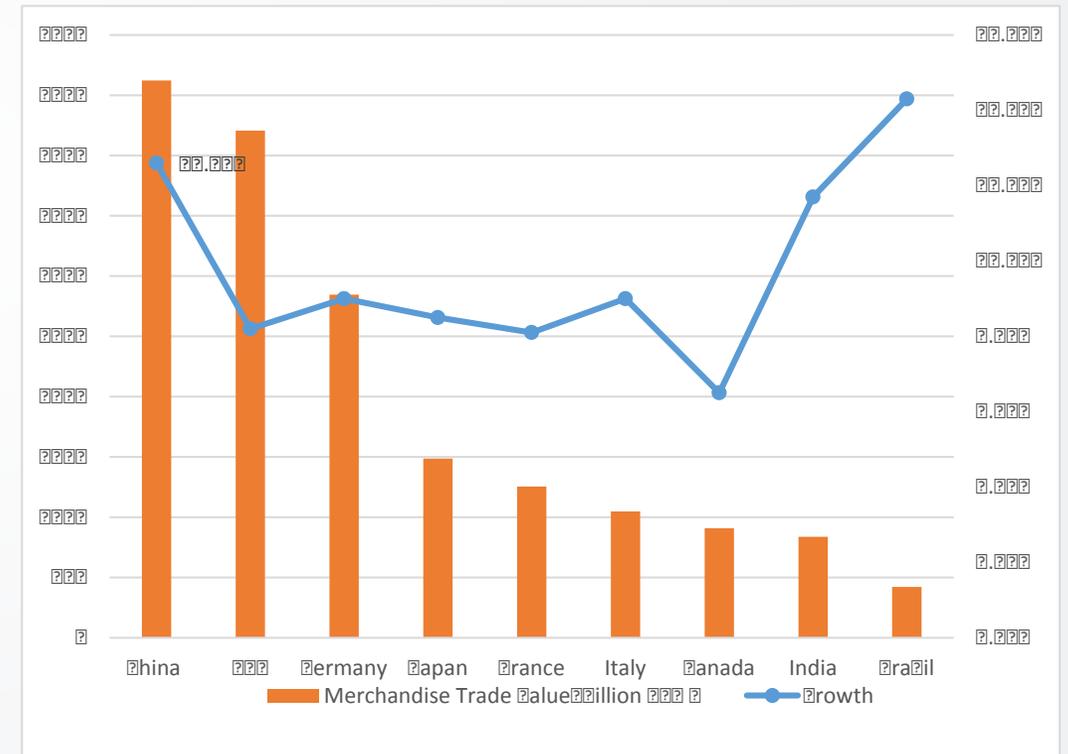
1-1 China is the world's largest manufacturing hub and has the largest merchandise trade

- China's manufacturing value-added accounts for 27% of the world's total in 2017
- China continues to maintain its position as the world's largest trader of goods in 2018, the growth rate of goods trade reached 12.6%.



The Changing of Manufacturing Value Added in China,US and EU

Source : World Bank



The Merchandise Value in Main Countries 2018

Source: Official data released by the countries

1-2 China has the most comprehensive industrial system

- **China's industrial system includes 39 industrial categories, 191 medium-sized, and 525 sub-categories according to the UN categorization.**

China's technological innovation capabilities are constantly improving.

More than 80% of the world's low-end manufacturing is provided by China.

- **The United States** has more than 90% of industrial categories, it lacks LCD panel industry, high-speed rail industry, lithium battery and other industries.
- **Germany** lacks smart phones, laptops, tablets, chip manufacturing and packaging, LCD panels, aero engines.
- **Japan's** satellite navigation, airline passenger aircraft, aero engines, smart phone chip design, communications equipment, drones and other industries are basically very weak.
- **A complete industrial system can reduce industrial supporting costs, increase productivity, facilitate the production of high quality and low price products, and strengthen the competitive advantage of domestic products in trade.**

1-3 Global value chain cooperation brings China and the rest of world closer and closer

- Since the accession to the WTO, China's manufacturing sector has made great strides, and China has accelerated its integration into global value chains.
- China's bilateral relations with manufacturing powers such as the United States, Germany, Japan and South Korea and emerging Asian economies are closer
- China has gradually grown into the largest supplier of intermediate goods in the world.
- China plays a key "hub" role in global value chains

E.G. Apple or Boyin



Value distribution and suppliers of the major parts of iPhone X
 source: HIS Market, Zhang F, Ning Y M. 2019

There are 748 plants of 183 suppliers for Apple. The plants are located in 26 countries and regions including Austria, Czech Republic, Brazil, Mexico, Philippines, Indonesia, Vietnam and China. 347 of these plants are located in mainland China, accounting for 46.4% of total . Among them, the proportion of the core components plant, non-core components plant and packaging and assembly plant in mainland China are 30.5%, 54.1% and 71.32%, respectively.

1-4 China's New Reform and Opening Up Measures

- China has always been pursuing an opening strategy of mutual benefit and win-win.

China resolutely upholds the principle of free trade and a multilateral trading system centered on the WTO.

➤ **China's new reform and opening up measures include:**

- a. Reduction of tariffs
- b. Eexpand foreign market access
- c. Modify and release the new Foreign Investment Law
- d. Promote the continuous expansion of the Free Trade Experimental Zone

China reduces tariffs

TIME	Main areas of reduced tariff
June 2015 - January 2017	Reduce tariffs on consumer goods three times in a temporary tax rate, involving skin care products, some clothing, some shoes, some bags, diapers, specialty foods and cultural consumer goods.
December 1, 2017	Reduce the tariff level of consumer goods, involving 187 8-digit tax numbers covering food, health care products, pharmaceuticals, daily chemicals, clothing and footwear, household equipment, cultural entertainment, and Japanese grocery stores. The average tax rate decreased from 17.3% to 7.7%.
May 1, 2018	Reduce the tariff level of medicines, the import tariffs of 28 tax items were adjusted to zero, which greatly reduced the value-added tax burden of anti-cancer drug production and import links.
July 1, 2018	Reduce the tariff of cars and parts for 218 tax items, After the tax reduction, China's vehicle tax rate has been lower than the average level of developing countries.
July 1, 2018	Reduce the tariff level of daily consumer goods for 1449 tax items ,with an average tax reduction of 56%.
November 1, 2018	<ul style="list-style-type: none"> ➤ Reduce import tariffs for 1,585 tax items. ➤ Reduce import tariffs on goods with considerable production capacity with 677 tax items, including textiles, building materials, base metal products, steel, etc. The average tax rate dropped from 11.5% to 8.4%. ➤ Reduce the import tariffs on some mechanical and electrical equipment with 396 tax items. The average tax rate dropped from 12.2% to 8.8%. ➤ Reduce import tariffs on some resource commodities and primary processed products with 390 tax items, including non-metallic minerals, inorganic chemicals, wood and paper products, gemstones, etc. The average tax rate dropped from 6.6% to 5.4%. ➤ Reduce import tariffs on goods that are conducive to trade facilitation, 122 tax items, the average tax rate dropped from 12.3% to 8.5%.

China expands market access for foreign investors

- China has implemented “pre-entry national treatment + negative list” management model in 2017.

There are currently two negative lists: the national negative list and the negative list of the free trade pilot area.

The negative list defines which economic sectors are not allowed to be liberalized by the government, and other industries, fields and economic activities not in the list are permitted.

Management measures such as management measures or performance requirements and executive requirements that are inconsistent with the national treatment of foreign capital and MFN status are listed in the form of a list.

- Since the 18th National Congress (2012), the China Foreign Investment Industrial Guidance Catalogue has undergone four adjustments, 2015 edition, 2017 edition, 2018, 2019 edition.
- The 2017 edition of the catalogue begins with special management measures for foreign investment access.
- The restrictions imposed by the 2018 edition are reduced by approximately three-quarters compared to the 2011 edition.

	2011	2013	2014	2015	2017	2018	2019
National Negative List Restrictions		——	——	——	63 articles	48 articles	40 articles
FTZ Negative list Restrictions	——	190 articles	139 articles	122 articles	95 articles	45 articles	37 articles

	????	????	????	Opening up roadmap timetable
Vehicles	<ul style="list-style-type: none"> Automobile manufacturing and special vehicle manufacturing: Chinese shareholding ratio is not less than 50%. No more than two joint ventures for passenger car and commercial vehicle products. Eliminated the limit of no more than two joint ventures in the pure electric vehicle sector, Eliminated motorcycle stock ratio limit 	<ul style="list-style-type: none"> Eliminate stock ratios for special vehicles and new energy vehicles Restain the limit of no more than two joint ventures for automobile manufacturing 	Same with 2018	<ul style="list-style-type: none"> Eliminate the restrictions on foreign shares of commercial vehicles in 2020; Eliminate the restrictions on the foreign share ratio of passenger vehicles and the limit of no more than two joint ventures in 2022.
Financial area	<ul style="list-style-type: none"> Securities companies, fund management companies, futures companies must be controlled by the Chinese. The proportion of foreign investment in life insurance companies does not exceed 50%. 	<ul style="list-style-type: none"> Eliminate the restrictions that single foreign shareholding of a Chinese bank does not exceed 20%, and total shareholding ratio of the shareholding does not exceed 25%. The foreign shareholding ratio of securities companies, fund management companies, futures companies, and life insurance companies will be relaxed to no more than 51%. 	Same with 2018	Eliminate the restrictions on foreign shares in all the financial sectors in 2021.
Communication	<ul style="list-style-type: none"> Value-added telecommunications business foreign share ratio does not exceed 50% (excluding e-commerce). Basic telecommunications business must be controlled by China 	Same with 2017	Eliminate the restriction on the ratio of foreign shares in the "domestic multi-party communications, storage and forwarding class, call center" Business.	—

China Modified Foreign Investment Law

In March 2019, the Foreign Investment Law was promulgated. The law will be implemented on January 1, 2020. It is the first unified basic law for foreign investment in China.

The key point is to establish the fundamental framework, rules and norms of China's new foreign investment legal system, and will replace the "Sino-foreign Joint Venture Enterprise Law", "Foreign Enterprise Law" and "Chinese-foreign cooperative enterprise law".

- The Foreign Investment Law establishes the 'pre-entry national treatment + negative list management system + foreign investment security review system' in the form of law.
- The law clearly protects the rights and interests of foreign investment, especially the new regulations on intellectual property protection and technology transfer.

Article 7 of the draft states that administrative means may not be used to force the transfer of intellectual property rights. This clause is linked to the World Trade Rules on Intellectual Property Protection under the WTO Framework.

- Simplify foreign investment supervision, promote unified management of domestic and foreign investment, and ensure fair competition
- The new Law provides a basis and support for the local free trade pilot zone and the free port construction pilot project on the legal level.

The construction of FTZ is expanding

FTZ has conducted in-depth explorations in investment, trade, finance, and post-event supervision.

- The construction of the FTZ is a major initiative for China to implement a more proactive and opening strategy.
- It is conducive to cultivating China's new competitive advantages for the world and building a new platform for cooperation and development with other countries.
- The construction of the FTZ will lead to the optimization of the overall business environment in China through the pioneering test and the way of copying and promoting the experience throughout the country.
- The construction of the FTZ will better match the "21st Century International Economic and Trade Rules"
- In the period of setbacks, FTZ injected new impetus into economic globalization.
- The continuous expansion of FTZ fulfills China's solemn commitment to expand opening up

The FTZ is expanding and duplicating

- Shanghai Pilot Free Trade Zone was established in 2013, starting the journey of exploring open experiences with FTA.
- By September 2019, China had established 18 FTZs, forming a (1+3+7+1+6) coverage of the reform and opening up and innovation pattern in the east, west, south and north.

Distribution of 18 Free Trade Zones in China

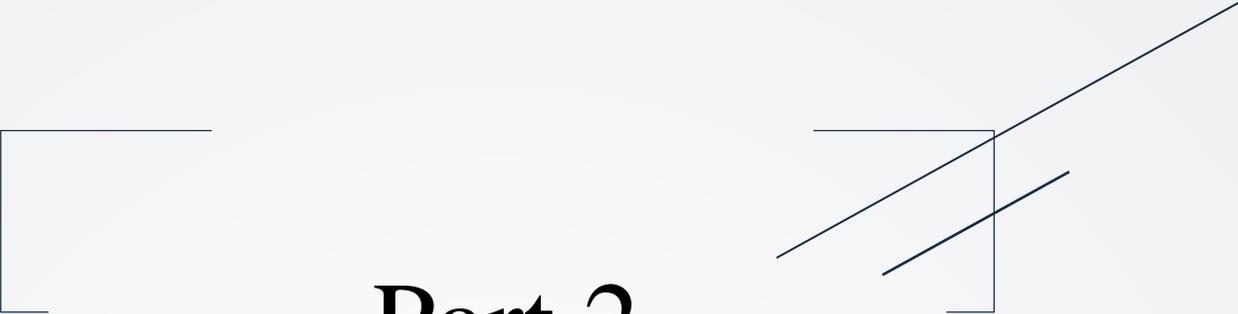


- ❖ On September 29, 2013, Shanghai Pilot Free Trade Zone was established.
- ❖ On April 21, 2015, Guangdong, Tianjin and Fujian Pilot Free Trade Zones were established.
- ❖ On April 1, 2017, seven Pilot Free Trade Zones were established in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shanxi.
- ❖ On October 16, 2018, the State Council issued the *Approval of the State Council on The Agreement to Establish China (Hainan) Pilot FTZ*.
- ❖ On August 26, 2019, the State Council issued the *General Plan for the China (Shandong), (Jiangsu), (Guangxi), (Hebei), (Yunnan), (Heilongjiang) Pilot FTZ*

FTZs in different regions have different functional orientations.

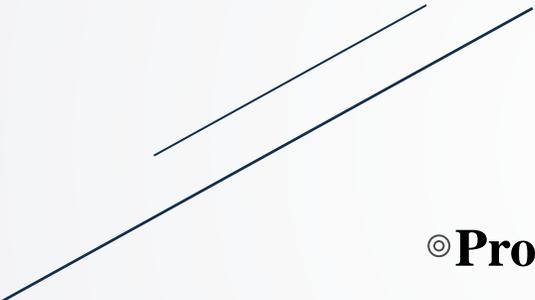
They all have the following characteristics:

- 1.Highlight institutional innovation as the core**
- 2. Highlight expanding the scope of its opened-up area**
- 3.Highlight leading quality development with FTZ**
- 3.Highlight serving and integrating into major national strategies**
- 4.The FTZ mainly explores areas such as investment and trade liberalization, financial services serving to the real economy, and government functions.**



Part 2

WTO Reform



©Why

©Proposals of Memembers

©Three Basic Principles of China

©*China's Proposal on WTO Reform*

2. WTO Reform

WTO reform is **not a new subject**

Key reform subjects:

- Efficiency of the WTO Monitoring Function
- Dispute Settlement System
- Modernization of the Trade Rules
- Transparency and Notifications
- “Consensus” Decision-Making
- Special and Differential Treatment for Developing Countries (SDT) and Most-favored-nation (MFN)

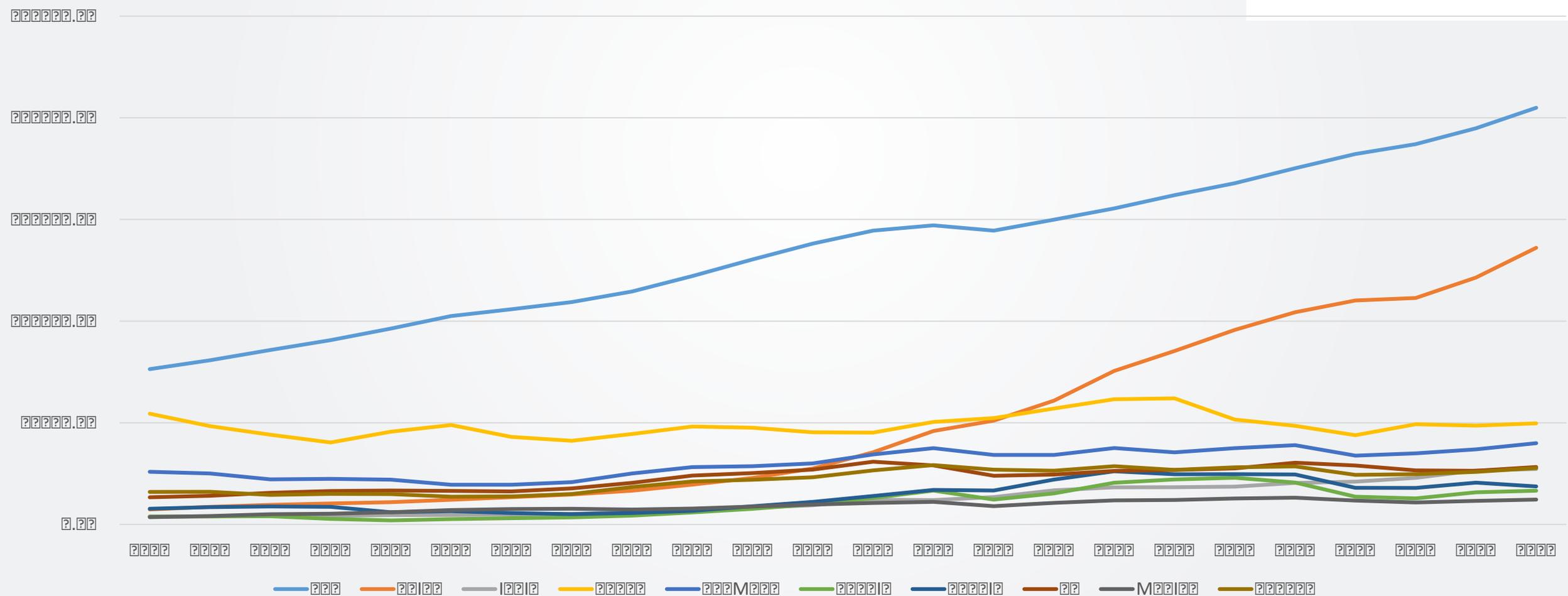


2-1 WHY?

I. The global economic balance of power is shifting.



GDP of Ten Countries
(trillion dollars)



2-1 WHY?

- II. Patterns of international trade have changed.
- III. The scale of global trade imbalances has increased over the years.
- IV. Anti-globalization & Unilateralism & Protectionism
- V. The failure of the Doha Development Round
- VI. WTO's monitoring mechanism is not functioning properly.
- VII. The weaknesses in the WTO Dispute Settlement System.
- VIII. The problem with transparency and effectiveness of the WTO.



2-2 PROPOSALS OF MEMBERS

WTO Modernization by EU 2018-09-18

- **On rulemaking:**

Creating rules that rebalance the system and level the playing field;
Establishing new rules to address barriers to services and investment,
including in the field of forced technology transfer.

- **On regular work and transparency:**

More effective committee-level monitoring; Incentives for improving notification compliance; Strengthening the Trade Policy Review Mechanism (TPRM); Downsizing ineffective committees

- **On dispute settlement:**

Comprehensive amendment of the provisions of the DSU relating to the functioning of the Appellate Body addressing all points of concern with the "approach" of the Appellate Body



The United States

- I. An undifferentiated WTO: Self-declared development status risks institutional irrelevance* 2019-01-16
- II. Draft General Council Decision: Procedures to Strengthen the Negotiating Function of the WTO* 2019-02-15
- III. Memorandum on Reforming Developing-Country Status in the World Trade Organization* 2019-07-26



Questioning some countries on their “developing-country” status: China, Singapore, Katar ROK, India, Turkish.....

Deprivation of special and differential treatment of some developing countries

What about the dispute mechanism



2-3 THREE BASIC PRINCIPLES OF CHINA

- 1. The WTO reform shall preserve the core values of the multilateral trading system**

Non-discrimination & Openness

- 2. The WTO reform shall safeguard the development interests of developing members**

Development is at the main goal of the WTO. WTO should provide developing members with flexibility and policy space needed for their economic development.

- 3. The WTO reform shall follow the practice of decision-making by consensus**

The process shall be inclusive and open to all members, especially the developing ones. The reform cannot be dictated by a few, nor decided by an exclusive small group of members.

- a. Breaking the Impasse of the **Appointment Process of Appellate Body members**
- b. Tightening Disciplines to Curb the Abuse of National Security Exception
- c. Tightening Disciplines to Curb **Unilateral Measures Inconsistent with WTO Rules**
- d. Rectifying the Inequity in Rules on Agriculture
- e. Improving Trade Remedies Rules
- f. Accelerating Negotiations on Fisheries Subsidies
- g. Advancing Joint Initiative on Trade-related Aspects of **E-commerce** in an Open and Inclusive Manner
- h. Promoting Discussions on New Issues
- i. Improving the Compliance of Notification Obligation
- j. Improving the Efficiency of WTO Subsidiary Bodies
- k. Respecting the Right of **Special and Differential Treatment** of Developing Members
- l. Adhering to the Principle of Fair Competition in Trade and Investment

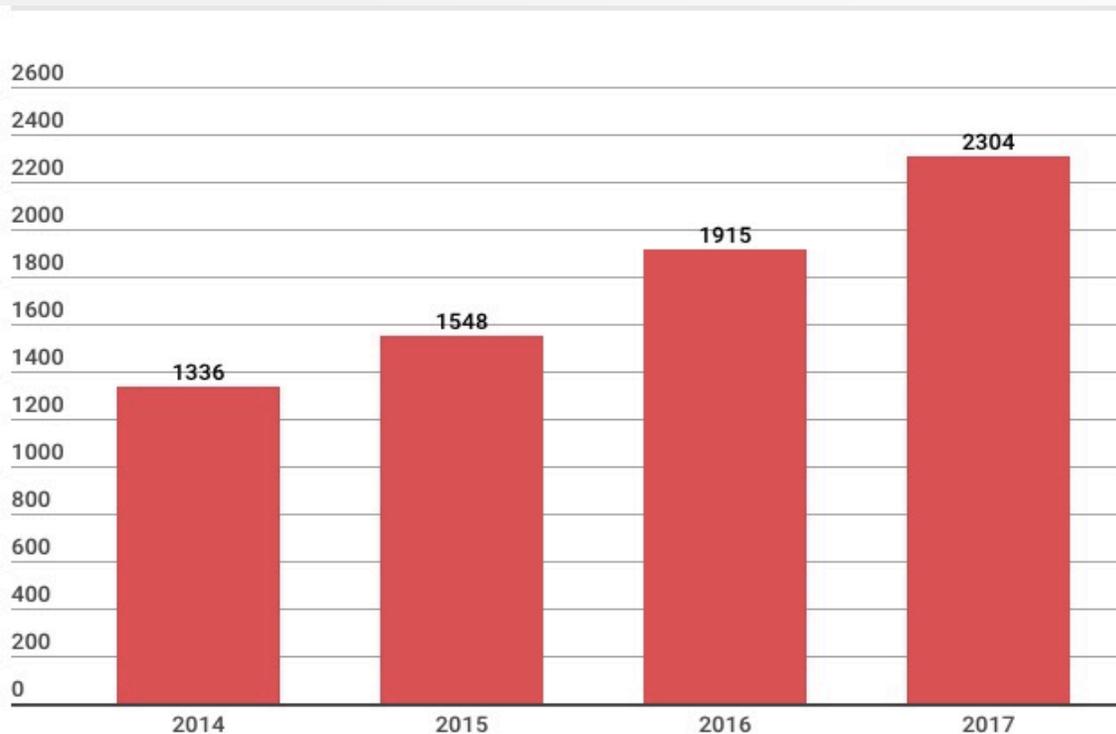


“Launch the rule-making process on trade-related aspects of E-commerce”

Global sales of B2C e-commerce totaled \$ 2,304 billion in 2017, up 24.8% from 2016.

Online sales now account for 10.2% of total retail sales worldwide, up from 8.6% in 2016 and 7.4% in 2015.

E-commerce turnover in the world (in billions of dollars)



Source: eMarketer



Taobao 11.11 Online Shopping Festival



Black Friday in the United States



Cyber Monday in the United States



Christmas deals in UK

E-commerce has created unprecedented opportunities for international trade and economic growth. Meanwhile, the digital gap still needs to be bridged.

Issues such as **cyber security** and **data security** have gained attention.

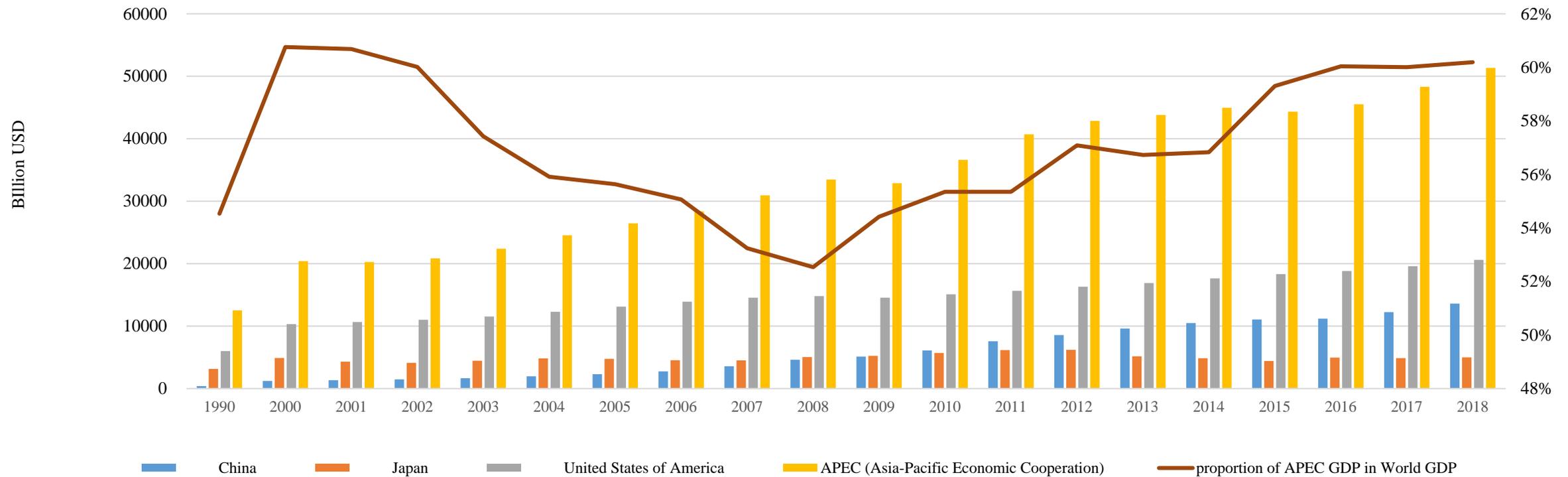
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Part 3
Building a more
prosperous Asia-Pacific
trade

The Asia-Pacific Region: A New Global Trade and Economic Center

The Asia-Pacific region is home to the world's leading three economies: the US, China, Japan.

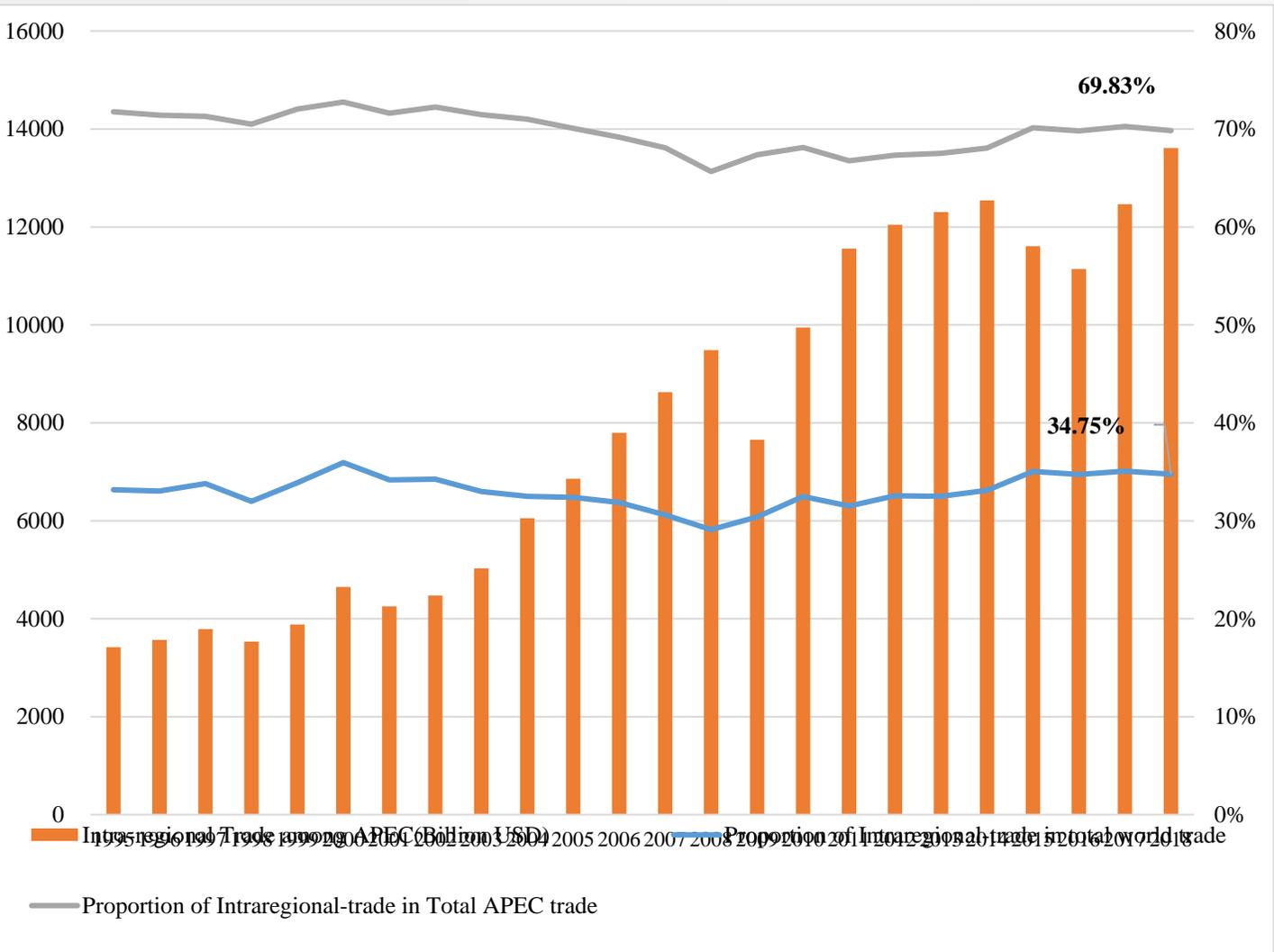
APEC's share of global GDP has risen since 2008 and reached 60.2% in 2018.



GDP of main countries in Asia-Pacific

Source: Calculated from UNCTAD data

The Trend: The level of intra-regional trade is rising



- Trade among APEC countries resumed growth in 2017.
- The share of trade between APEC members increased from 2008 to 2018, reaching 34.8% of global trade.
- The share of intra-APEC trade in APEC's total foreign trade has risen since 2008 and reached nearly 70% in 2018.

Trends in intra-regional trade in Asia-Pacific

Source: Calculated from UNCTAD data

- APEC members' trade is dominated by intra-regional trade.

The degree of integration of trade and investment is constantly improving and obvious.

- The global share of FDI absorbed by APEC has increased since 2008 and reached 64.7% in 2018.
- It is consistent with the rising proportion of intra-APEC trade to the total trade volume of APEC.

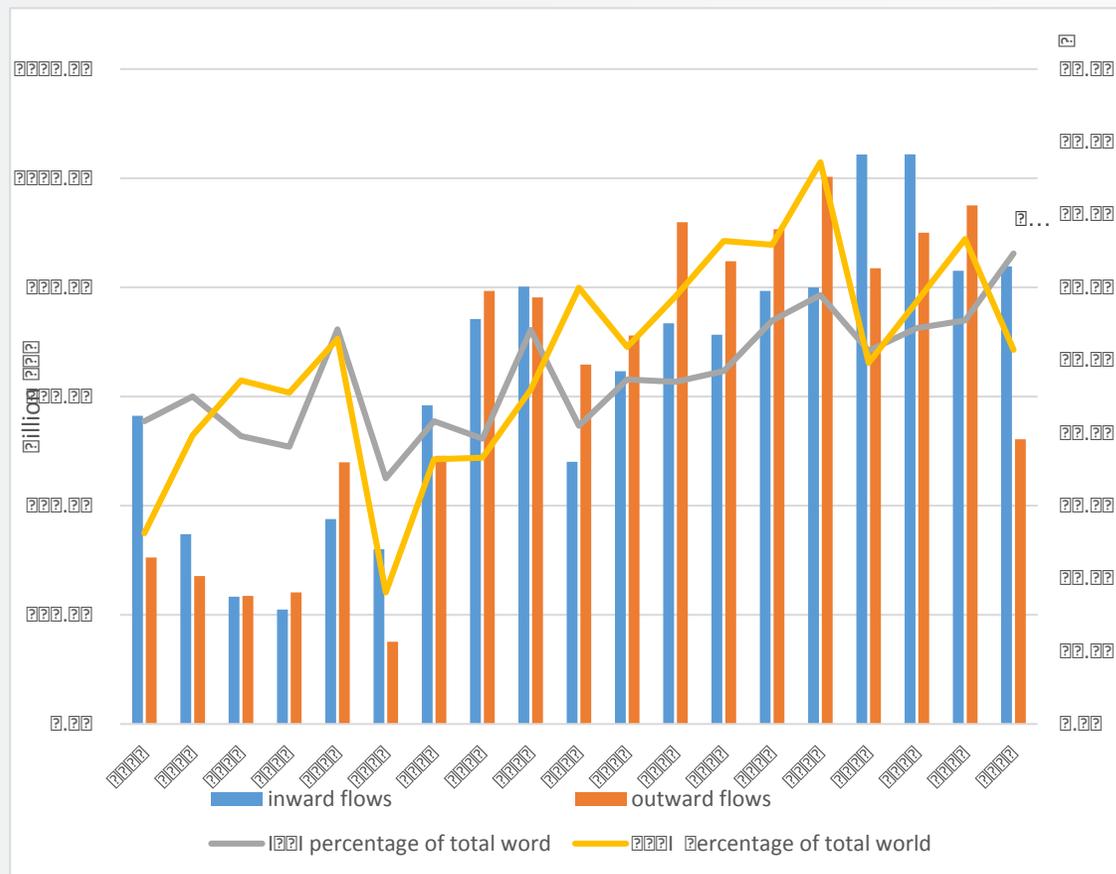


Fig. Trends in FDI and OFDI in APEC

Source: Calculated from UNCTAD data

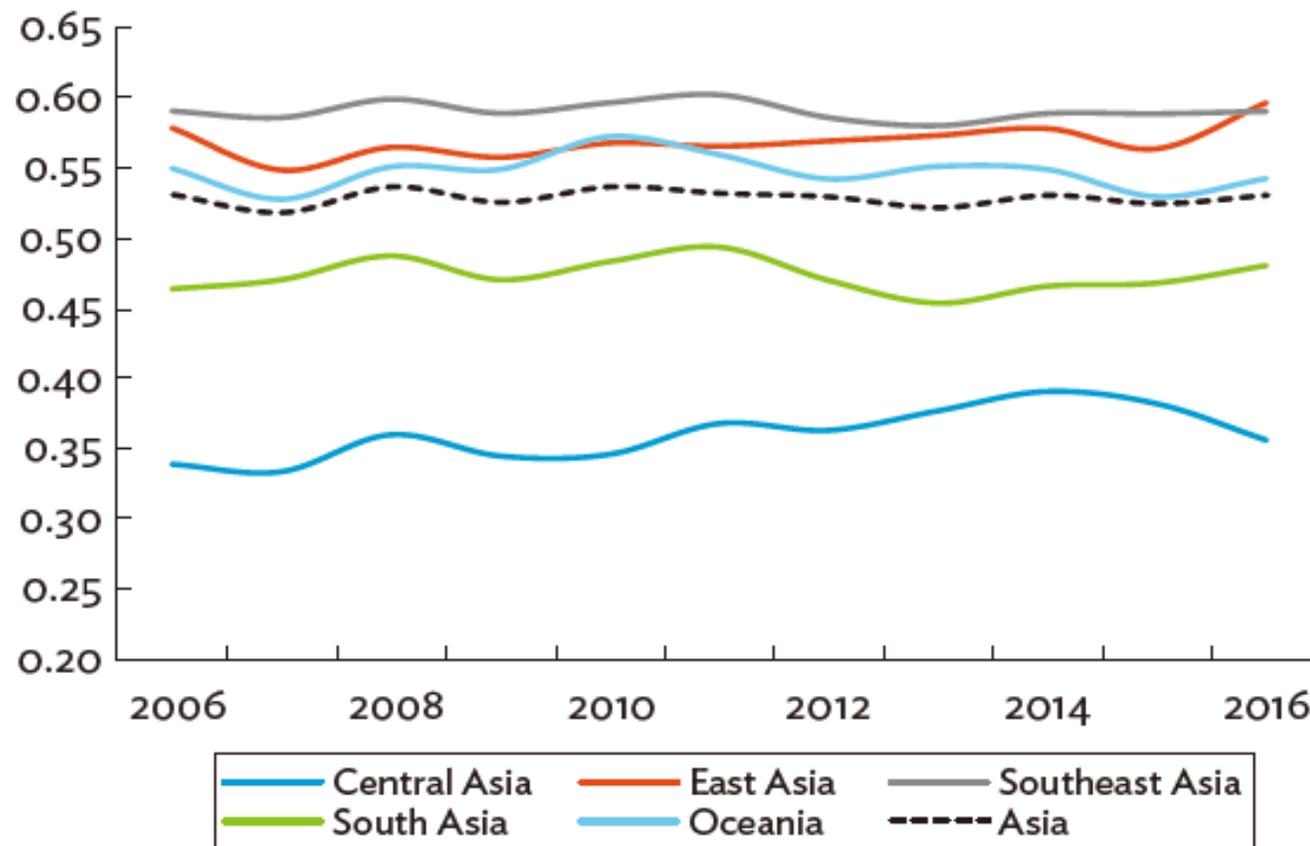


Fig. Asia-Pacific regional cooperation and Integration Index

Source: Asian Economic Integration report 2017 by APEC

The degree of integration of trade and investment is constantly increasing

- With the further development of economic globalization, the boundaries between international trade and investment are increasingly blurred, representing a trend of convergence and integration.
- It is manifested in the high degree of consistency between international trade and international direct investment in geographic regions and industrial distribution.
- The commodity structure of international trade transformed to manufactured goods and high-tech products, and international direct investment turned to R&D and the tertiary industry.
- The Asia-Pacific region is the region with the most active base on production, trade and investment activities in the world and is also the region with the most densely distributed GVCs, closely linked the rest of the world.

The APEC Beijing Agenda: Towards the Asia-Pacific Free Trade Area

- In **2014**, at Beijing meeting, APEC leaders endorsed the Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP.
- In **2016**, APEC members signed the Lima Declaration on FTAAP.
- The Second Amendment of Asia-Pacific Countries Trade Agreement was signed in **June 2018**.
- In **November 2018**, Chinese President Xi Jinping delivered a keynote speech at the 26th Asia-Pacific Economic Cooperation (APEC) CEO Summit in Port Moresby, calling for a continued commitment to openness.

Every round of the crisis has propelled Asia-Pacific integration progress

- In the late 1980s, after the end of the cold war, economic globalization has gradually become a trend.
- In January 1989, Australian prime minister Hawke proposed to hold the Asia-Pacific ministerial conference, and APEC was established in November of the same year.
- The number of member countries has been growing. China joined APEC in 1991.
- The economic outlook statement issued in 1993 kicked off trade liberalization and economic and technological cooperation in the Asia-Pacific region.
- In the **Asian financial crisis of 1997**, APEC entered a period of consolidation, enthusiasm and exploration. Meanwhile, it promoted cooperation among APEC member states, resulting in the "ASEAN+3" (China, Japan and Korea) cooperation mechanism, the establishment of the "Outlook Group" proposed the establishment of "East Asian Community". Japan launched the Chiang Mai Initiative.
- China-ASEAN FTA, Japan, ROK, Australia and New Zealand, India. 5 10+1
- **After financial storming in 2008**, TPP, China-ROK, CJK, RCEP

- In 2001, September 11 attacks took place in the United States. In October of the same year, APEC issued the APEC leaders' statement on counter-terrorism, which further broadened the scope of cooperation.
- After the 2008 financial crisis, APEC implemented the second phase of trade facilitation, and the 2010 Yokohama declaration called on all countries to take measures to promote the formation of FTAAP.
- We expect that the trade friction between China and the US, Japan and South Korea will be resolved **by negotiation in stead of fighting each other**, and all parties will maximize flexibility to jointly safeguard the multilateral trading system and resolve the current crisis in the Asia-Pacific integration process.

China is currently promoting the negotiation of China-Japan-South Korea free-trade agreement and RCEP

- Faced with escalating trade friction between Japan and South Korea, China is willing to work together with Japan and South Korea to promote the process of negotiations on the CJK FTA and strive to reach a comprehensive, high-level, mutually beneficial and self-interested free trade agreement.

15th Round

➤ Subjects: trade in goods, trade in services, investment and rules

➤ The first one after the three parties reached a consensus on comprehensive speed-up negotiations

➤ Including: FTA Chief Negotiators
director generals' consultation,
13 sub-conferences on specific topics

➤ The three parties unanimously agreed to **further promote trade and investment liberalization** based on the consensus reached in the Regional Comprehensive Economic Partnership Agreement (RCEP) in which the three parties all participated, and to **incorporate high-standard rules to create a RCEP Plus free trade agreement.**

2002

Propose the construction of China-Japan-South Korea Free Trade Area

2012.11

Start FTA negotiation

2013.03-2018.12

Fourteen Rounds of Negotiations on FTA

2019.04

15th Round of Negotiations on FTA



China is currently promoting the negotiation of RCEP

- Since the launch of the East Asia Summit in Nov. 2012, RCEP has held two leaders meetings, 15 ministerial meetings and completed 24 rounds of negotiations.
- The RCEP negotiations have entered the final stage , and substantial progress has been made in the negotiations at the Beijing Ministerial Conference on Aug. 2 and 3, 2019.
- According to the Ministry of Commerce, more than two-thirds negotiations of the bilateral market access have ended, and more than 80% of the agreement texts have been agreed on in terms of rule negotiations.

China will continue to play a constructive role, support ASEAN's core position in the negotiations, and promote the conclusion of negotiations as scheduled.



Stable and prosperous Asia-Pacific trade is conducive to world development

- To be people-oriented and benefit more people, instead of being affected by geopolitics of great powers.
- Prosperous Asia-Pacific trade can contribute to globalization, promote sharing of resources and increase the welfare of member states.
- In line with the great changes and trend of global development, all economies would work together with the rest of the world to build a community with a shared future.



THANKS