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## TRADE POLICY DEVELOPMENTS PAPER NO. 12

### REPORT ON CHINA

**(for the period October 2011- December 2011)**

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Table of Contents

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<b>ABBREVIATIONS</b> .....	<b>3</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>5</b>
<b>AGENDA REPORT FOR THE NEXT QUARTERLY REPORT</b> .....	<b>6</b>
<b>I. ECONOMIC ENVIRONMENT</b> .....	<b>7</b>
<b>II. MONETARY POLICY</b> .....	<b>8</b>
<b>III. FDI</b> .....	<b>10</b>
III.1. CHINA AND TAIWAN .....	10
III.2. INVESTMENT IN CHINA IN 2011.....	10
<b>IV. REGULATORY CHANGES IN OPERATIONS OF BUSINESS</b> .....	<b>11</b>
IV.1. ANTITRUST AND COMPETITION LAW .....	11
V.I IMPORTS AND EXPORTS .....	11
<b>VI. MEASURES AFFECTING IMPORTS AND EXPORTS</b> .....	<b>12</b>
VI.1. IMPORT PROHIBITION AND LICENSING.....	12
VI.2. EXPORT QUOTAS AND EXPORT DUTIES.....	12
<b>VII. TRADE AGREEMENTS AND ARRANGEMENTS</b> .....	<b>13</b>
VII.2. FTAs.....	13
<b>VIII. CONTINGENT TRADE PROTECTION</b> .....	<b>16</b>
VIII.I. ANTI-DUMPING.....	16
VIII.3. SUBSIDIES.....	17
<b>IX. TECHNICAL REGULATIONS AND STANDARDS</b> .....	<b>18</b>
<b>X. SANITARY AND PHYTOSANITARY MEASURES</b> .....	<b>22</b>
<b>XI. WTO DISPUTE SETTLEMENT</b> .....	<b>25</b>
<b>XIII. TRADE POLICY BY SECTOR: SERVICES</b> .....	<b>27</b>
<b>XIV. TRADE POLICY BY SECTOR: AGRICULTURE</b> .....	<b>27</b>
<b>XV. INTELLECTUAL PROPERTY RIGHTS (IPRS)</b> .....	<b>29</b>
<b>XV. TRADE POLICY BY SECTOR : MANUFACTURING</b> .....	<b>29</b>

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## ABBREVIATIONS

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APEC	-	Asia-Pacific Economic Cooperation
APEDA	-	Agricultural Products Export Development Authority
AQSIQ	-	The General Administration of Quality Supervision, Inspection and Quarantine
ARFs	-	Automatic Registration Forms
Art.	-	Article
ASEAN	-	Association of South-East Asian Nations
BL	-	Bidding Laws
BOFT	-	Bureau for Fair Trade for Imports and Exports
CAAC	-	General Administration of Civil Aviation
CBRC	-	China Banking Regulatory Commission
CCC	-	China Compulsory Certification
CEPA	-	Comprehensive Economic Partnership Agreement
CERC	-	China Electricity Regulatory Commission
CIRC	-	China Insurance Regulatory Commission
CNCA	-	Certification and Accreditation Administration
CPC	-	Communist Party of China
CQC	-	The China Quality Certification Centre
CAB	-	Conformity Assessment Body
CSRC	-	China Securities Regulatory Commission
DFEC	-	Department of Foreign Economic Cooperation
DITEA	-	Department of International Trade and Economic Affairs
DSB	-	Dispute Settlement Body (WTO)
EEA	-	European Economic Area
EFTA	-	European Free Trade Association
EPA	-	Economic Partnership Agreement
EU	-	European Union
FDI	-	Foreign Direct Investment
FTAs	-	Free Trade Agreements
GAC	-	General Administration of Customs
GAT	-	General Administration of Taxation
GB	-	Guobiao (Chinese for National Standard)
GDP	-	Gross Domestic Product
GIs	-	Geographical Indications
GPA	-	Agreement on Government Procurement GPA
HS	-	Harmonised System
IBII	-	Investigation Bureau for Industry Injury
ICT	-	Information and Communication Technology
IECE	-	The IEC System for Conformity Testing and Certification of Electrical Equipment
IP	-	Intellectual Property
IPR	-	Intellectual Property Rights
ISO	-	International Organization for Standardization
IT	-	Information Technology
ITES	-	Information Technology Enabled Services
MLPS	-	The Multi-Level Protection Scheme
MOA	-	Ministry of Agriculture

MOF	-	Ministry of Finance
MOF	-	Ministry of Finance
MOFCOM	-	Ministry of Commerce
MPS	-	The Ministry of Public Security
MRA	-	Mutual Recognition Agreement
MRRFTO	-	Measures for Registration for the Record of Foreign Trade Operators
M-o-M	-	Month-to-Month
NAFTA	-	North American Free Trade Agreement
NBER	-	National Bureau of Economic Research
NCAC	-	National Copyright Administration of China
NDRC	-	National Development and Reform Commission
NME	-	Non-Market Economy
NPC	-	National People's Congress
NPK	-	Sodium, Phosphorous, Potassium
NT	-	National Treatment
OECD	-	Organization for Economic Cooperation and Development
PBC	-	The People's Bank of China
PPP	-	Purchasing-power parity
PRC	-	People's Republic of China
PRD	-	Office of the Economic and Commercial Counselor, Policy Research Department
PSI	-	Pre-shipment inspection
QIP	-	Quarantine Inspection Permit
RAIEG	-	Regulation on the Administration of the Import and Export of Good
RMB	-	Renminbi
ROO	-	Rules of Origin
SAARC	-	South Asian Association for Regional Cooperation
SAC	-	The Standardization Administration of China
SAFE	-	State Administration of Foreign Exchange
SAFE	-	State Administration of Foreign Exchange
SAIC	-	The State Administration of Industry and Commerce
SASAC	-	State-Owned Asset Supervision Administration Commission
SAT	-	Chinese State Administration of Taxation
SCNPC	-	Standing Committee of the National People's Congress
SEZs	-	Special economic zones
SIPO	-	State Intellectual Property Office
SOEs	-	State-owned enterprises
SPC	-	Supreme People's Court
STE	-	State-trading enterprises
TBT	-	Technical Barriers to Trade
TCF	-	Textiles, clothing and footwear
TRIMs	-	Trade-Related Investment Measures
TRIPs	-	Trade-Related Aspects of Intellectual Property Rights
TRQs	-	Tariff-rate quotas
USTR	-	United States Trade Representative
VAT	-	Value-added Tax
WAP	-	The WLAN Authentication and Privacy Infrastructure
WIPO	-	World Intellectual Property Organization
WLANs	-	Wireless Local Area Networks
WTO	-	World Trade Organization

## EXECUTIVE SUMMARY

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- I. People's Republic of China is the world's second largest economy after the United States. It is the world's fastest growing major economy with GDP growth rates averaging 10% over the past 30 years.
- II. In 2011, China's Fiscal revenue was higher because of increased corporate income tax and government's move to bring non-budgetary funds into its budget management.
- III. Bank lending is controlled by the government to steer economic growth and to control inflation. Capital Adequacy Ratios or Capital Safety Nets of lenders accounting for about a fifth of China's total banking assets, fell below the regulatory minimum of 8 %.
- IV. China will tighten offshore RMB liquidity and drive up dimsum bond yields through more investment alternatives, in order to make RMB a global currency and increase its flow back to China.
- V. In 2011, China's non-financial FDI totalled \$322 billion. China has made investment in 132 countries and regions this year. FDI in Europe and Africa was increased by 57.3 per cent to \$4.61 billion and 58.9 per cent to \$1.7 billion.
- VI. China continues to maintain trade surplus although the balance of trade fluctuated widely, especially in Q4 (October to December). China's imports and exports totalled 3642.06 billion RMB with a year-on-year growth of 22.5%. Exports of goods and services constitute 39.7 % of China's GDP
- VII. China maintains bans on poultry and overly restrictive pathogen and residue standards for raw meat and poultry. China has also imposed restrictions on the importation of US beef and pork products even after these products had been declared safe to trade under international scientific guidelines.
- VIII. Ministry of Commerce has decided to investigate 6 categories of supportive policies and subsidy measures. It will conduct investigation to evaluate the impact of US supportive policies and subsidies for its renewable energy sector on China's renewable energy sector.
- IX. China has increased its government support for various infrastructure sectors in order to encourage foreign investment in infrastructure.
- X. Interim Provisions on the Assessment of Competitive Effects of Concentrations of Undertakings promulgated by Ministry of Commerce on December 27, 2011 aims to facilitate implementation and increase transparency of the review of the concentration by the MOC and further standardize Ministry of Commerce review of the concentration.

## AGENDA REPORT FOR THE NEXT QUARTERLY REPORT

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- I. Developments related with the US Currency Bill and its impact on Chinese trade policy.
- II. U.S.'s trade policy on Chinese policy essentially with respect to the alleged undervaluation of the currency and the discussions initiated in forums such as IMF and various WTO Committees
- III. China's policy towards development of least-developed economies of the world will be observed as it changes its' policies in import and export quotas and tariffs.
- IV. China's investment policies in Africa and developing relations.
- V. China's Joint Research Project with Japan and South Korea is scheduled to be released soon. Conclusion of the Joint Research study undertaken by Korea, China and Japan will be issued by a general statement relating to the general trade and economic relations, trade in goods, trade of services, investment and other issues will be dealt with in the Trilateral Summit to be held in 2012 in Beijing.
- VI. China's export restraints on rare earths over which it has production monopoly, will be a key focus in the forthcoming report.
- VII. China's efforts to make RMB a global currency will be examined in detail.

## I. ECONOMIC ENVIRONMENT

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The People's Republic of China is the world's second largest economy after the United States of America. It is the world's fastest growing major economy with growth rate averaging more than 10 % for the last 30 years. China is also the world's largest exporter and second largest importer of goods in the world. In 2011, China's GDP fell on a quarterly basis. China's GDP fell from 9.1% in Q3 (July to September) to 8.9% in Q4 (October to December). China's economic growth slowed slightly while the country managed to avoid major economic shocks and exceeded the national growth target by a significant margin.

In 2011, China's Fiscal revenue for 2011 was higher than the budgeted 8 percent because of increased corporate income-tax and government's move to bring non-budgetary funds into its budget management. It grew to 10.37 trillion RMB (\$1.64 trillion) in 2011. Fiscal revenue grew at about 19.4 percent in 2011, twice as fast as the 9.4 percent growth in the national income.

Growth in fiscal revenue slowed on a quarterly Fiscal expenditure for the year 2011 was 10.89 trillion RMB with an increase of 21.2 percent from 2010. Accounting for 1.1 percent of GDP it amounts to a fiscal deficit of 519 billion RMB.<sup>1</sup>

State-Owned Entities (SOEs) accounted for 50 percent of GDP growth, according to current estimates. SOEs earned profits of 900 billion RMB in 2011, an appreciable increase from 848.98 billion RMB recorded in 2010. The economic value-added of the 117 central SOEs is expected to exceed 300 billion RMB in 2011.<sup>2</sup> Central SOEs profit registered a profit of 3.6 percent year-on-year during the first 11 months of 2011.<sup>3</sup>

In 2011, Per-capita total income of Chinese urban household was 23,979 RMB while per-capita disposable income of urban household was 21,810 RMB with a nominal growth of 14.1% and real growth of 8.4%. China's per-capita net income of rural households was 6,977 RMB.<sup>4</sup>

Retail sales in China increased 1.4% in December as compared to the data available in November. China's retail sales fell to 1.27 % in November 2011, which is the lowest of the year. China's month-on-month retail sales was 1.35 percent in October, 1.3 % in November and 1.28 % in December 2011.<sup>5</sup> Inflation rates in China eased in December to 4.1 % from 4.2 % in November and 5.5 % in October.<sup>6</sup>

Consumer Price Index reached 5.1 % this year, above the government's full year inflation control target of 4%. Consumer Price Index was 5.5% in October, 0.1% in November and 4.1% in December 2011.<sup>7</sup> China's Producer Price Index (PPI), a major source of inflation declined in the Q4 (October to December). PPI rose 6 % year-on-

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<sup>1</sup>Fiscal income hit a record in 2011, China.org.cn, (2011), (last visited Mar 6, 2012), [http://www.china.org.cn/business/2012-01/21/content\\_24459567.htm](http://www.china.org.cn/business/2012-01/21/content_24459567.htm)

<sup>2</sup>China's Provincial GDP Figures in 2011, China Briefing, (Jan 27, 2012) <http://www.china-briefing.com/news/2012/01/27/chinas-provincial-gdp-figures-in-2011.html>

<sup>3</sup>An Icy Touch Reaches Asia From Global Finance Woes, International Herald Tribune, (Dec 7, 2011), at 1

<sup>4</sup>Wei Tain, Fiscal income hit a record in 2011, China Daily website, (Jan 1, 2012) [http://www.chinadaily.com.cn/business/2012-01/21/content\\_14485667.htm](http://www.chinadaily.com.cn/business/2012-01/21/content_14485667.htm)

<sup>5</sup>China Retail Sales, TradingEconomics website, (1 February 2011) <http://www.tradingeconomics.com/china/retail-sales>

<sup>6</sup>China's December PPI growth decelerates to two-year low, Xinhua, Chinese Government's Official Web Portal, [http://english.gov.cn/2012-01/12/content\\_2042743.htm](http://english.gov.cn/2012-01/12/content_2042743.htm)

<sup>7</sup>China's CPI growth dips to 4.1 in December 2011, Xinhua, Chinese Government's Official website, (Jan.1, 2012) [http://english.gov.cn/2012-01/12/content\\_2042742.htm](http://english.gov.cn/2012-01/12/content_2042742.htm)

year in 2011, while Producer Purchase Prices rose 9.1%. China's PPI was 5% in October, 2.7% in November and 1.7% in December.<sup>8</sup>

China's business confidence index declined to 128.2 in the Q4 (October to December) from 133.4 in the Q3 (July to September).<sup>9</sup>China's Consumer Confidence Index (CCI) declined over the months in the Q4 (October to December) of 2011, indicating low-level of optimism about the performance of the economy. This may also result in high unemployment levels and low GDP growth rate.<sup>10</sup>

China has the largest foreign exchange reserves in the world. In 2011, it stood at \$3.18 trillion. There was a decline in foreign exchange on quarterly basis but on a year-on-year basis China's foreign reserves increased to \$3.18 trillion in 2011 from \$2.85 trillion in 2010. China's RMB funds outstanding for foreign exchanges were to 25.30 trillion RMB or \$4 trillion in December 2011. In this quarter foreign exchange reserves declined from M-o-M basis from \$72.1 billion in October to \$52.9 and \$36.79 billion in November and December respectively.<sup>11</sup>

## II. MONETARY POLICY

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Bank lending is a focal point in the China's monetary policy as it is employed by the government to steer economic growth and control inflation. A review of financial policies in China support higher savings and structurally higher levels of liquidity. Capital Adequacy Ratios or Capital Safety Nets of lenders account for about a fifth of China's total banking assets that fell below the regulatory minimum of 8 %.<sup>12</sup>

Analysts pointed to the banks' intention of preparing for capital restraints ahead of tougher regulations that are supposed to come into force in 2012. To help banks better combat risks, the China Banking Regulatory Commission (CBRC) announced new regulatory rules for commercial banks which set the minimum capital adequacy ratio for banks of systematic significance at 11.5 per cent and for banks with non-systematic significance at 10.5 per cent from 2012. The move will ease capital pressure for the banks for a while adding, that the issuing will continue next year as an important means for banks to boost capital.<sup>13</sup>

People's Bank of China (PBC) raised Reserve Requirement Ratio (RRR) six times and the benchmark interest rate three times in 2011 before cutting the RRR in December, 2011.<sup>14</sup> Currency in circulation during 2011 was 5.07 trillion RMB increased by 13.8 per cent year-on-year. The net amount of money input recorded 616.1 billion RMB for 2011 which was down 21.4 billion year-on-year basis. In 2011, total outstanding RMB and foreign currency loans totalled 58.19 trillion RMB, increased by 15.7 per cent year-on-year. Outstanding RMB loans registered 54.79 trillion RMB, increasing by 15.8 per cent year-on-year. RMB loans rose to 7.47 trillion RMB which was down 390.1 billion year-on year.

In 2011, the outstanding balance of RMB and foreign currency deposits totalled 82.67 trillion RMB increased by 13.5 per cent year-on-year. RMB deposits registered an outstanding balance of 80.94 trillion RMB, rising to 13.5 per cent year-on-year. Specifically, household deposits and deposits of non-financial enterprises rose by 4.72 trillion RMB and 2.56 trillion RMB respectively while fiscal deposits fell by 30 billion RMB.

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<sup>8</sup>China's December PPI growth decelerates to two-year low, Xinhua, Chinese Government's Official website, (Jan 12, 2012) [http://english.gov.cn/2012-01/12/content\\_2042743.htm](http://english.gov.cn/2012-01/12/content_2042743.htm)

<sup>9</sup>China business confidence, Trading Economics website, (Dec. 20, 2012) <http://www.tradingeconomics.com/china/business-confidence>

<sup>10</sup>China Consumer Confidence, Trading Economics website, (Dec. 20, 2011) <http://www.tradingeconomics.com/china/consumer-confidence>

<sup>11</sup> Aaron Back, *China Data Signal Fading Yuan Hopes*, WALL ST. J., (November 21, 2011), at 7

<sup>12</sup>China vulnerable to asset bubbles, cautions IMF, The Financial Express, (Nov. 16, 2011), at 6

<sup>13</sup>China's commercial banks flock to issue subordinated bonds, Chinese Government's Official Web Portal, (Dec. 30, 2011) [http://english.gov.cn/2011-12/30/content\\_2034196.htm](http://english.gov.cn/2011-12/30/content_2034196.htm)

<sup>14</sup>China's 2011 bond issuance drops 20.4%, China Daily Official website, (Jan. 2, 2012) [http://www.chinadaily.com.cn/bizchina/2012-02/01/content\\_14516942.htm](http://www.chinadaily.com.cn/bizchina/2012-02/01/content_14516942.htm)



In December, RMB deposits increased by 1.43 trillion RMB, increased by 446.2 billion RMB year-on-year. The outstanding balance of foreign currency deposits was \$275.1 billion, increased by 10 per cent year-on-year. Foreign currency deposits increased to 49.4 billion. Full-year RMB cross-border trade settlement totalled 2.08 trillion RMB and RMB settlement of direct investment totalled 110.9 billion RMB. According to preliminary statistics, RMB settlement in cross-border trade in goods, cross-border trade in services and other current accounts, outbound FDI and inbound FDI amounted to 1.56 trillion RMB, 521.27 billion RMB, 20.15 billion RMB and 90.72 billion RMB respectively in 2011.<sup>15</sup>

## **PILOT PROJECT FOR INVESTMENT IN CHINA IN PURSUIT TO MAKE RMB A GLOBAL CURRENCY**

People's Bank of China (PBC) and Financial Exchange Regulator (FER) promulgated Yuan Qualified Foreign Institution Investor (YQFII) pilot trial project with a view to make RMB a global currency. This measure will ensure another channel through which RMB flows back to China and will also tighten offshore RMB liquidity and drive up dimsum bond yields through more investment alternatives.

The measure follows the trial program launched in October of an initial program that allows the use of RMB overseas for direct investment in China but it doesn't allow foreign investors to invest in domestic securities, financial derivatives, trust loans and loan repayments. The project provides for an investment quota of 20 billion RMB or \$ 3.1 billion, in collaboration with Hong Kong based subsidiaries of Chinese asset management companies and securities firms. It also mentions that at least 80 % of the RMB (YQFII) funds must be invested in fixed-income products with no more than 20 % of funds shall be invested in equities with respect to the guidelines.<sup>16</sup>

## **BOND MARKET**

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In 2011, China's bonds issued were 7.8 trillion RMB, down 20.4 per cent from a year earlier. Out of these, subordinated bonds issued by commercial banks were 330 billion RMB or \$52.4 billion. China's five major banks—Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications altogether launched 236 billion RMB in subordinated debt accounting for over 70 per cent of the total.

## **CHINA FINANCIAL SECTOR ASSESSMENT PROGRAM (FSAP) – NOVEMBER 2011**

The reports prepared by China Financial Sector Assessment Program (FSAP) and International Monetary Fund (IMF) in November point out that China has made firm progress through financial reforms and China's financial system has maintained resilience throughout the global financial crisis with continuously strengthened financial institutions. After the completion of the stockholding reforms of the major financial institutions, the government's involvement in the financial system is now through participation in corporate governance as shareholders and through nominated directors, instead of direct and administrative means. Currently, the PBC guides the financial system credit supply primarily by indirect and market-oriented measures, such as the open market operations, reserve requirement ratio, interest rates and so on.<sup>17</sup>

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<sup>15</sup>*Cross-border Yuan policy set for stability during 2012*, China Daily, (Jan. 18, 2012) [http://www.china.org.cn/business/2012-01/18/content\\_24435695.htm](http://www.china.org.cn/business/2012-01/18/content_24435695.htm)

<sup>16</sup> "Pilot project paves way for China's offshore wind power boom" Xinhua, China Weekly, (Jan. 3, 2012) [http://news.xinhuanet.com/english/china/2012-01/03/c\\_131340379.htm](http://news.xinhuanet.com/english/china/2012-01/03/c_131340379.htm)

<sup>17</sup>*More reforms could bolster China's Financial Sector, Finds the World Bank* The World Bank Official website, (Oct. 14, 2011) <http://www.worldbank.org/en/news/2011/11/14/more-reforms-could-bolster-chinas-financial-sector-finds-world-bank>

### III. FDI

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China's non-financial FDI totalled \$322 billion in 2011. China has made investment in 132 countries and regions this year, with FDI in Europe and Africa increased by 57.3 per cent to \$4.61 billion and 58.9 per cent to \$1.7 billion. Investment through mergers and acquisitions mainly in manufacturing, mining, electricity, communications and retail sectors, was \$22.2 billion in 2011 accounting for 37 per cent of total ODI.<sup>18</sup>

#### III.1. CHINA AND TAIWAN

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In the period from January to November 2011, there were 2,376 Taiwan-invested projects approved by China, down by 12.87% year-on-year. Actual use of Taiwan capital was \$1.95 billion, with a year-on-year decrease rate of 11.82%. By the end of November, total number of Taiwan-invested projects approved by China was 85,509, with total actual use of Taiwan capital of \$53.97 billion. In terms of actually utilized capital, Taiwan capital accounts for 4.7% of China accumulated foreign capital.<sup>19</sup>

#### III.2. INVESTMENT IN CHINA IN 2011

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According to Foreign Investment Bulletin in 2011, the number of newly approved foreign-funded enterprises in China totalled 27,712, increased by 1.12% year-on-year; and actually used foreign investment reached \$116.011 billion, increased by 9.72% year-on-year. From January to November 2011, Chinese investors made direct investment overseas in 3,003 enterprises in 130 countries and regions. Non-financial direct investment overseas amounted to \$50.01 billion, increased by 5.2% year-on-year.<sup>20</sup>

In December, the number of newly approved foreign-funded enterprises in China reached 2,626, a decrease by 15.4% year-on-year. In 2011, the number of newly established enterprises funded by ten Asian countries/regions (Hong Kong, Macao, Taiwan, Japan, Philippines, Thailand, Malaysia, Singapore, Indonesia, ROK) were 22,302.

The number of newly established enterprises funded by US is 1,497, which decreased by 5.01% year-on-year, and the actual input is \$2.995 billion, decreased by 26.07% year-on-year. Enterprises funded by EU are 1,743 increased by 3.26% year-on-year and the actual input is \$6.348 billion, decreased by 3.65% year-on-year. In 2011, top ten countries/regions in terms of actually utilized value of foreign capital are: Hong Kong (77.011 billion dollars), Taiwan (6.727 billion dollars), Japan (6.348 billion dollars), Singapore (6.328 billion dollars), USA (2.995 billion dollars), ROK (2.551 billion dollars), UK (1.61 billion dollars), Germany (1.136 billion dollars), France (802 million dollars), and Netherlands (767 million dollars).<sup>21</sup>

According to statistics by MOC, in 2011, Chinese investors made direct investment overseas in 3,391 enterprises in 132 countries and regions. Direct investment overseas amounted to \$60.07 billion, which marked an increase by 1.8% year-on-year.<sup>22</sup>

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<sup>18</sup>China's non-financial ODI totals 60.07 bln USD in 2011, Xinhua English News website, (Jan. 18, 2012)[http://news.xinhuanet.com/english/china/2012-01/18/c\\_131367447.htm](http://news.xinhuanet.com/english/china/2012-01/18/c_131367447.htm)

<sup>19</sup>Statistics in January-November 20 on Mainland-Taiwan Trade and Investment, MOFCOM Official website, (Dec. 20, 2011) <http://english.mofcom.gov.cn/aarticle/statistic/lanmubb/hkmacaotaiwan/201112/20111207859269>.

<sup>20</sup>Brief Statistics of China's Non-financial Direct Investment Overseas in January-November 2011, MOFCOM Official website, (Jan. 28, 2012) <http://english.mofcom.gov.cn/aarticle/statistic/foreigntradeoperation/201112/20111207910475.htm>

<sup>21</sup>Statistics of January-December 2011 on National Absorption of FDI, MOFCOM Official website, (Jan. 2, 2012) <http://english.mofcom.gov.cn/aarticle/statistic/lanmubb/hkmacaotaiwan/201202/20120207948411.html>

<sup>22</sup>Brief Statistics on China's Non-financial Direct Investment Overseas in 2011, MOFCOM Official website, (Dec. 20, 2011) <http://english.mofcom.gov.cn/aarticle/statistic/foreigntradeoperation/201202/20120207950258.html>

## IV. REGULATORY CHANGES IN OPERATIONS OF BUSINESS

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### IV.1. ANTITRUST AND COMPETITION LAW

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Ministry of Commerce issued a press release specific on anti-monopoly on December 27, 2011. Shang Ming, Director of MOC Anti-monopoly Bureau and Anti-monopoly Committee of the State Council held that the MOC has promulgated Interim Provisions on the Assessment of Competitive Effects of Concentrations of Undertakings, which stipulated the factors and criteria of MOC assessing competitive effects of concentrations of undertakings, and subdivided the regulations of Article 27 and Article 28 of the Anti-monopoly Law. It aims to facilitate implementation and increase transparency of the review of the concentration by MOC and further standardize MOC's review of the concentration. In 2011, MOCOM has received 194 cases of anti-monopoly application. The number of cases in industries of manufacture, transportation and communications, warehousing and postal service were increased; number of cases in mining, wholesale and retailing decreased and number of cases in other industries was unchanged.<sup>23</sup>

MOC Department of Treaty and Law enacted the legislation concerning the *'Interim Measures for Investigating and Punishing of Concentration of Undertakings Failing to File Notification'* at the meeting. The Anti-monopoly Law and the *'Provisions of the State Council on Thresholds for Prior Notification of Concentrations of Undertakings'* stipulated the rule of prior notification of Concentration between Undertakings. There are a great number of concentrations between undertakings that failed to notify, which have caused adverse demonstration effect.<sup>24</sup>

## V. FOREIGN TRADE

### V.I IMPORTS AND EXPORTS

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China's imports and exports totalled 3642.06 billion RMB with a year-on-year growth of 22.5 %. Exports of goods and services in 2011 constituted 39.7% of China's GDP. China's major exports include: office machines, data processing equipment, telecommunication equipment, electrical machinery and apparel and clothing. China's major export market is the European Union.<sup>25</sup>

China's major imports include iron and steel, oil and mineral fuels, machinery and equipment, plastics, optical and medical equipment, organic chemicals. Import volumes of iron ore, copper and soybeans rose sharply from October as low prices attracted consumers around the world. China's total oil imports during 2011 exceeded 40 million tons. China's first transnational crude oil pipeline, the China-Kazakhstan Pipeline, allowed China to import 10.93 million tons of crude oil in 2011 as it grew 10.3 per cent from the previous year.<sup>26</sup>

China imported 21.38 million metric tons of coal in December, an increase of 23% from previous year and down 3.4% from November. Purchases from overseas totalled 182.4 million tons in 2011. Growth in power consumption

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<sup>23</sup>MOFCOM Press Release on *Anti-monopoly in 2011*, MOFCOM Official website, (Dec. 31, 2011)

<http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207909353.html>

<sup>24</sup> MOFCOM Passed *Interim Measures for Investigating and Punishing of Concentration of Undertakings Failing to File Notification*, MOFCOM Official website, (Dec 13., 2011) <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207876657.html>

<sup>25</sup> China Coke Exports in 2011 Dip 1.4% Year-on-Year on Limited Demand, Customs-info website, (Jan. 20, 2012) <http://www.customs-info.com/Files/NewContent.aspx?id=589>

<sup>26</sup> *China Imports 10.93 mm Tonnes of Crude Oil via China-Kazakhstan Pipeline*, Customs-info website, (Feb 5, 2012) <http://www.customs-info.com/Files/NewContent.aspx?id=596>

in 2011 has been 12% when compared to the previous year. China will add 200 million tons to coal-production capacity 2012, compared with 95 million tons in 2011 according to the National Energy Administration.<sup>27</sup>

## VI. MEASURES AFFECTING IMPORTS AND EXPORTS

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### VI.1. IMPORT PROHIBITION AND LICENSING

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The State Council has taxed the natural resources between 5 % and 10 % of product's value. China introduced a 5 % resource tax last year in oil rich but troubled Xinjiang Uighur Autonomous Region, later extending it to 12 western provinces and regions. The move marks a new step in China's drive to move to a cleaner and more efficient growth model that is less dependent on resource intensive industry. China seems to move slowly on the long planned reform as the new taxes will increase costs for businesses and could worsen inflationary pressures.

Trade on mechanical and electrical products accounted for about 50% of China's foreign trade and it was an important component of China's foreign trade.

### VI.2. EXPORT QUOTAS AND EXPORT DUTIES

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The Ministry of Commerce deployed export quotas, export license restrictions, minimum export prices, export duties and export restraints on a number of raw material inputs where it holds the advantage of being one of the world's leading producers. Through these export restraints, China is able to provide substantial economic advantage to a wider range of downstream producers in China, at the expense of foreign downstream producers, while simultaneously creating incentives for these foreign downstream producers to move their operations and technologies to China.

In 2010, China's export restraints on rare earths began to generate increased concern among China's trading partners, as China sharply reduced its export quotas and took other actions that created uncertainty about the stability of China's supply. In 2011, China attempted to manage the export of many primary, intermediate and downstream products by raising or lowering the value-added tax rebate available upon export<sup>28</sup>.

China reinforces its objectives by imposing or retracting export duties. These practices have caused disruptions and unfairness in the global markets for some products, particularly downstream products where China is a leading world producer or exporter such as steel, aluminium and soda ash.

The Chinese government has taken special actions on exploration, production and export of rare earth and rare earth smuggling, formulated regulations such as *Standards on Pollutant Discharge of the Rare Earth Industry* and released the list of first batch of rare earth enterprises that are in compliance with environmental protection requirement. China's rare earth exports totalled 14,750 tons in the first 11 months of 2011, accounting for 49% of total export quotas. Large quantity of most export quotas still lay idle. Even though, confronted with huge pressure of resource, environment and domestic demand, in order to guarantee international market demand and keep rare earth supplies stable, export quota of 2012 are equal to that of 2011.

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<sup>27</sup> *China 2011 Coal Imports Rise 11%, China Coal Transport Says*, Customs-info website, (Jan. 19, 2012) <http://www.customs-info.com/Files/NewContent.aspx?id=590>

<sup>28</sup> *MOFCOM Answered Questions by Reporters Concerning First Batch of Rare Earth Export Quota in 2012*, MOFCOM Official website, (Jan. 20, 2012) <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207909017.html>

The first batch of rare earth export quota was given to 11 enterprises that met with the requirements, including 7 producing enterprises passing the environmental inspections and 4 trading enterprises. The products exported by the trading enterprises should come from said producing enterprises that have passed the environmental inspections.

In order to minimize the influence to the market supply, the said enterprises can only get 80% of their whole year quota as the first batch, which is 10,546 tons. In order to protect the environment MOC reserved quotas for enterprises under environmental inspections. However, they cannot use the quota until they pass the inspection.<sup>29</sup>

## VII. TRADE AGREEMENTS AND ARRANGEMENTS

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### VII.2. FTAs

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#### CHINA AND AFGHANISTAN

China signed an agreement on bilateral economic and technical cooperation with Afghanistan on 31 December 2011. The main projects, under this economic co-operation include the reconstruction and equipping of the Jamhooryat Hospital in Kabul, the reconstruction of the Parwan Irrigation Canal, construction of the conference Hall within the APP premises ( Afghan Presidential Palace), the reconstruction of the Ministry of Education's Center for National Science and Technology, the reconstruction of the Ministry of Higher Education's guest house, the construction of the department of the Chinese Language in Kabul University and the provision of 100 ambulances to the Ministry of Public Health.<sup>30</sup>

State-owned China National Petroleum Corporation (CNPC) entered into an agreement with the Afghan Government to explore and extract the AMU Darya river Basin or AMU Darya River Oil Zone in the Northern Afghanistan that will start producing oil within two years. CNPC under the agreement is also to launch a project with local partners, the Watan Group. Under the contract, CNPC agreed to pay a 15 per cent royalty in oil itself, a 20 per cent corporate tax and Afghanistan would have a share of 70% in the profits proceed.<sup>31</sup>

#### CHINA AND ASEAN

At the 14<sup>th</sup> ASEAN- China summit, held in November 2011, China signed the protocol on Enforcement of the Second Package of Specific Commitments under the Agreement of Trade in Services of the China – ASEAN Free Trade Area (ACFTA). The protocol shall enter into force on January 1, 2012.

#### CHINA, JAPAN AND SOUTH KOREA'S FTA JOINT STUDY REPORT

China, Japan and South Korea entered into a joint study research that examined the competitive strengths of three countries as nations and also on the levels of cities, industrial sectors and individual businesses. It studies the possibilities of cooperation in the areas of broadly defined economic infrastructures with major influence on growth, such as energy supply, information technology, logistics and finance and currency, while making projections about future industrial structures and analysed expected effects of a trilateral Free Trade Agreement (FTA).

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<sup>29</sup> MOFCOM *Answered Questions by Reporters Concerning First Batch of Rare Earth Export Quota in 2012*, MOFCOM Official website, (Jan. 20, 2012) <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207909017.html>

<sup>30</sup> *China, Afghanistan sign agreement on bilateral cooperation*, Xinhua, Chinese Government's Official Website, (Dec. 31, 2011) [http://www.gov.cn/misc/2011-12/31/content\\_2035031.htm](http://www.gov.cn/misc/2011-12/31/content_2035031.htm)

<sup>31</sup> *Afghanistan, China sign agreement on oil extraction*, Xinhua, Chinese Government's Official Web Portal, (Dec. 28, 2011) [http://english.gov.cn/chinatoday/2011-12/28/content\\_2032267.htm](http://english.gov.cn/chinatoday/2011-12/28/content_2032267.htm)

FTA Agreement will seek integration of East Asia, ASEAN +3, ASEAN +6 and Asian Pacific Region. At the conclusion, the delegates from the three countries proposed guidelines for CJK FTA future negotiations:

The CJK FTA-

- ❖ Should pursue a comprehensive and high-level FTA;
- ❖ Should be consistent with WTO rules
- ❖ Should strive for balanced result and achieve a win-win-win situation on the basis of reciprocity and mutual benefit.
- ❖ The negotiations of CJKFTA should be conducted in a constructive and positive manner with due consideration to the sensitive sectors in each country.

## **THE DOHA ROUND OF NEGOTIATIONS**

Trade ministers of BRICS met in Geneva before attending the eight ministerial conference of the World Trade Organization in order to reiterate their commitment to fully engage in the Doha Round Negotiations. They emphasized the need to abide by the principles reached over the last ten years that defined the negotiations as development focused. Negotiations and components of Doha Round Development Agenda must be based on the mandates multilaterally agreed since the launching of the Round in 2011 and on trade-offs achieved over the ten years.

With the accession of Russia to WTO the voice of BRICS at the world trading regime has become stronger than ever. The ministers said that the BRICS should play a leading role in the South-South cooperation underlining huge potential both in trade flows and investments among developing countries in the coming decades.<sup>32</sup>

## **CHINA AND AFRICA**

China and the group of four major African cotton producing African countries (C4) of Benin, Mali, Chad and Burkina Faso, issued a Joint Press Communiqué on Cooperation in Cotton Industry under the WTO Framework on Dec. 14 in Geneva, in which they decided to cooperate in cotton sector..

Major forms of cooperation are bilateral cooperation in cotton projects, supply of good strains of cotton, agricultural machines and fertilizers, demonstration and promotion of cotton cultivation technology, carrying out management and technical personnel training multilaterally and bilaterally, and supporting the technological upgrading and transformation as well as industrial chain expansion of bilateral business cooperation projects.

China imports 2 million tons of cotton every year, with African cotton-growing countries including the C4 countries being main import source. The cooperation will raise the production capacity of African main cotton-growing countries and will boost further cooperation in cotton industry between China and African countries.<sup>33</sup>

## **CHINA AND EU**

China's ambassador, during his visit to three European nations, namely, Greece, Netherlands and Germany signed 15 political agreements and commercial contracts on topics such as agriculture, financing, automobile, communication, chemical industry and so on, involving an amount of 1.63 billion USD. On economic and trade

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<sup>32</sup>BRICS fully engaged in Doha negotiations: trade ministers, Xinhua, Chinese Government's Official Web Portal, (Dec. 15, 2011) [http://english.gov.cn/chinatoday/2011-12/15/content\\_2021159.htm](http://english.gov.cn/chinatoday/2011-12/15/content_2021159.htm)

<sup>33</sup>China and C4 Countries of Africa Issued Joint Press Communiqué on Cooperation in Cotton Industry, MOFCOM Official website, (Dec. 25, 2011) <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207892651.html>

relations and prospect of cooperation between China and Greece, the trade, though not large, has maintained a good momentum of development in recent years. China-Greece trade achieved rapid growth in 2010, reaching a record high of 4.35 billion USD. At present, China's total investment in Greece has reached more than 500 million USD.

In Greece, Ministry of Commerce of People's Republic of China (PRC) and Ministry of Development, Competitiveness and Shipping signed Memorandum of Understanding on Strengthen Cooperation of Infrastructure and Manufacture Industries.

Enterprises from both countries signed contracts of import regarding olive oil and marbles, which would expand the import of Greek competitive products. In Germany, enterprises from two countries continue to strengthen cooperation in machines, automobiles and other traditional industries and signed import contracts on important equipment.

Chinese and European enterprises held discussions on investment environment and reached more than ten trade and investment cooperation intentions on railway transportation, medical treatment, lightening equipment, real estate, new energy and shipbuilding industry.

## CHINA AND US

China is the third largest export market for the United States. According to the US-China Business Council Survey 2011, over 90 per cent American companies operating in China are optimistic on the five-year outlook for business in China. 73 per cent US companies accelerated their resource commitment to China over the next year.

It was reported that the main challenges before of U.S. companies operating in China are administrative licensing, cost increase and Intellectual Property Rights (IPR) enforcement.<sup>34</sup>

According to the U.S-China Business Council, China accounts for about 80% of U.S. shoe imports, imported-footwear prices in November were increased by 6.1% from a year earlier. China also accounts for about 60% of U.S. furniture imports; imported furniture prices were also increased 6.1%. Y-o-Y<sup>35</sup>

### *US Imports to China*

<b>MONTH</b>	<b>IMPORTS</b>	<b>EXPORTS</b>	<b>BALANCE</b>
<b>OCTOBER 2011</b>	<b>9,736.5</b>	<b>37,806.6</b>	<b>-28,070</b>
<b>NOVEMBER 2011</b>	<b>9,936.6</b>	<b>36,808.2</b>	<b>-26,871</b>
<b>TOTAL 2011</b>	<b>94,172</b>	<b>366,493.3</b>	<b>-272,321.3</b>

*NOTE: All figures are in millions of U.S. dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding.*

<sup>34</sup>China increasingly important for US growth, China Business News, ( Oct. 12, 2011) [http://americaneconomicalert.org/news\\_item.asp?NID=4653480](http://americaneconomicalert.org/news_item.asp?NID=4653480)

<sup>35</sup>Supra note 35.



China will intensify efforts to expand domestic demand, to promote private investment in the service sector and to give greater play to the fundamental role of the market in resource allocation. China will continue to promote RMB exchange rate reform, enhance RMB exchange rate flexibility and promote the transformation of its economic development model.

## VIII. CONTINGENT TRADE PROTECTION

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### VIII.I. ANTI-DUMPING

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#### **China Levies Anti-Dumping Duty on Particular Vehicles from US**

Ministry of Commerce that Anti-dumping and Anti-Subsidy duties will be placed on vehicle imports from US for 2 years. The ministry is to start imposing taxes on cars and sports-utility vehicles made in US with an engine capacity of more than 2.5 litres from December 15, 2011 to December 14, 2013.

US units of German automaker BMW and Mercedes-Benz will also be subjected to duties of 2.0 per cent and 2.7 per cent. The move is a counter to the imposition of 35 per cent Anti-Dumping tariffs on imported tires from China valued at about \$1.8 billion over three years by the U.S. government which resulted in cutting China's tire exports to the US by more than 50 per cent. By the end of November China has imported 905,000 vehicles, year-on-year growth of 1 per cent.<sup>36</sup>

#### **China Extends Anti-Dumping Investigation On Imports Of Photographic Paper And Paper Board From EU, US And Japan**

On 23<sup>rd</sup> December, 2011, Ministry of Commerce announced to extend the anti-dumping investigation on imports of photographic paper and paper board from EU, US and Japan till March 23, 2012.<sup>37</sup> The case is in accordance with the Article 26 of the Regulations on Anti-dumping of the People's Republic of China.

#### **China Issues Notice of Impending Expiry of the Anti-Dumping Against Imports of Sulfamethoxazole Originated from India**

In December 2011, the Ministry of Commerce gave notice of an impending expiry of anti-dumping duties which were in force for the period June 16, 2007 to June 16, 2012 on imports of Sulfamethoxazole originating from India. Accordingly, in December 2011, the Ministry of Commerce announced the termination of the duties on June 16, 2012 unless a petition is filed by specified industry and persons against the revocation of duties.<sup>38</sup>

#### **China Terminates Anti-Dumping Measures on Imported Wear Resistant Overlay Originated From the USA and The EU**

The Ministry of Commerce had imposed Anti-dumping duty on imported wear resistant overlay originated from US and the EU from December 13, 2006 to December 13, 2011. Consequently, on June 13, 2011 MOC promulgated

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<sup>36</sup>US auto imports face anti-dumping duties, China Daily, (Dec. 12, 2011), [http://news.xinhuanet.com/english/china/2011-12/15/c\\_131307166.htm](http://news.xinhuanet.com/english/china/2011-12/15/c_131307166.htm) anti-dumping duties

<sup>37</sup>MOFCOM Extended Anti-dumping Investigation on Imports of Photographic Paper and Paper Board from EU, US and Japan, MOFCOM Official website, (Jan. 20, 2012) <http://english.mofcom.gov.cn/aarticle/newsrelease/significantnews/201112/20111207899272.html>

<sup>38</sup>Measures against Imported Sulfamethoxazole Originated in India, MOFCOM Official website, (Jan. 25, 2012) <http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201201/20120107917109.html>



termination of anti-dumping duty as above in announcement no. 30 of 2011 and requested petitions against it by specified industry or persons for final review. Since, no petition was received, MOFOCOM decided to not launch any re-examination on its own initiative.<sup>39</sup>

### **China on Imports of Nucleotide Food Additives from Japan And Republic of Korea**

MOFOCOM announced that anti-dumping measures imposed on imports of nucleotide food additives from Japan and Republic of Korea will be terminated as of December 13, 2011.<sup>40</sup>

### **China launches anti-dumping investigation against Ethylene Glycol Monobutyl Ether and Diethylene Glycol Monobutyl Ether Import originated from the US.**

The Ministry of Commerce initiated anti-dumping investigations against termination of anti-dumping duties on Ethylene Glycol Monobutyl Ether and Diethylene Glycol Monobutyl imports from the US and the EU. This measure came after a petition by Dynamic (Nanjing) Chemical Co. Ltd. on behalf of Ethylene Glycol Monobutyl Ether and Diethylene Glycol Monobutyl Ether Industry.<sup>41</sup>

### **China Initiates Anti-Dumping Duties against Caprolactam Imports From The EU And The US**

China levied anti-dumping duties on Caprolactam imports from EU and US from 22 October 2011. The measure came after final ruling of the investigating authority investigating dumping margins and injury to domestic industry. After investigation, the investigating authority found that dumping exists in the Caprolactam imports from EU and US and there is material injury to China's domestic Caprolactam industry while also that there is a causal link between the dumping and material injury. The Customs Tariff Commission imposed anti-dumping duties. The tariff line of the investigated product is 29337100 under the customs import and export tariff of PRC. The anti-dumping duty shall be levied on *anad valorem* basis.<sup>42</sup>

### **China Extends Anti-Dumping Measures against Spandex Imports From Japan, Singapore, Republic of Korea, Taiwan And The US**

China initiated investigation into anti-dumping duty on the imports from Japan, Singapore, Republic of Korea, Taiwan and the US October 2011.<sup>43</sup>

## **VIII.3. SUBSIDIES**

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On 21 October 2011, China provided information regarding the various types of government subsidies to the WTO Committee on Subsidies and Countervailing Measures.

Name of Subsidy	Increase	in	Purpose
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<sup>39</sup>Measures on Imported Wear Resistant Overlay Originated from USA and the EU, MOFOCOM Official website, (Dec. 20, 2011)

<http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201112/20111207878289.html>

<sup>40</sup>Announcement No. 89, 2011 of the Ministry of Commerce of the People's Republic of China on Terminating the Anti-dumping, MOFOCOM Official website, (Dec. 20, 2011)

<http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201112/20111207878289.html>

<sup>41</sup>Announcement No. 83 of 2011 of the Ministry of Commerce of People's Republic of China on Launching an Anti-dumping, MOFOCOM Official website, (Dec. 20, 2012)

<http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201112/20111207859592.html>

<sup>42</sup>Investigation against Caprolactam Imports from EU and the US, MOFOCOM Official website, (Dec. 25, 2011)

<http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201201/20120107913652.html>

<sup>43</sup>Announcement No. 58 of 2011 of MOFOCOM on Final Review of Anti-dumping Measures against Spandex Imports, MOFOCOM Official website, (Dec.25, 2011)

<http://english.mofcom.gov.cn/aarticle/policyrelease/domesticpolicy/201111/20111107809342.html>

	Amount in Percent in 2011	
Preferential tax policies for foreign-invested enterprises engaged in energy, transportation infrastructure projects	From 22% in 2010 to 24%	To encourage foreign investment in construction.
Preferential tax policies for Chinese-foreign equity joint ventures engaged in port and dock construction	22% in 2010 to 24%	to encourage foreign investment in construction
Preferential tax policies for enterprises with foreign investment established in Special Economic Zones (excluding Shanghai Pudong area)	20% in 2010 to 22%	to absorb foreign investment and expand the open-up policy and enhance development of the areas
Preferential tax policies for enterprises with foreign investment established in the costal economic open areas and in the economic and technological development zones	from 22% in 2010 to 24%	to absorb foreign investment and expand the open-up policy and enhance development of the areas
Preferential tax policies for enterprises with foreign investment established in Pudong area of Shanghai	from 22% in 2010 to 24%	to absorb foreign investment and expand the open-up policy and enhance development of the areas from 22% in 2010 to 24% in 2011
Preferential tax policies for enterprises with foreign investment established in the Three Gorges of Yangtze River Economic Zone	From 22% in 2010 to 24%	to absorb foreign investment and expand the open-up policy and enhance development of the areas

## IX. TECHNICAL REGULATIONS AND STANDARDS

### TBT Notifications<sup>44</sup>

China made the following TBT notifications during the period October- December, 2011

Notification on	Objective:	<i>Notification and date of circulation</i>
Fireproof coating for concrete surface of road,	Controlling the	G/TBT/N/CHN/841

<sup>44</sup>SPS Notifications issued from 01/10/2011 to 31/12/2011, World Trade Organization SPS Information Management System, available at <http://spsims.wto.org/>

railway, urban traffic tunnels and structures such as fire-dike in storage tank farm of petrochemicals ICS: 13.220.50	products quality and regulating inspection	and 11 October 2011
All motor vehicles except trams ICS: 43.020 HS:8701-8709	To ensure the safe operation of motor vehicles	G/TBT/N/CHN/55/R ev.1 and 10 October 2011
Dangerous goods ICS F13.300	Safety	G/TBT/N/CHN/827 and 10 October 2011
Dangerous goods ICS F13.300	Safety	G/TBT/N/CHN/828 and 10 October 2011
Bursting disc safety ICS: 13.249 HS: 8485	To protect public and human safety	G/TBT/N/CHN/829 10 October 2011
Bursting disc safety devices ICS: 13.240 HS: 8485	To protect public and human safety	G/TBT/N/CHN/830 and 10 October 2011
Bursting disc safety devices ICS: 13.240 HS: 8485	To protect public and human safety	G/TBT/N/CHN/831 and 10 October 2011
Bursting disc safety device ICS: 13.240 HS: 8485.	To protect public and human safety	G/TBT/N/CHN/832 and 10 October 2011
Natural gas ICS 75.060	To insure the safe usage of natural gas	G/TBT/N/CHN/833 and 10 October 2011
Desktop computers, integrated desktop computers with display and notebook computers. ICS:27.010 HS:8470	To save energy and protect environment	G/TBT/N/CHN/834 and 10 October 2011
Ballasts for tubular florescent lamps ICS: 29.140.40 HS: 8504	To save energy	G/TBT/N/CHN/835 and 10 October 2011
Centrifugal blower ICS: 23.120 HS: 8414	To save energy and reduce greenhouse gas emissions	G/TBT/N/CHN/836 and 10 October 2011
Showers ICS: 91.060	Improving the water use efficiency of showers and saving water resource	G/TBT/N/CHN/837 and 11 October 2011
Flush valve for water closets ICS: 91.060	Improving the water use efficiency of flush valve for water closets and saving	G/TBT/N/CHN/838 and 11 October 2011
Urinals ICS: 91.140.70	Improving the water use efficiency of urinals and saving	G/TBT/N/CHN/839 and 11 October 2011

	water resource	
All kinds of fireproof of cable coating ICS: 8194; 13.220.50	To improve the product quality and prevent counterfeit products from entering the market	G/TBT/N/CHN/840 and 11 October 2011
Fireproofing board used on concrete surface of road and urban traffic tunnels	Ensuring the safety of people and property	G/TBT/N/CHN/842 and 11 October 2011
Soothers ICS: 97.200.50 HS: 9501, 9502, 9503	To protect human safety and health	G/TBT/N/CHN/844 and 11 October 2011
Children umbrella&#8194; ICS: 97.180	To protect the children's safety	G/TBT/N/CHN/845 and 11 October 2011
Industrial explosive ICS: 71.100.30 HS: 3602, 3603	To protect the safety of person and property	G/TBT/N/CHN/846 and 11 October 2011
Man riding diver winch, diving decompression chamber, diver suit ICS: 03.220.40 C13.100	Protecting the health and safety of diving personnel	G/TBT/N/CHN/847 and 11 October 2011
Tetramethrin technical material ICS: 65.100.10	To protect the health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/848 and 12 October 2011
Pyrimethanil technical material ICS: 65.100.30	To protect the health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/849 and 12 October 2011
Acephate technical material ICS: 65.100.10	To protect the health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/850 and 12 October 2011
Mesotrione technical material ICS: 65.100.20	health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/851 and 12 October 2011
Tebuconazole suspension concentrates ICS:65.100.30.	To protect the	G/TBT/N/CHN/852 and

	health of human, animals and plants and reduce harm to the environment	12 October 2011
Deltamethrinemulsifiable concentrates ICS: 65.100.10	To protect the health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/853 AND 12 October 2011
Nicosulfon technical material ICS:65.100.20	To protect the health of human, animals and plants and reduce harm to the environment	G/TBT/N/CHN/854 and 12 October 2011
Residual current device with or without overcurrent protection for socket-outlets for household and similar uses ICS:29.120.50	To protect the human safety and protect users from electric shocks	G/TBT/N/CHN/855 and 12 October 2011
Kinds of transformer: power transformer, shunt reactor, current limiting reactor, arcing suppressing coil, inductive voltage transformer, current transformer; Kinds of high voltage apparatus: circuit breaker, disconnecter, load switch, earthing switch, fuse, prefabricated substation, enclosed switchgear, enclosed combination switchgear, combination switchgear; Kind of power capacitor: coupling capacitor (including capacitor voltage transformer), shunt capacitor, ac filtering capacitor; high voltage power cable; supporting insulator, wall bushing ICS:29.080	Safety	G/TBT/N/CHN/856 and 12 October 2011
Distilled spirits and their integrated alcoholic beverages.	To ensure food safety	G/TBT/N/CHN/857 and 12 October 2011
Amusement devices ICS: 97.200.40	To protect public and human safety	G/TBT/N/CHN/858 AND 28 November 2011
Wrought aluminum alloy extruded profiles for architecture ICS F77.150.10 HS F760042900	Regulating the market of aluminum alloy extruded profiles for architecture	G/TBT/N/CHN/859 and 28 November 2011
Outdoor leisure furniture- seating and tables ICS: 97.140	To protect the consumers' safety	G/TBT/N/CHN/860 and 28 November 2011
Household and similar electrical appliances- integrated kitchen appliance ICS:13.120	Regulating the market and ensuring the safety of people and	G/TBT/N/CHN/861 and 28 November 2011

	property	
Plastic furniture ICS: 97.140	To protect human safety	G/TBT/N/CHN/862 and 28 November 2011

## X. SANITARY AND PHYTOSANITARY MEASURES

China made the following SPS notifications during the period October- December, 2011

Food additives	Food safety of food additives and human health labeling	G/SPS/N/CHN/480 and 17 November 2011
Food	Food safety and human health	G/SPS/N/CHN/481 and 17 November 2011
Food	Human health and food safety contaminants	G/SPS/N/CHN/482 AND 17 November 2011
Food	Contaminants Packaging while human health and food safety.	G/SPS/N/CHN/483 AND 17 November 2011
Food additive potassium nitrate Human health, Food additives and food	Safety	G/SPS/N/CHN/484 and 17 November 2011
Food additive sodium ferrocyanide	Human health, food safety certification, control and inspection; food additives.	G/SPS/N/CHN/485 and 17 November 2011
Food additive Copper sulphate	Human health; Food additives and food safety.	G/SPS/N/CHN/486 and 17 November 2011
Food additive ferrous sulphate	Human health, food safety and food additives.	G/SPS/N/CHN/487 and 17 November 2011
Food additive Potassium iodide	Food safety, food additives certification, control and inspection; human health	G/SOS/N/CHN/488 and 7 November 2011
Food additive Magnesium sulfate	Human health, food additives certification, control and	G/SPS/N/CHN/489 and 17 November 2011

	inspection ; food safety	
Food additive manganese sulfate	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/490 AND 17 November 2011
Food additive ammonia solution	Food additive	G/SPS/N/CHN/491 and 10 November 2011
Food additive nitrogen	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/492 and 18 November 2011
Food additive silica gel	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/493 and 18 November 2011
Food additive diatomaceous earth	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/494 and 188 November 2011
Food additive vegetable activated carbon (wooden activated carbon)	Food safety, human health and food additives	G/SPS/N/CHN/495 and 18 November 2011
Food additive ammonium sulfate	Food safety, food additives, human health and certification, control and inspection	G/SPS/N/CHN/498 and 18 November 2011
Food additive sulfuric acid	Food additives, food safety and human health	G/SS/N/CHN/496 and 18 November 2011
Food additive sodium sulphate	Food safety, food additives, human health and certification, control and inspection	G/SPS/N/CHN/498 and 18 November 2011
Food additive iron carbonyl	Food additives, food safety,	G/SPS/N/CHN/499 and 18 November 2011

	human health and certification, control and inspection	
Food additive dehydroacetic acid	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/500 and 18 November 2011
Food additive calcium cyclamate (HS Code: 29299090; ICS)	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/501 and 18 November 2011
Polyoxyethylene(20) SorbitanMonolaurate (Tween20)	Food safety, human health, food additives and certification, control and inspection	G/SPS/N/CHN/502 and 18 November 2011
Food additive polyoxyethelene (20) sorbitanmonopalmitate(Tween40)	Food safety, human health, food additives and certification, control and inspection	G/SPS/N/CHN/503 and 18 November 2011
Food additive sorbitantristearate (Span65)	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/504 and 18 November 2011
Food additive sorbitol	Food additives, certification, control and inspection, food safety and human health	G/SPS/N/CHN/505 and 18 November 2011
Food additive propylene glycol	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/506 and 18 November 2011
Food additive methanol	Certification, control and	G/SPS/N/CHN/507 and 18 November 2011



	inspection, food safety, human health and food additives	
Food additive ethyl acetate	Food additives, food safety, human health and certification, control and inspection	G/SPS/N/CHN/508 and 18 November 2011
Food additive acetone	Food safety, human health, food additives and certification, control and inspection	G/SPS/N/CHN/509 and 18 November 2011

## XI. WTO DISPUTE SETTLEMENT

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### I. China – Antidumping and Countervailing Duties on Grain-Oriented Electrical Steel

**Initiation:** September, 2010

**Dispute:** The United States is challenging China’s imposition of antidumping and countervailing duties on imports of grain-on electrical steel from the United States.

Third Parties: Argentina, the EU, Honduras, India, Japan, Korea, Saudi Arabia and Vietnam

Status: Hearings before a WTO panel took place in September and December 2011. The panel is scheduled to issue its findings in 2012.

### II. China- EU’s anti-dumping measures against leather footwear

**Initiation:** 4 February 2010

**Dispute:** China challenged three EU measures in connection with the imposition of anti-dumping duties on imports of certain leather footwear from China. In particular, China is challenging Article 9(5) of the Basic EC Anti-Dumping Regulation as being WTO inconsistent. This article provides that, in cases involving imports from NME (Non-Market Economy) countries, the anti-dumping duty shall be specified for the supplying country concerned and not for each individual supplier. According to China, applicable WTO rules require that an individual margin and duty be determined and specified for each known exporter and producer and not for the supplying country as a whole. China states that the Basic Regulation provides that an individual duty will only be specified for exporters that demonstrate that they fulfill the criteria set forth in Article 9(5), the Individual Treatment rules, and is therefore inconsistent with various provisions of the WTO Agreement, China's Protocol of Accession, the GATT 1994, and the Anti-Dumping Agreement. China is also challenging the ‘Review and Definitive Regulations’ imposing anti-dumping duties on imports of certain footwear from China, and various aspects of the expiry and original determinations and investigations underlying those regulations.

The panel report was circulated on 28 October 2011. Panel found that Article 9(5) of the Basic AD Regulation was inconsistent with the EU’s WTO obligations, that EU had acted inconsistently with the AD Agreement in some aspects of the original investigation and expiry review, but rejected the bulk of

China's specific claims of violation in connection with the original investigation and expiry review and resulting definitive and review regulations.

### **III. Mexico complaint against China's measures related to the export restraints of various raw materials**

**Initiation-** 21 August, 2009

**Dispute-** Mexico challenged China's export restraints with respect to raw materials like bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc. Mexico cited 2 measures through which China allegedly imposes restraints on the exports in question and notes that there appear to be additional unpublished restrictive measures. On 5 July 2011 the panel report decided against China just as in the case above. On 31 August 2011, China notified that DSB of its decision to appeal. On 28 October, 2011, the appellate body notified the DSB that it will be able to circulate its report to members on later than 31 January 2012.<sup>45</sup>

### **IV. China is a third party in a dispute between Dominican Republic and El Salvador**

**Initiation-** 19 October 2010

**Dispute-** El Salvador challenged provisional and definitive safeguard measures imposed by the Dominican Republic on imports of polypropylene bags and tubular fabric and the investigation that led to the imposition of those measures. On 21 November 2011, the Chairman of the panel informed the DSB that after having consulted with the parties, the panel decided that it would issue its final report to the parties on 23 November 2011.<sup>46</sup>

### **V. China is a third party in Honduras dispute with Dominican Republic over safeguards**

**Initiation-** Honduras challenged Dominican Republic's provisional and definitive safeguard measures imposed by the Dominican Republic on imports of polypropylene bags and tubular fabric and the investigation that led to the imposition of those measures. The panel decided to issue its report to the parties on 23 November, 2011.<sup>47</sup>

### **VI. China as a third party in the dispute between Dominican Republic and Guatemala**

**Initiation-** 15 October, 2010

**Dispute-** Guatemala challenged Dominican Republic's provisional and definitive safeguard measures imposed by the Dominican Republic on imports of polypropylene bags and tubular fabric and the investigation that led to the imposition of those measures. The panel issued its report to the members on 23 November, 2011.<sup>48</sup>

### **VII. China as a third party in the dispute between Dominican Republic and Costa Rica over safeguards**

**Initiation-** 15 October 2011

**Dispute-** Costa Rica challenged Dominican Republic's provisional and definitive safeguard measures imposed on the imports of polypropylene bags and tubular fabric and the investigation that led to the imposition of those measures.<sup>49</sup>

### **VIII. China as a third party in the dispute between US and Canada over COOL(Certain Country of Origin Labeling) Requirements**

**Initiation-** 1 December 2011

**Dispute-**Canada challenged U.S's certain mandatory COL provisions in the Agricultural Marketing Act of 1946 as amended by 2008 Farm Bill and as implemented through an Interim Final Rule of 28 July 2008.

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<sup>45</sup> *China-Measures Related to the Exportation of Various Raw Materials*, World Trade Organization Dispute DS398, available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds398\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds398_e.htm)

<sup>46</sup> *Dominican Republic-Safeguard Measures on Imports of Polypropylene Bags and Tubular Fabric*, World Trade Organization Dispute DS418, available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds418\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds418_e.htm)

<sup>47</sup> *Dominican Republic-Safeguard Measures on Imports of Polypropylene Bags and Tubular Fabric*, World Trade Organization, available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds417\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds417_e.htm)

<sup>48</sup> *Dominican Republic-Safeguard Measures on imports of Polypropylene Bags and Tubular Fabric*, World Trade Organization, available at [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds416\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds416_e.htm)

<sup>49</sup> *Dominican Republic-Safeguard Measure on Imports of Polypropylene Bags and Tubular Fabric*, World Trade Organization, (Dec. 25, 2011) [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds415\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds415_e.htm)

These include the obligation to inform consumers at the retail level of the country of origin in respect of covered commodity as exclusively having a U.S origin, can only be derived from an animal that was exclusively born, raised and slaughtered in the U.S., this would exclude such designation in respect of beef or pork derived from livestock that is exported to the US for feed or immediate slaughter.<sup>50</sup>

### XIII. TRADE POLICY BY SECTOR: SERVICES

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The foreign trade of Chinese service industry rose more than 15 % amounting to 410 billion \$ in volume which is expected to reach 600 billion \$ by 2015 according to the estimates by Ministry of Commerce. The 12<sup>th</sup> five year program has indicated that promotion of service industry is a strategic priority for China's industrial structure upgrading.

PRC trade of services have grown 17 % annually in recent years which makes it the fourth largest global trader in services contributing 5 % of the world's total. China's Trade of services is less developed in compared to trade in goods.<sup>51</sup>

#### **HOUSEHOLD SERVICE INDUSTRY**

According to statistics of the Ministry of Commerce, labor service personnel dispatched overseas amounted to 452,000 in 2011, 41,000 more than that in 2010. Labor dispatched for contracted projects were 243,000, and for labor service cooperation were 209,000. Until the end of 2011, all the labor in foreign countries was 812,000, 35,000 less than that in the same period of 2010.<sup>52</sup>

### XIV. TRADE POLICY BY SECTOR: AGRICULTURE

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China remains one the largest markets for agricultural products. Total grain output in 2011 was 571.21 million tons, an increase of 24.73 million tons over the previous year. The total output of summer grain was 126.27 million tons, increase of 2.5 per cent year-on-year. Output of rice was 32.76 million tons. Autumn grain was 412.18 million tons with an increase of 4-5 per cent. The output of cotton in 2011 was 6.6 million tons, an increase of 10.7 per cent over the previous year. Oil-bearing crops output was 32.79 million tons with an increase of 1.5 per cent.

Sugar crops output was 125.2 million tons with an increase of 4.3 per cent. The total output of pork, beef, mutton and poultry in 2011 was 78.03 million tons with a growth of 0.3 per cent. The output of pork was 50.53 million tons which was down by 0.4 per cent. The number of pigs was 661.7 million with a decrease of 0.8 per cent. The output of poultry eggs in 2011 was 28.11 million tons and cow milk was 36.56 million tons.<sup>53</sup>

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<sup>50</sup> *United States- Certain Country of Origin Labelling (COOL)*, World Trade Organization Dispute DS384, (Dec. 25, 2011) [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds384\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds384_e.htm)

<sup>51</sup> *China's Service Trade in Deficit, But Set to Catch up*, Global Times, (9 Dec. 2011) at [www.globaltimes.cn/NEWS/tabid/99/ID/687861/Chinas-Service-Trade-in-Deficit-But-Set-to-Catch-up.aspx](http://www.globaltimes.cn/NEWS/tabid/99/ID/687861/Chinas-Service-Trade-in-Deficit-But-Set-to-Catch-up.aspx)

<sup>52</sup> *Basic Statistics on China Labor Service Cooperation Overseas in 2011*, MOFCOM Official website, (Jan. 20, 2012) <http://english.mofcom.gov.cn/aarticle/statistic/foreigntradecooperation/201202/20120207950248.html>

<sup>53</sup> Ma Jiantang Commissioner, *Agricultural production went up steadily while grain yield increased for Eight consecutive years*, National Bureau of Statistics of China, (Jan. 25, 2012) [http://www.stats.gov.cn/english/statisticaldata/Quarterlydata/t20120119\\_402779979.htm](http://www.stats.gov.cn/english/statisticaldata/Quarterlydata/t20120119_402779979.htm)

China's soybean production yield was lower than other countries due to climate, technology, seed varieties and transport reasons. China's grain output rose 4.5 per cent year-on-year to a record high of 571.21 million tonnes in 2011.<sup>54</sup>

China imported \$94.87 billion worth of farm products in year 2011 with the trade deficit of \$34.12 billion. Imports of sugar rose to 65 % in 2011 amounting to 2.92 million tons worth \$1.94 billion. It has been estimated that China's move to urbanization coupled with less farmland area could result China to become the largest importer of the farm products in the coming years. China overtook Canada to become the biggest importer of US farm products in 2011.

China's import of livestock products, including meat was worth \$13.4 billion, increase of 38 % on year. The year 2011 saw increase in imports from the China as Beijing was building up its state reserves of sugar, corn and meat as part of the efforts against food inflation. The world's top cotton consumer was also building its depleted State reserves. China is the world's top soy importer and has consequently reduced its imports of soybean and rapeseed as well as edible oils in 2011 because of large release of state reserves according to the analysts. China had a trade surplus in the trade of vegetables, fruits and fish products in 2011 as compared from 2010.<sup>55</sup>

The plan for agricultural trade promotion (2011-2020) was released by the Ministry of Agriculture in December 29, 2011. The plan emphasized the importance of international trade for creating jobs, raising farmer's income and guaranteeing the supply of important commodities to the domestic market. It was noted that large volumes of imports are putting downward pressure on prices for some Chinese products. The plan also notifies that rising costs in China are also leading to erosion international competitiveness

The plan promotes the idea of exports more actively with higher value-added and higher profit margins and controlling imports to preserve industry security. It has also called for center and state governments to promote agriculture trade. According to the plan Chinese government support comes in various forms, such as organisation of trade fairs financial support for Chinese companies to exhibit overseas, favorable tax policies including value-added tax rebates and preferences to consumers for other forms of tax rebates, preferences to exporters for other tax reductions, subsidized or earmarked loans for exporters, assistance for building of Chinese brands and advertisement, assistance in receiving registration and certifications, reducing or waiving fees for quarantine and inspection, expediting and simplifying procedures for exported agricultural products, collecting and reporting foreign market information and provision for special credit and insurance for exporters from export-import Bank and China Export Insurance Co.

The plan says that there have been many achievements, but funding is unstable, central and western regions have fewer resources for exporting and more coordination and organization is needed. A set of model exporters and model export bases will be set-up to show others how to export. China hopes to create well-known brands overseas products by leading Chinese companies. Chinese exporters are to keep traditional markets in the US, Europe and neighboring countries as a base and develop new markets in Latin America, Eastern Europe and Africa.

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<sup>54</sup>China to Balance Grain Market Through Imports, Customs-info website, (Jan. 25, 2012) <http://www.customs-info.com/Files/NewContent.aspx?id=598>

<sup>55</sup>China posts bigger farm trade deficit in 2011, THE WALL STREET JOURNAL, (Feb 6, 2012) at [www.livemint.com/2012/02/06152145/China-posts-bigger-farm-trade.html](http://www.livemint.com/2012/02/06152145/China-posts-bigger-farm-trade.html).

The plan suggests that Chinese Agricultural Industry has to learn from the experience and practice of developed countries and calls for using WTO-approved measures to protect domestic industries. The measures include anti-dumping, countervailing duties and other safeguards. The plan called for setting up of a system for monitoring losses and negative trade impacts on domestic agricultural industries. It promoted setting up a system for monitoring losses and negative trade impacts on domestic agricultural industries. It called for industry associations and companies to work together to file anti-dumping complaints. The Chinese government will strengthen its monitoring of overseas markets, collect trade laws and regulations and conduct trade barrier investigations.

According to the plan China wants to strengthen its negotiations in bilateral and multilateral forums. This includes active participation in a new round of WTO agricultural negotiations, genetic resource, Intellectual Property and trade liberalization negotiations. The Chinese Government has decided to raise incentives for personnel having knowledge on agricultural trade issues.

Over-all the Plan for agricultural trade promotes support for overseas marketing, more systematic use of safeguards to protect domestic industries, better information and other services, financial support for exporters and a more active role in trade negotiations.<sup>56</sup>

China has enacted 14 laws, 24 administrative rules and 151 MOA regulations in the field of agriculture. The government of China identified the policy orientation of greatly increasing input in agriculture and rural areas, government investment in fixed assets in rural areas and investment using proceeds of government land transfers in rural construction than the previous year.

## **XV. INTELLECTUAL PROPERTY RIGHTS (IPRs)**

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Beijing Municipal Intellectual Property office released the guiding regulations on overseas intellectual property early warning for Beijing enterprises entering foreign market in order to overcome the problems in the implementation of IPRs.<sup>57</sup> China is strengthening its efforts to protect IPR, by conducting audits to ensure that government agencies at all levels use legitimate software and by publishing the auditing results as required by China's law.<sup>58</sup>

## **XV. TRADE POLICY BY SECTOR : MANUFACTURING**

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### **INDUSTRIAL POLICY**

In 2011, China continued to pursue industrial policies that seek to limit market access for imported goods, foreign manufacturers and foreign services suppliers, while offering substantial government resources to support Chinese industries. The principal beneficiaries of these policies are state-owned enterprises, as well as other favored companies attempting to move up the economic value chain. In 2011, policies aimed

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<sup>56</sup> China's agricultural trade promotion strategy

<sup>57</sup> *China to maintain iron-handed policy on counterfeit drugs, IPR Protection in China*, (Dec. 25, 2011)

[http://www.chinaipr.gov.cn/newsarticle/news/government/201112/1272695\\_1.html](http://www.chinaipr.gov.cn/newsarticle/news/government/201112/1272695_1.html)

<sup>58</sup> *Pilot project paves way for China's offshore wind power boom*, Xinhua, China Weekly, (Jan, 20, 2012) [http://news.xinhuanet.com/english/china/2012-01/03/c\\_131340379.htm](http://news.xinhuanet.com/english/china/2012-01/03/c_131340379.htm)

at promoting “indigenous innovation” continued to represent an important component of China’s efforts, creating great concerns across the globe.<sup>59</sup>

China’s industrial profits in 2011 rose to 25.4 % to 5.45 trillion RMB or 863.86 Billion \$ which accounts for 454.4 Billion RMB a month in average.<sup>60</sup>

Year 2011 involved an array of Chinese policies designed to assist Chinese automobile enterprises in developing cutting-edge electric vehicle technologies and then building domestic brands to succeed in global markets.<sup>61</sup>

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<sup>59</sup> *China’s auto sales and output up in November from October levels*, China Calling, (Dec. 30, 2011)

<http://www.steelworld.com/newsletter/dec11/chinacalling1211.html>

<sup>60</sup> *China industry profits dip as slowdown bites; need for policy easing*, The Economic Times, Reuters, (27 Mar. 2012)

<sup>61</sup> *China blocks US imports, cheats on global trade rules*, (Jan. 20, 2012)

<http://aja.ngpvanhost.com/blog/china-blocks-us-imports-cheats-global-trade-rules>