

# WTO General Council: China

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## 1 Introduction and Executive Summary

China is the world's most populous country, counting a population of more than 1.3 billion and the world's second biggest economy after the United States. It has a continuous culture stretching back nearly 4,000 years and originated many of the foundations of the modern world. The People's Republic of China was founded in 1949 after the Communist Party defeated the nationalist Kuomintang, who retreated to Taiwan, creating two rival Chinese states - the People's Republic on the mainland and the Republic of China based on Taiwan.

After stagnating for decades under the rigid totalitarian socialism of founder Mao Zedong, China reformed its economy in 1978 along partly capitalist lines to make it one of the world's fastest-growing, as well as its leading exporter. China is now a major overseas investor and is pursuing an increasingly assertive foreign and defence policy.

But economic change has not been matched by political reform, and the Communist Party retains a tight grip on political life and much of wider society. Rapid economic ascendance has brought on many challenges as well, including high inequality; rapid urbanization; challenges to environmental sustainability; and external imbalances. China also faces demographic pressures related to an aging population and the internal migration of labour.

Xi Jinping, the current general secretary of the Communist Party and president of China came to power in 2012-3 as the hand-picked heir of predecessor Hu Jintao and is expected to lead China for the next decade. Since Mr. Xi became chairman of the Communist Party, he has vowed a "great rejuvenation" to restore China to its ancient prominence and glory. "Never before have the Chinese people been so close to realizing their dreams," Mr. Xi is often quoted as saying. In consequence, he has concentrated power in his hands, in a move seen as a turning away from the traditional system of collective leadership and has sought to present a modern face to China and the world. In early 2018 the party also moved to allow him to remain in office indefinitely by abolishing the conventional two-term presidential limit. The main themes of his leadership have been economic reform to boost market forces, as well as an anti-corruption campaign. Abroad he has been manifesting China's influence with various ambitious investments and infrastructure projects from Africa to Southeast Asia.

## 2 Economic Structure

Since initiating market reforms in 1978, China has shifted from a centrally-planned to a more market-based economy and has experienced rapid economic and social development. GDP growth has averaged nearly 10 percent a year - the fastest sustained expansion by a major economy in history - and has lifted more than 800 million people out of poverty. Although China's GDP growth has gradually slowed since 2012, it is still impressive by current global standards (6.8% real growth rate in 2017). With a population of 1.3 bln, China is the second largest economy and is increasingly playing an important and influential role in development and in the global economy. China has been the largest single contributor to

world growth since the global financial crisis of 2008.

China is world leader in the gross value of both industrial as well as agricultural products. Agricultural products amount to 8.2% of GDP in 2017 with manufacturing and services sectors amounting to 39.5% and 52.2% respectively. In 2015 28.3% of the working population was employed in agriculture, 29.3% in manufacturing and 42.4% in the services industry.

However, the country is still fighting with low domestic household consumption and high corporate and public debt burden and according to the World Bank, significant policy adjustments are still required in order for China's growth to be sustainable.

China's 13th Five-Year Plan (2016-2020) highlights the development of services and measures to address environmental and social imbalances, setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. The annual growth target in the 13th Five-Year Plan is 6.5 percent.

## 3 Trade Balance

China is the largest export economy in the world. In 2016, China exported \$ 2.27 tln and imported \$ 1.23 tln, resulting in a positive trade balance of \$ 1.04 tln.

The top exports of China are Computers (\$ 173 bln), Broadcasting Equipment (\$ 160 bln), Telephones (\$ 109 bln), Integrated Circuits (\$ 64.6 bln) and Office Machine Parts (\$ 42.8 bln), using the 1992 revision of the HS (Harmonized System) classification. Its top imports are Crude Petroleum (\$ 101 bln), Integrated Circuits (\$ 98.3 bln), Gold (\$ 51.2 bln), Iron Ore (\$ 47.4 bln) and Cars (\$ 42.7 bln).

## 4 Trade Partners

The top export destinations of China are the United States (\$ 436 bln), Hong Kong (\$ 250 bln), Japan (\$ 148 bln), Germany (\$ 99 bln) and South Korea (\$ 87.2 bln). The top import origins are the United States (\$ 122 bln), South Korea (\$ 121 bln), Japan (\$ 120 bln), Germany (\$ 83.7 bln) and the rest of Asia (\$ 80.7 bln).

China maintains 14 Free Trade Agreements with ASEAN, Singapore, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Hong Kong, Macao, and Taiwan. China has also recently signed FTAs with Korea and Australia. China also maintains bilateral investment agreements with over 100 countries and economies, including Austria, the Belgium-Luxembourg Economic Union, Canada, France, Germany, Italy, Japan, South Korea, Spain, Thailand, and the United Kingdom. China's bilateral investment agreements cover expropriation, arbitration, most-favoured-nation treatment, and repatriation of investment proceeds.

## 5 Trade Interests

In recent years China has put a lot of effort into diversifying its economy from being the world's supplier of cheap and basic consumer goods to manufacturing technologically more advanced and elaborate products. Central to this is a new plan outlined in 2015 named 'Made in China 2025'. Consequently, the Chinese government has made vast investments in research and innovation as well as granted subsidies to high-tech and other infant industries. Moreover, Chinese companies are purchasing technologies and patents from other firms across the world as well as acquiring know-how from other companies by the means of reverse engineering, joint ventures and taking over foreign firms. Although often criticized, these practices were often adopted in the past by other emerging nations such as Japan, South Korea and Taiwan to catch up technologically to the West in order to escape the middle-income trap.

Another key project in China's trade ambitions is the Belt and Road Initiative, in the course of which \$4-8 bln are invested by the Chinese government in infrastructure projects in 60 different countries, mainly in East Africa, Europe and Asia. The goal of the initiative is to build the basis for a China centred global trade network as well as closing the infrastructure gap in Central Asia in order to enhance and streamline the flows of trade between Europe and Eastern Asia.

## 6 Recent Developments

In a recent development, China has gotten into a row with the United States over its positive trade balance. This resulted in the imposition of tariffs on numerous Chinese goods including electronics, aircraft parts, various metals, machinery and medicine. In response China imposed tariffs on, amongst other, automobiles and agricultural products, the latter causing the price for US produced soy beans to plummet. (Soy beans are the top US agricultural export good to China.)

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