<u>Legislative Council Panel on Trade and Industry</u>

Latest Developments on China's Accession to the World Trade Organisation and the Extension of Permanent Normal Trade Relations Status for China in the US

INTRODUCTION

This paper informs Members of the latest developments in respect of China's accession to the World Trade Organisation (WTO) and US Congressional action on legislation to extend Permanent Normal Trade Relations (PNTR) status to China.

CHINA'S ACCESSION TO THE WTO

<u>Conclusion of the EU/China Negotiations</u>

2. Following the conclusion of the Sino-US bilateral negotiations on 15 November 1999 (the full text of the agreement was released by the US Administration through the Internet on 14 March 2000), China and the European Union (EU) also concluded their bilateral negotiations over China's accession to the WTO on 19 May 2000.

3. The EU/China deal covers tariff cuts and market access commitments in a wide range of areas including industrial goods, agriculture and key services sectors such as telecommunications, insurance and banking. Main elements of the agreement published by the EU is set out at Annex.

<u>Remaining Steps</u>

4. As at 1 June 2000, China has yet to conclude negotiations with 5 out of the 37 WTO members who have requested bilateral negotiations with her. They are: Costa Rica, Ecuador, Guatemala, Mexico and Switzerland. We believe that China's bilateral negotiations with these WTO members should also be concluded in the next few months.

5. To join the WTO, China also needs to complete the multilateral process being conducted in Geneva, mainly to finalise a Protocol of Accession and a consolidated schedule of concessions for the approval of the WTO General Council. The next meeting of the WTO Working Party on China's Accession is scheduled to be held in the week of 19 June 2000. In view of the

recent good progress achieved, we expect that the remaining steps for China to accede to the WTO can be completed before the end of this year.

PERMANENT NORMAL TRADE RELATIONS

6. On 24 May 2000, the US House of Representatives passed, by a vote of 237 to 197, the PNTR legislation authorizing the US President to terminate application of Title IV of the Trade Act of 1974 to China, and thereby extend PNTR treatment to products from China. The legislation specifies that the President's determination will become effective when China becomes a member of the WTO.

7. The legislation passed by the House also includes specific anti-surge provisions to guard American businesses and workers from import surges from China and procedures for monitoring and enforcing China's WTO commitments. It also provides for the setting up of a Congressional-Executive Commission to monitor human rights condition in China. There is, however, no linkage between this provision and PNTR status; nor will the Commission be given powers to apply sanctions against China.

8. The next step is for the US Senate to vote on the legislation which is expected to take place sometime in June. It remains to be seen whether the Senate will pass the House package without any amendments. If not, a conference of the House and Senate to reconcile the two versions and a second vote will be necessary. This will create uncertainty and lengthen the legislative process. The US Administration and PNTR proponents are currently lobbying hard to expedite the consideration of the legislation with no amendments to the House version.

Impact on Hong Kong

9. Hong Kong would benefit significantly from the significant liberalisation of the Mainland's market following the latter's accession to the WTO as well as the stable trading relationship between the Mainland and the US, our two largest trading partners, in the event of the PNTR legislation being passed by the US Congress.

10. A recent analysis by the Government Economist has indicated that Hong Kong's economy will benefit greatly from the business opportunities which China's WTO membership will create. It is estimated that by 2010, Hong Kong's exports involving China will be raised by 15% (averaging at 1.3 percentage points per annum) and its GDP by 5.5% (averaging at 0.5 percentage points per annum).

11. The report also points out that as China's economy transforms into a more liberalized and transparent regime, Hong Kong's services sector stands in a good position to capture the business opportunities so arise. In particular, Hong Kong possesses competitive edge in tapping into the China market in the areas of distributive trade, banking and finance, insurance, telecommunications and tourism.

12. Given Hong Kong's competitive edge in services and our business sector's depth of knowledge of and well established network of contacts in the China market, we are confident that an expansion of trade between China and the rest of the world will bring about an increasing demand on the services offered by Hong Kong and more business partnership with Hong Kong companies. Hong Kong's middleman role should be strengthened rather than diminished as some might fear. Indeed, over the past two decades, Hong Kong's middleman role has increased even as China engaged in more and more direct trade with most of her trading partners.

13. Analysis by a credit rating agency has concluded that "WTO membership and the ensuing liberalization of trade and investment rules should give Hong Kong more opportunities to benefit from its middleman role between China and the rest of the world. Hong Kong also stands to gain from participating in the economic development of the mainland as more sectors are open to foreign participation."(1) The International Monetary Fund has also commented that "China's entry into the WTO will bring with it a host of new opportunities; the SAR is also well placed to assist in the ongoing restructuring of China's financial and enterprise sectors."(2)

Trade and Industry Bureau
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(1) Standard and Poor's Credit Week, 17 May 2000

(2) IMF report, 18 November 1999

Annex

Highlights of the EU-China Agreement on WTO

Telecommunications

- The timetable for market opening in mobile telephony has been accelerated by 2 years. Foreign investment will be allowed at 25% on accession, 35% after 1 year and to 49% after 3 years.

- China will open up its leasing market in 3 years, allowing foreign firms to rent capacity from Chinese operators and resell it, for both domestic and international traffic.

Insurance

- Effective management control has been negotiated for foreign participants in life insurance joint ventures, through choice of partner, and a legal guarantee of freedom from any regulatory interference in private contracts on a 50-50 equity basis.

- China will immediately give 7 new licences to European insurers, in both the life and non-life sectors.

- Insurance business will be opened to foreign companies two years sooner than foreseen in the Sino-US Agreement.

- Foreign brokers will be able to operate in China, free of any joint venture requirement, 5 years after accession.

Monopoly State Import/Export Restrictions

- China’s state monopoly on importing crude and processed oil, and NPK fertiliser, will be gradually opened to private traders, starting on accession.

- The state monopoly on exporting silk – where China accounts for 70% of world production – will be completely removed by 2005.

Tariffs

- China has reduced import tariffs on over 150 leading European exports, such as machinery, ceramics and glass, textiles, clothing, footwear and leather goods, cosmetics and spirits. Agreed levels are generally around 8 – 10%.

Motor Vehicles

- Thresholds of provincial authorities will be raised from $30m to $150m.

- Joint venture restriction for engine production will be eliminated upon accession.

Distribution

- The specific joint venture restriction on large department stores and for virtually all chain stores, as well as the 20,000m^2 size limit for foreign owned stores will be lifted.

Agriculture

- Market access will improve for key EU products, such as rape-seed oil, dairy products, pasta, wine and olives.

- An EU-China sanitary and phytosanitary agreement will ensure China's application of the WTO SPS Agreement, and resolve a number of bilateral issues.

Horizontal Measures

- Measures such as export performance and local content requirements, and industrial export subsidies will cease to apply.

- Government procurement system will be transparent, and will not discriminate between foreign bidders.

- Preferences to domestic producers in the fields of pharmaceuticals, chemicals, after sales services, cigarettes and spirits will be abolished.

Others

- Improved market access in the fields of banking, legal services, accountancy & architecture, tourism, construction & dredging, and market research.