THE STATE-OWNED ENTERPRISES ISSUE IN CHINA’S PROSPECTIVE TRADE NEGOTIATIONS

HEJING CHEN AND JOHN WHALLEY
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ACRONYMS

AMC Antimonopoly Commission
AML antimonopoly law
ASEAN Association of Southeast Asian Nations
ANZCERTA Australian-New Zealand Closer Economic Co-operation Agreement
BIT bilateral investment treaty
CPC Communist Party of China
FTA free trade agreement
GPA Government Procurement Agreement
GPL Government Procurement Law
IPR intellectual property rights
MOFCOM Ministry of Commerce
MOF Ministry of Finance
NAFTA North American Free Trade Agreement
NDRC National Development and Reform Commission
NME non-market economy
OECD Organisation for Economic Co-operation and Development
RTA regional trade agreement
SAIC State Administration for Industry and Commerce
SASAC State-owned Assets Supervision and Administration Commission
SCM Subsidies and Countervailing Measures
SOE state-owned enterprise
TBL tendering and bidding law
TPP Trans-Pacific Partnership
UNCTAD United Nations Conference on Trade Development
WTO World Trade Organization
EXECUTIVE SUMMARY

China, in the next few years, faces the prospect of major regional and bilateral trade negotiations possibly including the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership with the Association of Southeast Asian Nations (ASEAN) and Japan, Korea, India, Australia and New Zealand and separate negotiations with India, Korea and Japan, potentially the United States and even possibly the European Union. A likely key element in such negotiations, and one already raised by the United States in the TPP negotiations, is that of trade arrangements involving state-owned enterprises (SOEs). China is viewed from outside as having a large SOE sector, and large SOEs are viewed as having a protected monopoly position in domestic Chinese markets.

This paper discusses some of the key sub-issues potentially arising with SOEs in these negotiations. These include: arrangements for SOEs under China’s antitrust laws as well as the operation of these arrangements in practice via case law, and how trade is affected by them; the potentially large increase in Chinese coverage of the World Trade Organization (WTO) government procurement code if Chinese SOEs were to be included under it; the implications of the changing relative size of SOEs and private sectors in China for the “non-market” economy (NME) designation, which China consented to upon WTO accession; and claimed subsidization of SOEs through various devices.

These issues arise prominently in the Chinese case, but are similar to SOE issues in other negotiations, including in the emerging US-EU Transatlantic Trade and Investment Partnership negotiation. Reference will thus be made to similar issues and precedents elsewhere. The aim is to lay out a potential negotiating issues list for SOEs to better focus debate and outline possible approaches to accommodation, rather than definitively resolve the issues.

INTRODUCTION

Since its WTO accession in 2001, China has concluded 12 regional trade agreements (RTAs). With the exception of Hong Kong and ASEAN, these were mainly with smaller trading partners, but over the next few years the prospects are for a series of trade negotiations with larger trading partners. Bilateral negotiations have been underway for some time with Australia and Norway, and a trilateral Japan-Korea-China negotiation is also in progress. China is also negotiating with ASEAN plus five other Asian nations (Japan, Korea, India, Australia and New Zealand) on a Regional Economic Cooperation Partnership. Bilateral free trade agreements (FTAs) with India, Sri Lanka and Colombia are under consideration and joint feasibility studies are being conducted. Possible future negotiations also include China’s potential inclusion at some point in the ongoing TPP negotiation, which covers 12 Pacific countries (including the United States). Beyond these negotiations are possible bilateral China-US and China-EU negotiations. These negotiations, were they to be successfully concluded, would substantially raise the trade coverage of China’s trade agreements and help define a new set of arrangements, reshaping China’s participation in the global economy potentially for several decades.

In these negotiations a central issue likely to be raised by China’s trading partners is the treatment under these new rules of SOEs and special arrangements that might apply to them. These issues arise in other trade negotiations, and have been raised by the United States in the TPP negotiations which, for now, China is not participating in. Recently, little has been written on these issues in published research papers, and this paper aims to set out the key sub-issues involved.

Four sub-issues under the broader heading of trade and SOEs will be discussed. The first of these relates to China’s antitrust and antimonopoly laws (AMLs). From outside, China is seen as having a large SOE sector with a number of such enterprises having a protected monopoly position in key sectors. These include petroleum refining, communications, banking, transportation and others. China’s AMLs date from 2008 and contain provisions under Chapter I Article 7 that require the state to protect “the lawful business operations conducted by the business operators” (Ministry of Commerce [MOFCOM] 2007), while at the same time requiring SOEs to refrain from abusing their dominant market position. The accumulation of case law under these provisions is discussed alongside how a new set of trade rules could evolve, consistent with changed competition pricing arrangements both in China (especially in its new economic reform agenda established in the third session of the eighteenth Communist Party of China [CPC] plenary meeting) and in other negotiated arrangements not involving China (such as the US-Singapore FTA).

The second of these sub-issues relates to government procurement practices. The WTO government procurement code does not explicitly apply to SOEs, but if this extension were to be made in the Chinese case, it would imply a significant expansion of coverage because of the size of the SOE sector. By comparing the different versions of China’s original offer to the WTO Government Procurement Agreement (GPA), the difficulties in SOE inclusion in China’s offer to the WTO GPA are addressed. Further, a possible RTA approach to deal with the SOE issue of government procurement in China’s trade negotiation is presented.

1 To which China, for now, is not party.
The third issue relates to the NME designation in the Organisation for Economic Co-operation and Development (OECD) antidumping procedures, where the perception of China as having a large SOE sector was key in discussing this sub-issue as it emerged in the debate on China’s WTO accession in 2001. It will be argued that not only has the relative size of China’s SOEs to its private sector changed markedly since 2001, but there are indications in four and eight firm concentration ratios compared between the United States and China that China’s domestic markets are more competitive than in the United States, suggesting a potential recasting of the SOE discussion.

The fourth sub-issue relates to subsidization and claims that SOEs in China, and elsewhere, often receive benefits from the state in various forms which amount to subsidization. These include special financial arrangements (such as non-market-based interest rates on loans and financial bailouts) monopoly pricing arrangements (such as in the cases of petroleum distribution and tobacco) and other elements of subsidization. This sub-issue involves the coverage of the WTO subsidies code and whether there should be special rules on these in China’s bilateral arrangements.

These four sub-issues will be dealt with under the broader heading of the trade and SOE issue to encourage a better understanding of these issues within the general public. Given the prevalence of SOEs in Asia, it is suggested that in negotiations with other Asian economies, the SOE issue could be raised less forcefully than in negotiations with OECD partners (the United States and the European Union). Also, SOEs need not be an area where China views itself as making all of the concessions with no benefits, since not only do benefits accrue to the Chinese consumer with improved competition, but also on sub-issues such as the NME, China can use SOE negotiations to obtain improvements in existing arrangements through cross sub-issue bargaining.

**CHINA’S AML AND ITS APPLICATION AGAINST SOEs**

A potential issue in China’s trade negotiation concerns SOEs and China’s antitrust regime. In that regime, special arrangements are explicitly allowed for SOEs, and the few precedents of cases could suggest the stronger enforcement of antitrust rules against China’s SOEs as an outcome of negotiations.

**CHINA’S AML: STRUCTURE AND THE ADMINISTRATIVE REGIME**

China’s AML has been in place since August 1, 2008. Comprising three broad sets of rules, the main content of the AML incorporates the model of EU and German competition law as well as the experience from the United States. These rules essentially provide for three areas of regulation: the prohibition of monopoly agreements (Chapter 2); the prohibition of abuse of dominant position (Chapter 3); and merger and acquisition reporting and control (Chapter 4). Additionally, in the AML there is a special chapter on administrative monopoly (Chapter 5).

The AML is comprised of eight chapters and 57 articles. Chapter 1 (Articles 1–12) defines the “General Provisions,” which is essentially the purpose and the coverage of the AML. China’s AML has a very broad scope of application. It applies to all “undertakings” (Norton Rose Group 2012), covering any natural or legal person, or any other organization that produces or deals in goods or provides services. “Monopolistic conduct” is defined as monopolistic agreements among business operators, abuse of dominant market position by business operators and concentration of business operators that eliminates or restricts competition or might be eliminating or restricting competition. Article 7 contains somewhat ambiguous language concerning the law’s application to SOEs, but the AML applies equally to all undertakings, irrespective of whether they are privately owned or owned by the state.

Chapter 2 (Articles 13–16) aims to prevent monopoly agreements. As in German law, the Chinese AML separates horizontal agreements (“among competing business operators” [MOFCOM 2007, Article 13]) from vertical agreements (“among business operators and their trading parties” [ibid., Article 14]), and Articles 13 and 14 list the prohibited horizontal and vertical monopoly agreements.

Chapter 3 (Articles 17–19) prohibits the abuse of the dominant position. Article 17 defines abusive behaviour. Article 18 provides a non-exhaustive list of factors involved in verifying the existence of a dominant market position. Article 19 states three presumptions of a market dominant position for business operators based entirely on market share thresholds.

Chapter 4 (Articles 20–31) provides rules on mergers to control large mergers and acquisitions activity, and prevent, mergers that restrict competition. Article 20 defines concentration and Articles 23 to 26 cover the procedural requirements concerning lodging concentration declarations with the antimonopoly authorities.

China has three antitrust enforcement authorities — the MOFCOM, the National Development and Reform Commission (NDRC) and the State Administration for Industry and Commerce (SAIC) — and they perform their respective duties under the coordination and instruction of the Antimonopoly Commission (AMC) of the State Council. Specifically, MOFCOM is responsible

2 Article 3 of China’s AML can be found at http://english.mofcom.gov.cn/article/policyrelease/announcement/200712/20071205277972.html.
for merger control, NDRC enforces the price-related rules of the AML and SAIC enforces the rules against non-price monopoly agreements, abuse of dominance and administrative monopoly. The AMC is a forum for deliberation and is the coordination agency of the State Council, and as such is responsible for coordinating competition policy administrative enforcement (Huang 2013).

The three AML enforcement agencies all take the positions that they do not afford any preferential treatment to SOEs in the application of the AML. The only economic sector that is excluded from the scope of the law is agriculture, along with the activities of rural economic organizations.

**THE APPLICATION OF CHINA’S AML TO SOEs**

Another issue likely to be raised regarding SOEs in negotiations on Chinese trade is enforcement and the very limited number of cases. Xiaoye Wang and Adrian Emch (2013) summarize the achievements of the implementation of China’s AML by the three administrative enforcement authorities from 2008 to the end of March 2013. MOFCOM had received 698 merger filings in total, within which 627 were registered and 588 were cleared (ibid., 3). SOEs have started to file notifications with MOFCOM, as many foreign companies and other domestic companies have done. Since 2008, NDRC has investigated cases against price-related anti-competitive conduct and adopted decisions with sanctions in a number of cases, among which include: “(i) abuse of dominance through tied sales by salt companies, handled by the authorities in Jiangsu and Hubei; (ii) collusion between rice noodle manufacturers in Nanning and Liuzhou handled by the price department in Guangxi province; (iii) price-fixing by the Fuyang Papermaking Association, handled in Zhejiang province; (iv) the Sea sand cartel case, handled by the authorities in Guangdong province; (v) the anti-competitive practices by two pharmaceutical companies in Shandong” (ibid., 11).

SAIC has investigated nearly 20 antitrust cases in cooperation with its counterparts at the provincial level since the AML came into effect. The cases include: cartel conduct in the concrete industry in Lianyungang, Jiangsu province; collusion between concrete enterprises in Jiangshan, Zhejiang; collusion among members of the Liaoning Provincial Cement Industry Association; monopoly agreement between liquefied petroleum gas enterprises in Taihe, Jiangxi province; and cartelization in second-hand automobile market in Anyang, Henan (ibid., 16).

However, due to the complex circumstances for the enactment of AML and due to a lack of experience that the three AML administrative authorities have accumulated, there have been few cases against big SOEs, all of which indicate weak enforcement of the AML against big SOEs. An early case was the 2009 investigation by the NDRC into suspected price-fixing by TravelSky, a SOE provider of IT solutions to the tourism industry, which holds a 97 percent share of the Chinese domestic airline booking industry. In suspension of the antitrust investigation in March 2009, nearly all domestic state-owned airline companies in China simultaneously increased prices. As a result, TravelSky adjusted its discounting policies and increased the air ticket price for all the airlines in TravelSky’s network. The NDRC’s investigation was later dropped with no prosecution of the case because soon after the investigation was set up, the Civil Aviation Administration of China, the regulator of the aviation industry, made a public statement that such price increases were the result of independent adjustments by the airlines, and the airlines had not entered into any agreement to fix the price (Zhang and Zhang 2013, 128). The TravelSky case indicated that it is difficult for the young AML agencies to deal with the administrative interventions from authorities when investigating SOEs, especially those controlled by central authorities at the same rank.

Another example was the November 2010 case against Wuchang Salt. The NDRC’s local Hubei bureau took action against state-owned salt companies for their violation of the AML’s Article 17 (prohibition on abuse of dominance) and Article 7 (which prevents SOEs from using their exclusive operation rights to jeopardize consumers’ interests). The case was successful and, to some extent, reflected fewer obstacles of enactment of the AML against the SOEs at local levels, such as at the municipal or provincial levels, compared to central SOEs.

A more recent case is the 2011 investigation into the broadband business of the telecommunications giants China Unicom and China Telecom to examine whether the two companies had abused their dominant market positions (two-thirds of domestic broadband interconnection market) by obstructing other businesses from entering the broadband and Internet interconnection sector. However, following the announcement of investigation by the NDRC in December 2011, China Telecom and China Unicom released statements on their official websites noting that they had submitted an application for suspension of the antitrust investigation. In addition, the two companies acknowledged the existence of inconsistencies between the value of Internet connections and corresponding prices and promised revisions and improvements in Internet speed and cost. It turned out that the NDRC accepted the “commitments” put forward by the two companies and the investigation was pending without any further measures. Again, for an investigation against giant SOEs controlled by the central authorities, the antitrust authorities have to be adaptive to the circumstances and pressures from various sources.
In the field of merger-control, MOFCOM imposed restrictive conditions concerning the establishment of a joint venture between General Electric (China) and the Chinese state-owned Shenhua Coal-to-Liquids and Chemicals Group in its decision of November 10, 2011 (Norton Rose Group 2012, 6). This was not only the first published decision of MOFCOM involving a joint venture, but also the first involving a SOE directly controlled by the central government.

Comparable cases in Europe involved much more strenuous action by antitrust authorities. From 2008 to 2013, there were 2,370 antitrust cases, and 90 of them were related to public entities. The following two examples serve to illustrate the difference. One is the Deutsche Telekom case in which Deutsche Telekom charged a higher access fee at wholesale level than at the retail level to force its competitors to charge their end-users higher prices (the so-called “margin squeeze”). This was found to be abusive conduct by the European Commission in 2003 and confirmed by the European Court in 2008 (InfoCuria 2008), and the defendant’s argument was also not accepted by the European Court. Another is a June 2011 case in which the European Commission imposed a fine on a Polish telecommunications company for abusing its dominant position on the Polish broadband market.

**CHANGING DOMESTIC AND INTERNATIONAL POLICY BACKGROUND AND ITS IMPACT ON THE AML COMPETITION RULE**

The new economic reform agenda established in China’s third session of the eighteenth CPC plenary meeting has directed China’s SOE reform. In the report of “Decision of the Central Committee of the CPC on Some Major Issues Concerning Comprehensively Deepening the Reform” (hereafter the Decision), it is stated that SOEs are an important force for advancing national modernization and protecting the common interests of the people (China.org.cn 2014). Although SOEs generally have assimilated themselves into the market economy, they must adapt to new trends of marketization and internationalization and further deepen their reform by aiming the focus at regular decision making over operation, maintenance and appreciation of the value of state assets, participation in competition on an equal footing, raising production efficiency, strengthening enterprise vitality and bearing due social obligations. In natural monopoly industries in which state-owned capital continues to be the controlling shareholder, reform should be carried out, focusing on separation of government administration from enterprise management, separation of government administration from state assets management, franchise operation and government oversight. Based on the characteristics of different industries, the networks construction should be separated from operations. Competitive businesses should be decontrolled and public resources should be allocated and oriented towards the market. All forms of administrative monopoly should be continued to be dismantled. Based on all these statements, a more competition-neutral policy environment between SOEs and non-SOEs can be anticipated.

Aside from the change of domestic policy background, the development of the international trade negotiation system and of rules setting forth higher requirements for countries, including China, in globalization. This is reflected by the incorporation of competition policy in the network of bilateral agreements and RTAs by the European Union, and increasingly the United States and Japan. Within the European Union (specifically the European Commission, European Economic Area and European Free Trade Association) there have been extensive provisions on competition policy covering restrictive business practices (vertical and horizontal agreements and abuse of market dominance), mergers, public enterprise, controls on some public monopolies and provisions on state aid or subsidies. The European Union has also included provisions on competition in most bilateral agreements where the European Union or its member state is a party. This is also the case for the United States, Japan and Korea. In most of the bilateral agreements and RTAs in which the United States is involved, such as the North American Free Trade Agreement (NAFTA), US-Australia, US-Chile, US-Colombia, US-Peru, US-Israel, US-Korea and US-Singapore, competition policy and anti-competitive business conduct are addressed. Measures to proscribe anti-competitive business conduct are required to be maintained or adopted, while the effectiveness of the measures undertaken is to be reviewed. The similar chapter of competition policy could also be found in most bilateral trade agreements that Japan has signed.

Among the 12 bilateral trade agreements that China has signed, 10 of the early FTAs covered trade in goods and services only. One reason for this is because most of China’s partners in its early FTAs were developing countries or small economies, or did not urge China to incorporate competition policy in the agreements. Another reason is that China maintained a relatively conservative FTA strategy in the early stage, without touching upon complex fields such as competition policy, intellectual property rights protection, government procurement and so forth. However, the most two recent agreements, the China-Iceland FTA (signed in April 2013 and entered
China-US BIT is, therefore, expected to provide a level
a three-year review of the US model BIT and updated
Chinese multinational corporations; the remaining 29 are all large SOEs.
Technologies is the only privately-owned company among the 30 largest
Chinese state.5 The Obama administration conducted
relationship between Chinese outward investors and the
of Chinese outward direct investment is the close
regarding bilateral investment treaties (BITs) also cover
the United States and China and the European Union
In addition, the ongoing negotiations between China and
economic and technical cooperation, as well as competition.
Therefore, under the domestic and international policy
background, a new era of China’s FTA strategy is foreseeable, expanding from merely trade issues (both in
goods and services) to a broader and more comprehensive context including investment promotion, protection of
intellectual property rights, environmental protection, investment protection, government procurement,
e-commerce among others, and are to be negotiated from bilateral, multilateral, regional and sub-regional dimensions.

China’s two new FTAs represent its evolved strategy from
a gradual and conservative FTA approach to a speedy and
promotional one. This trend complies with the reform
directions established in China’s third session of the
eighteenth CPC plenary meeting. Also in the Decision,
the construction of free trade zones are addressed,
especially, new fields such as environmental protection,
investment protection, government procurement,
e-commerce among others, and are to be negotiated
from bilateral, multilateral, regional and sub-regional dimensions.

In short, if more bilateral FTAs signed by China incorporate
a competition provision and if the two significant BITs
China is expected to sign with European Union and the
United States materialize, it will place more challenges
on the effectiveness of the enforcement of China’s AML
administrative authorities, especially when China’s SOEs
are targeted.

China’s negotiations in any prospective large trade deal
will likely touch upon the coverage of the WTO GPA as
it involves China. China has not yet become a member
of the GPA, but if it does in the near future this will
effectively provide a framework for bilateral negotiations.
Negotiation on coverage is at the core of the GPA accession
process. It decides what kind of deal will be concluded
between the acceding country and existing GPA parties.
Due to China’s complicated government structure and
the large state sector, any negotiation on coverage poses
a number of challenges, and especially the difficulty in
enlisting state enterprises and ascertaining the scope of
covered procurement of listed state enterprises.

A lack of political incentive in consideration of other
industrial, environmental policy is a central difficulty
with the coverage of China’s GPA commitment. Enforced
in 2003, China’s Government Procurement Law (GPL)
institutionalized in its Article 10 a “buy Chinese” clause,
which gives preference to national goods, works and
services, except when those cannot be obtained in
China or cannot be obtained in China under reasonable
business conditions or are to be used outside of China.
Also in China’s draft of GPL enforcement regulation,
“Chinese products” are interpreted as commodities
that are produced in China and in which the domestic
producing cost of the final product exceeds a certain
proportion. “Chinese construction and services”
are defined as construction projects and services supplied by Chinese citizens, entities or organizations.
In addition to the inclusion of the above components in the
“buy national” policy, an “indigenous innovation scheme” was first adopted in 2006 and further
implemented in 2009. This scheme provides a mandatory

5 Poulson, Bonnitcha and Yackee (2013) point out that Huawei
Technologies is the only privately-owned company among the 30 largest
Chinese multinational corporations; the remaining 29 are all large SOEs.
catalogue listing of accredited products (while non-accredited products cannot be purchased). The scheme also includes unclear requirements relating to intellectual property rights (IPR), given the absence of disputes related to the IPR and that research and development located in China is at the origin of the IPR. However, in June 2011, the Chinese Ministry of Finance (MOF) announced the repeal of three key policies linking government procurement to the indigenous innovation policy, because this was deemed as a discriminatory policy for government procurement by many countries. This measure was further supported by a notice issued by the State Council in November 2011, directing all government entities to remove any mention of linkage between indigenous innovation policy and government procurement incentive measures within regulatory documents and to stop such implementation by December 1, 2011.

Despite revoking the indigenous innovation policy on government procurement, political incentive to use government procurement as a policy implementation tool to achieve other industrial, regional, environmental and even diplomatic policies still exists.\(^6\)

A fragmented institutional framework is another difficulty for China’s GPA accession. WTO GPA Appendix I commitments cover three levels of government procurement entities: central government departments; provincial government organs; and other public entities (state enterprises). Taking full charge of the GPA negotiation, the MOF does not have complete authority over procurement of all SOEs, emphasizing the problem of a fragmented institutional structure. As Ping Wang (2009, 673) noted, the procurements by the SOEs at either the central or local level were significantly influenced by many national central ministries, such as the NDRC, the state-owned Assets Supervision and Administration Commission (SASAC), line ministries such as the Ministry of Industry and Information and the Ministry of Railway and the provincial governments. MOFCOM, as the chief trade negotiator, also controls procurement of imported electronic and mechanical products. Furthermore, Wang (2009) argued it is difficult for the MOF to coordinate the procurement behaviours of certain giant SOEs, which have ministerial or semi-ministerial prerogatives, and thus are at the same rank as the MOF.

A fragmented legal framework is also a difficulty. While procurement of SOEs, where public funds are used or public interests are involved, is covered by the tendering and bidding law (TBL), it is outside of the scope of the GPL. The tension between these two national laws and their oversight of government ministries (namely NDRC and MOF) significantly undermines the coherence of a domestic public procurement legal framework and legal certainty. Gilbert V. Kerckhove, chairman of the Public Procurement Work Group of the European Chamber, characterized this fragmented legal framework as “the legal duality,” and defined it as the most significant issue in China’s GPA negotiation with the European Union because market access to the projects related to energy, construction, power generation, railways and subways, water treatment and many other services, which are regulated under the TBL, is mostly restricted to foreign bidders (Van Kerckhove 2010).

Since the GPL falls under the jurisdiction of the MOF, it only covers procurement of government organizations and public institutions (such as public universities and hospitals). Thus, it will be difficult for the MOF to include in China’s GPA offer coverage of state enterprises procurement without further changes in the legal framework.

**EVALUATION OF CHINA’S OFFER OF ACCESSION TO GPA**

As a plurilateral agreement under the WTO framework, the WTO GPA only regulates government procurement practices on a voluntary basis of those WTO members who choose to bind in the GPA. Based on the GPA structure, the members’ commitments are reflected in the seven annexes in Appendix I. Annexes 1 to 3 contain lists of central level government, sub-central government and other public entities covered, while Annexes 4 and 6 specify each party’s covered goods, services and construction services and Annex 7 stands as general notes. Therefore, the effective coverage of commitments under the GPA is determined by the combined result of entity coverage, product coverage and threshold. For each GPA member, only those government procurement contracts falling within the product list in Annexes 4 to 6 with awards above a threshold for the entities in Annex 1 to 3 are considered and influenced by the GPA rules.

China has been accepted as a WTO GPA observer since 2002, applied for accession to the GPA in December 2007 and submitted its initial offer in January 2008. Four revised offers were submitted on July 2010, November 2011, November 2012 and January 2014, respectively.

Table 1 reports the evolution of China’s GPA threshold offers. The reduced threshold indicates the concessions China has made to GPA members. However, China’s latest reduced threshold offer is still much higher than that for the European Union, Japan or the United States.

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6 The Chinese government has also used procurement of SOEs as a political and diplomatic policy instrument to ease anxiety in the United States over the Sino–US trade deficit. In 2006, a delegation consisting of more than 100 Chinese state enterprises signed an array of procurement contracts worth around US$15 billion involving projects ranging from software, power generation equipment to automobiles and electronic products.
### Table 1: Threshold Offer to the WTO GPA by China

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<tr>
<td><strong>Annex 1 Central Government Entities</strong></td>
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<tr>
<td><strong>Goods</strong></td>
<td>500</td>
<td>500 for the 1st and 2nd year after implementation, 400 for the 3rd year, 300 for the 4th year, 200 from the 5th year</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
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<tr>
<td><strong>Services</strong></td>
<td>4,000</td>
<td>500 for the 1st and 2nd year after implementation, 400 for the 3rd year, 300 for the 4th year, 200 from the 5th year</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
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<tr>
<td><strong>Construction</strong></td>
<td>200,000</td>
<td>100,000 for the 1st year after implementation, 80,000 for the 2nd year, 50,000 for the 3rd year, 30,000 for the 4th year, 15,000 from the 5th year</td>
<td>80,000 for the 1st year and 2nd year after implementation, 50,000 for the 3rd year, 30,000 for the 4th year, 15,000 from the 5th year</td>
<td>50,000 for the 1st year and 2nd year after implementation, 30,000 for the 3rd year, 25,000 for the 4th year, 15,000 from the 5th year</td>
<td>Same as third revised offer</td>
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<td><strong>Annex 2 Sub-Central Government Entities</strong></td>
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<tr>
<td><strong>Goods</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>750 for the 1st and 2nd year after implementation, 600 for the 3rd year, 500 for the 4th year, 400 from the 5th year</td>
<td>Same as the second revised offer</td>
<td>Same as the second revised offer</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>750 for the 1st and 2nd year after implementation, 600 for the 3rd year, 500 for the 4th year, 400 from the 5th year</td>
<td>Same as the second revised offer</td>
<td>Same as the second revised offer</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>N/A</td>
<td>N/A</td>
<td>150,000 for the 1st year after implementation, 100,000 for the 2nd year, 80,000 for the 3rd year, 50,000 for the 4th year, 30,000 from the 5th year</td>
<td>100,000 for the 1st year after implementation, 80,000 for the 2nd year, 40,000 for the 4th year, 30,000 from the 5th year</td>
<td>60,000 for the 1st year and 2nd year after implementation, 50,000 for the 3rd year, 40,000 for the 4th year, 20,000 from the 5th year</td>
</tr>
<tr>
<td><strong>Annex 3 Other Entities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Goods</strong></td>
<td>900</td>
<td>900 for the 1st and 2nd year after implementation, 800 for the 3rd year, 700 for the 4th year, 600 from the 5th year</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>N/A</td>
<td>900 for the 1st and 2nd year after implementation, 800 for the 3rd year, 700 for the 4th year, 600 from the 5th year</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>300,000</td>
<td>200,000 for the 1st year after implementation, 180,000 for the 2nd year, 150,000 for the 3rd year, 130,000 for the 4th year, 100,000 from the 5th year</td>
<td>Same as first revised offer</td>
<td>Same as first revised offer</td>
<td>80,000 for the 1st year and 2nd year after implementation, 60,000 for the 3rd year, 50,000 for the 4th year, 40,000 from the 5th year</td>
</tr>
</tbody>
</table>

**Source:** Author’s compilation based on information in www.ccgp.gov.cn/.

**Note:** Units used here are thousand SDRs.
NME AND CHINA’S SOEs

Another area of trade policy where SOEs seem likely to arise in any of China’s trade negotiations with developed countries concerns the issue of China’s status as a market economy or a NME. This is a matter that is involved with antidumping procedures in domestic law, principally in the United States and the European Union. At the time of China’s accession to the WTO in 2001, US and EU negotiators argued that because of the extensive presence of SOEs, China should be viewed as a NME rather than a market economy. China accepted this argument and China’s accession terms explicitly allow other WTO members to treat China as a NME under their domestic laws until 2016.

In reality, there is no clear definition of what constitutes a market economy or a NME, but at an operational level there is a considerable impact on China if it is treated in this way under antidumping laws. If China is labelled a NME, antidumping procedures against Chinese exports in the United States and the European Union follow a different procedure both in the determination of dumping and in the size of dumping margins, and hence rates of duty. Under the terms of the designation, China’s trading partners do not need to take into account China’s domestic production costs in the determination of dumping. Instead, production costs in a “surrogate” third country can be used to calculate the so-called normal value of Chinese exports. The use of a surrogate country (often an emerging economy such as Turkey or Mexico), where material and labour are of a much higher cost than in China, typically means that Chinese exports are being sold below their normal value. The result is that they can become subject to duties that are large and often exceed 100 percent.

China has repeatedly tried to change its NME designation to which it agreed in 2001, largely without success. In the RTA negotiation with New Zealand, Chinese exports were granted market economy status. Similar indications have been made by Australia, but no progress has been made in the larger markets of the European Union and the United States. In 2016, WTO negotiations will likely arise as to China’s designation. It could be that concessions made by China on other issues, including SOEs, such as on government procurement may be needed to obtain EU and US agreement to a change in designation.

Part of the difficulty with the issue lies in the clear definition of terms. NME is a counterpart designation to the market economy, and there are a diversity of economic parameters between a centrally planned and a market economy. Hence, it is difficult to legally define a market economy or a NME. Apart from the United Nations Conference on Trade and Development (UNCTAD), a detailed definition has not been produced by influential international organizations, although there are official statements that together form

Besides the WTO GPA, encompassing the government procurement issue in a FTA is another trend in the internationalization of government procurement. Increasingly, FTA or RTA negotiations include government procurement. Taking the United States as the example, starting from the US-Israel FTA enforced in 1985, the United States has covered government procurement issues in its FTAs with Canada, NAFTA, Chile, Central America-Dominican Republic, Panama, the Andes (Columbia, Peru, Ecuador), Korea, Singapore, Malaysia, Australia, Thailand, Bahrain, Oman, United Arab Emirates, South African Custom Union and Morocco. There is a trend in recent RTAs of incorporating elements of government procurement. Ueno (2013) highlighted 47 RTAs by OECD members with coverage commitments on government procurement. This is also a possible approach for China to take to open its government procurement market.

Besides the threshold, the list of entities in Annex 1 to Annex 3 is a concern of the GPA members. In 2007, under China’s original offer, only 50 entities at the central government level were covered, and no entity was included in Annex 2 or 3. In 2010, under the first revised offer, the number of entities in Annex 1 was increased to 61, and 14 new entities were added to Annex 3. In 2011, under the second revised offer, sub-central government entities for the first time appeared in Annex 2, which included 34 entities from Beijing municipality, 34 entities from Tianjin municipality, 35 entities from Shanghai municipality, 33 entities from Jiangsu province and 35 entities from Zhejiang province. In 2012, under the third revised offer, the entities in Annex 2 were expanded to Fujian province (34 entities), Shandong province (33 entities) and Guangdong province (33 entities). Under the recent fourth revised offer, another five provinces (Liaoning, Henan, Hebei, Hunan and Hubei) and one municipality (Chongqing) were added in Annex 2. The detailed information of the newly included sub-central government entities is not yet disclosed.

There are no developments regarding SOEs inclusion in Annex 3 of China’s GPA offer. So far, the 14 entities in China’s Annex 3 offer are Xinhua News Agency, Chinese Academy of Sciences, Chinese Academy of Social Sciences, Chinese Academy of Engineering, Development Research Center of the State Council, China National School of Administration, China Earthquake Administration, China Meteorological Administration, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, State Electricity Regulatory Commission, National Council for Social Security Fund and National Natural Science Foundation.

Besides the WTO GPA, encompassing the government procurement issue in a FTA is another trend in the internationalization of government procurement. Increasingly, FTA or RTA negotiations include government procurement. Taking the United States as the example, starting from the US-Israel FTA enforced in 1985, the United States has covered government procurement issues in its FTAs with Canada, NAFTA, Chile, Central America-Dominican Republic, Panama, the Andes (Columbia, Peru, Ecuador), Korea, Singapore, Malaysia, Australia, Thailand, Bahrain, Oman, United Arab Emirates, South African Custom Union and Morocco. There is a trend in recent RTAs of incorporating elements of government procurement. Ueno (2013) highlighted 47 RTAs by OECD members with coverage commitments on government procurement. This is also a possible approach for China to take to open its government procurement market.
an official structure of what is needed for a country to be considered as a market economy.

UNCTAD defines a market economy as “a national economy of a country that relies heavily upon market forces to determine levels of production, consumption, investment and savings without government intervention” (UNCTAD 2013, “Market Economy”). Likewise, UNCTAD’s definition of a NME is as follows:

“A national economy in which the government seeks to determine economic activity largely through a mechanism of central planning, as in the former Soviet Union, in contrast to a market economy which depends heavily upon market forces to allocate productive resources. In a “non-market” economy, production targets, prices, costs, investment allocations, raw materials, labour, international trade and most other economic aggregates are manipulated within a national economic plan drawn up by a central planning authority. Hence, the public sector makes the major decisions affecting demand and supply within the national economy.” (ibid., “Non market Economy”)

The WTO agreement that China entered into offers no guidance as to what constitutes a NME, nor as to how they should be treated in antidumping proceedings. Different users of the antidumping instrument use diverse methods for applying special rules for NMEs. The consensus among the authors in this paper is that the origins and application of NMEs in EU’s antidumping law and the US antidumping law. These domestic laws had significant impact on China’s accession to the WTO and the resulting substantial antidumping case involving China.

Under US domestic law and under 19 USCS § 1677 (18) (Legal Information Institute n.d.b), the term “NME country” means any foreign country that the administering authority determines does not operate on market principles of cost or pricing structures, so that sales of merchandise in such a country do not reflect the fair value of the merchandise.

And in making determinations whether a foreign country is a market economy or a NME, the US administering authority takes six factors into account:

- the extent to which joint ventures or other investments by firms of other foreign countries are permitted in the foreign country;
- the extent of government ownership or control of the means of production;
- the extent of government control over the allocation of resources and over the price and output decisions of enterprises; and
- such other factors as the administering authority considers appropriate. (Legal Information Institute n.d.a)

In 2016, the decision as to how to treat China will remain a domestic issue under US law, as there will be no treaty commitments governing any US determinations since the 2001 decision by China was merely to agree to the US determination. To ensure a change in 2016, the decision would seemingly require a Chinese negotiation in which China makes concessions elsewhere in return for a changed designation. Meanwhile, academic research literature has stressed the rapid changes in the Chinese economy since 2001 with SOE reforms and the growth of private Chinese enterprises. Wang and Whalley (2013) have recently compared four and eight firm concentration ratios for Chinese and US enterprises, concluding that Chinese ratios are around half of US ratios. The implication is that the Chinese economy is more competitive than the United States and has stronger market forces.

China agreed to the NME designation for 15 years in its commitment to the WTO. The working party report on the accession of China constantly refers to the Chinese economic model as in transition towards a socialist market economy, and signals the fact that the Chinese economy bears characteristics of both market economy and NMEs. When acceding, China committed to undertake several reforms regarding subsidies, including management of SOEs and liberalization of its banking system, which assured a level playing field between China and other economies under the WTO system. China has made numerous requests to change the NME to market economy status and has taken efforts in bilateral trade negotiations to gain market economy status. So far, approximately 150 countries have granted China market economy status, while most OECD countries (EU member states, Japan, United States and India) still label China as a NME. It is the partner country’s decision whether to grant China market economy status. And for those that have a large bilateral trade volume, the NME works as a strong trade protection instrument against the price competitiveness of China’s manufacturers. Also, from the perspective of the relative bargaining power in bilateral negotiation, China has no advantages over most OECD countries.
In 2013, the World Bank published a report arguing China still has not completed its transition process 10 years after accession. The report claims that the government continues to dominate key sectors and, “China’s transition to a market economy is incomplete in many areas. A mix of market and non-market measures shapes incentives for producers and consumers, and there remains a lack of clarity in distinguishing the individual roles of government state enterprises, and the private sector” (World Bank 2013, 25). It seems, therefore, that China needs to resolve these issues, accelerate structural reforms and develop a market-based system in which the state focuses on providing key public goods and services — while a private sector plays the role of driving growth.

Considering the internal opposition to further liberalization and privatization reforms, some commentators have doubted whether China could ever complete its transformation into a full market economy, given the intrinsic political links between the party, SOEs and the means by which public policies are implemented. However, private enterprises have played an increasingly important role in China’s economic development and the changed competition structure indicates a smaller proportion of NME in China. The SOE issue between the European Union and the United States is also likely to be raised in their trade negotiations. Therefore, with the end of the WTO agreement, 2016 may be a watershed year on this issue and will likely figure prominently in many China-OECD trade negotiations.

**SUBSIDIES**

A final sub-issue connected to negotiations that touch on SOEs is the question of subsidization.

**OVERVIEW OF CHINA’S SOE SUBSIDIES**

As a complex trade topic, government subsidization of SOEs is subject to the general WTO disciplines set out in the Agreement on Subsidies and Countervailing Measures (SCM Agreement), which supplements Articles VI and XVI of the General Agreement on Tariffs and Trade. Subsidies may take various forms, from direct transfer of funds (such as grants, loans, equity infusion and loan guarantees), to indirect benefits such as foregone government revenue otherwise due (such as tax credits), provision of goods or services other than general infrastructure, or purchase of goods by the government.7

From a functional perspective, all direct and indirect financial assistance from China’s central and local governments to SOEs can be grouped into three general categories: subsidies provided to sustain and revive loss-making SOEs; subsidies provided in order to privatize or otherwise restructure SOEs; and subsidies provided to foster key SOEs (Qin 2004).

At one time, the first category of subsidies was the most important financial contribution of the government to China’s SOEs. Between 1999 and 2001, it was estimated that one-half of China’s SOEs were losing money. The share of the subsidies to loss-making SOEs in China’s government expenditures declined from a high of 25 percent in 1985 to about two percent in 2000. Subsidies to loss-making SOEs alone were 2.6 percent of the total profits of all SOEs in 2001, and were larger in previous years (Eckaus 2006). Besides the direct budgetary subsidies, China’s government allowed many loss-making SOEs to stay in business and this resulted in the accumulation of a large portfolio of non-performing loans at state banks. In 2003, non-performing loans at the four major state banks amounted to more than 17 percent of China’s GDP. However, data from independent sources indicated that the amount of such loans could be twice as much. China’s government had taken measures to reform SOEs since the mid-1980s. One of the important measures from the mid-1990s was the closing down or restructuring of the small- and medium-sized loss-making SOEs and the sale or consolidation of SOEs into large group companies. Table 2 highlights the shrinking share of China’s SOE in the economy from the mid-1990s to 2012. The number of SOEs decreased by 40 percent from 1995 to 2002, which in turn reduced subsidies to the loss-making SOEs. This elimination of subsidies to loss-making SOEs was a component of China’s commitment upon entering the WTO in 2001. It is difficult to estimate the size of the second category of subsidies (those subsidies that help to privatize or restructure SOEs). No statistics are available regarding this.

The third category of subsidies aims to foster key SOEs. Hundreds of large profit-making SOEs have been designated as state key enterprises, of which about 190 are “central enterprises” under direct supervision of the State-owned Assets Supervision and Administration Commission (SASAC) (Qin 2004). These key SOEs receive not only budgetary funding from the government, but also low-interest loans via state-owned banks.

New forms of subsidies exist for key SOEs. For example, a major state bank issued the first US-dollar-denominated bond in China’s domestic market in 2003, and the proceeds of US$500 million were to be lent to SOEs to retire their existing high-cost foreign debts (ibid.).

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7 Exceptions are provided for the agricultural sector.
<table>
<thead>
<tr>
<th>Year</th>
<th>Number of SOEs</th>
<th>Share of SOEs in total number of industrial enterprises (%)</th>
<th>Employed persons by SOEs (10,000 persons)</th>
<th>Share of SOEs in employment for urban area (%)</th>
<th>Gross Industrial Output Value by SOEs (100 million yuan)</th>
<th>Share of SOEs in Gross Industrial Output Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>118,000</td>
<td>23.12</td>
<td>10,955.00</td>
<td>73.48</td>
<td>31,220.00</td>
<td>56.82</td>
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<td>1996</td>
<td>113,800</td>
<td>22.47</td>
<td>10,949.00</td>
<td>73.76</td>
<td>36,173.00</td>
<td>57.66</td>
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<td>1997</td>
<td>98,600</td>
<td>21.05</td>
<td>10,766.00</td>
<td>73.40</td>
<td>35,988.00</td>
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<td>1998</td>
<td>64,700</td>
<td>39.19</td>
<td>8,809.00</td>
<td>71.40</td>
<td>33,621.00</td>
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<td>1999</td>
<td>50,651</td>
<td>31.26</td>
<td>8,336.00</td>
<td>70.80</td>
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<td>2000</td>
<td>42,426</td>
<td>26.05</td>
<td>7,878.00</td>
<td>69.97</td>
<td>20,156.29</td>
<td>23.53</td>
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<td>2001</td>
<td>34,530</td>
<td>20.16</td>
<td>7,409.00</td>
<td>68.65</td>
<td>17,229.19</td>
<td>18.05</td>
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<td>2002</td>
<td>29,449</td>
<td>16.22</td>
<td>6,923.81</td>
<td>65.58</td>
<td>17,271.09</td>
<td>15.59</td>
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<tr>
<td>2003</td>
<td>23,228</td>
<td>11.84</td>
<td>6,621.28</td>
<td>63.11</td>
<td>18,479.40</td>
<td>12.99</td>
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<td>2004</td>
<td>23,417</td>
<td>8.47</td>
<td>6,438.21</td>
<td>60.88</td>
<td>65,971.10</td>
<td>32.70</td>
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<tr>
<td>2005</td>
<td>16,824</td>
<td>6.19</td>
<td>6,231.98</td>
<td>57.44</td>
<td>N.A.</td>
<td>N.A.</td>
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<tr>
<td>2006</td>
<td>14,555</td>
<td>4.82</td>
<td>6,170.47</td>
<td>55.29</td>
<td>30,728.16</td>
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<td>2007</td>
<td>10,074</td>
<td>2.99</td>
<td>6,147.61</td>
<td>53.80</td>
<td>36,387.12</td>
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<td>2008</td>
<td>9,682</td>
<td>2.27</td>
<td>6,126.12</td>
<td>53.20</td>
<td>46,856.89</td>
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<td>2009</td>
<td>9,105</td>
<td>2.10</td>
<td>6,077.86</td>
<td>51.40</td>
<td>45,648.02</td>
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<td>2010</td>
<td>8,726</td>
<td>1.93</td>
<td>6,145.11</td>
<td>50.16</td>
<td>57,013.00</td>
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<tr>
<td>2011</td>
<td>6,707</td>
<td>2.06</td>
<td>N.A.</td>
<td>N.A.</td>
<td>66,672.56</td>
<td>7.90</td>
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<td>2012</td>
<td>6,770</td>
<td>1.97</td>
<td>6,467.24</td>
<td>44.90</td>
<td>N.A.</td>
<td>N.A.</td>
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</table>

Source: China Data Online.
THE TRADE EFFECTS OF CHINA’S SOE SUBSIDIES

These three categories of subsidies have different potential trade effects. Subsidies to loss-making SOEs merely postpone their eventual closing down and seem to have little trade effect, because the products made by the loss-making SOEs cannot easily be exported, nor can they compete with the imported products or products made by foreign-invested companies sold in China’s domestic market.

Subsidies for restructuring and privatization of SOEs fall into the previous categories of non-actionable subsidies8 under the SCM Agreement, as long as recipients of financial support are not specific to certain entity, industry or group of entities, and the supported SOEs are finally privatized. However, trade effects of subsidies to key SOEs are a major concern to China’s trade partners, because these key profit-making SOEs are competitive rivals to large multinational enterprises both in international markets and in China’s domestic market. According to the WTO statistics on subsidies and countervailing measures, 69 investigations have been launched concerning China’s export goods by WTO members between 1995 and June 2013, 45 of them ultimately resulted in a countervailing duty to counter the effect of subsidies. Compared to 950 antidumping investigations and 683 measures of China’s export goods for the same period, the compatible numbers for subsidies are much less. Another difference between China’s antidumping cases and its subsidies cases is the time series. As early as 1995, China was the target for 20 antidumping investigations and 27 antidumping measures, while reported subsidies and countervailing measures against China’s export goods are only available from 2005. Regarding the distribution of the countries that charged countervailing duties, the United States initiated the most investigations and took countervailing measures against China. In the 69 investigations and 45 measures against China, 34 investigations and 27 measures have been conducted by the United States. Other importing jurisdictions initiating countervailing investigations against China include Canada (18 investigations and 12 measures), Australia (eight investigations and six measures) and the European Union (six investigations and two measures). Unlike antidumping investigations against China by developing countries (such as India, Argentina and Turkey), most countervailing investigations and measures against China’s export goods are launched by developed countries. Therefore, in China’s prospective trade negotiations with large developed economies, subsidies will surely be a major concern.

The issue, however, is what might be negotiated beyond the existing WTO subsidies code, which stimulates discussion between subsidies to SOEs and other enterprises. Separately actionable subsidies may be discussed, but the specifics of how these might work remain opaque.

CONCLUSION

Starting with the China-Iceland FTA and China-Switzerland FTA, China’s prospective trade agreements, especially when negotiating with larger trade partners, are expected to use a comprehensive FTA template, which expands from merely trade issues in goods and in services to a broader coverage including investment, competition policy, intellectual property rights, environment, economic and technical cooperation, and even potentially trade remedies and government procurement provisions. Trade negotiations on trade in goods are relatively easier to conduct as tariffs hamper market access for foreign trade. To what extent this occurs can be assessed in a relatively straightforward way. Countries may negotiate reciprocal concession packages of more or less similar magnitude. This procedure is unfit for trade negotiations incorporating comprehensive trade issues when non-tariff measures form the most important type of trade barriers. An integral approach with a comprehensive balancing package covering different trade issues might be the overall strategy for such trade negotiations.

As for the four sub-issues relating to China’s SOEs in its prospective trade negotiations, cross sub-issue bargaining could be a possible resolution. Based on the precedent of Australian-New Zealand Closer Economic Co-operation Agreement (ANZCERTA), the potential concessions China could make include removing the somewhat ambiguous regulation regarding SOEs in the AML (Article 7) or expanding the coverage offer of entities in the GPA. The ANZCERTA requires member states to revise competition law in order to address anti-competitive conduct affecting trans-Tasman trade in goods, without recourse to antidumping actions. This, therefore, offers an interesting alternative and may have lessons in the relationship between antidumping and competition policies for other bilateral and regional agreements or perhaps even wider international agreements on competition policy. If China’s concession of revising its AML (Article 7) could, in return, grant China market economy status in the bilateral trade negotiations, the potential significant benefit of diminishing antidumping cases against China’s exports is surely a great compensation.

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8 The current SCM agreement defines only two categories of subsidies: prohibited and actionable. It originally contained a category of non-actionable subsidies. This category existed for five years, ending on December 31 1999, and was not extended.


InfoCuria. 2008. “T-271/03 - Deutsche Telekom v Commission.” http://curia.europa.eu/juris/liste.jsf?pro=&nat=or&opg=&dates=&lg=&language=en&jur=C%2CT%2CFF&cit=none%252CC%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252C%252Ctrue%252Cfalse%252Cfalse%num=T-271%252F03&td=%3BALL&pcs=Oor&avg=&page=1&mat=or&jge=&for=&cid=339834.


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Alex He

The G20 has emerged as the lynchpin of China’s involvement in global economic governance. It remains the only economic institutional setting where the country can operate on par with major Western powers. China has a strong interest in maintaining the status of the G20 as the premier forum for economic cooperation, and a vested interest in ensuring that the G20 does not degrade into yet another “talk shop” of multilateral diplomacy. However, the Chinese leadership’s current approach to the G20 is not driven by a desire to position the country as a leading agenda setter.

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CIGI Special Report
Paul Jenkins, Thomas A. Bernes, Perry Mehrling and Daniel H. Neilson

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Malcolm D. Knight

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CIGI Papers No. 43
Skylar Brooks, Domenico Lombardi and Ezra Suruma

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China and Sovereign Debt Restructuring

CIGI Papers No. 45
Hongying Wang

More than a decade after it put forth the idea of the Sovereign Debt Restructuring Mechanism in the early 2000s, the International Monetary Fund is again seeking to engage various stakeholders in a new round of discussions about improving sovereign debt restructuring. This paper, by CIGI senior fellow Hongying Wang, contends that from China’s point of view, the most important question in debt management is how to prevent excessive borrowing and lending and reduce the likelihood of unsustainable debt.

China’s Goals in the G20: Expectation, Strategy and Agenda

CIGI Papers No. 39
Alex He

The G20 has emerged as the lynchpin of China’s involvement in global economic governance. It remains the only economic institutional setting where the country can operate on par with major Western powers. China has a strong interest in maintaining the status of the G20 as the premier forum for economic cooperation, and a vested interest in ensuring that the G20 does not degrade into yet another “talk shop” of multilateral diplomacy. However, the Chinese leadership’s current approach to the G20 is not driven by a desire to position the country as a leading agenda setter.

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ABOUT CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI’s interdisciplinary work includes collaboration with policy, business and academic communities around the world.

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CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l’appui reçu du gouvernement du Canada et de celui du gouvernement de l’Ontario.

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