

# **China's**

# **Trade & Standards**

## **Policy Review**

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China is quickly becoming the World Trade Organizations (WTO) number one trading country. It is the third largest trading power in the world. As a result of their fast and steady rise to the top the need to standardize China's trade policies and procedures is critical in order to ensure that all members of the World Trade Organization (WTO) are using the same system.

This paper explores the following: the origin of China's trade standards; the types of materials China trades; China's membership into the World Trade Organization; the governing bodies of China's standards; an evaluation of China's approach to Trade standards in comparison with the United States' (U.S.), approach to Trade Standards; and the relationship between the two countries. (1)

In the early 1900s China operated treaty ports that were managed by the Chinese Maritime Customs office. Their main trading partners were the U.S., England, France Germany, and Japan. As more and more treaty ports opened trade gradually increased. (2)

By 1950-1976 China's trading slowed down significantly due the U.S. halting trade operations with them for supporting North Korea in the Korean War. As a result China turned to Moscow to make up the currency lost from its number one trading partner. (2)

In 1977, China's a new ruler, Deng Xiaoping, who succeeded the infamous Chairman Mao, created an open-door trade and investment policy. This resulted in the formation of Economic Zones, which were used for trade and foreign investment. (2)

By the late 1970s and late1980s, Foreign trade operations had decentralized and trade represented nearly 20% of China's gross nations product. (2)

In the 1990s' China's Global Trade totaled \$353 billion with a trade surplus of \$36 billion. Its trade partners increased to include the aforementioned countries, plus Taiwan, South Korea, Hong Kong, Singapore, Russia, and the Netherlands. (2)

At the turn of the 21<sup>st</sup> century the World Trade Organization decided it was time to bring China into the organization, because of their proven successful track record and reputation in trade. The President of the U.S., Bill Clinton, was a pivotal figure in spearheading the efforts to bring China in to the WTO.

In December of 2001 China officially became a member of the WTO. The began the intense review and modification of China's trading standards, so they could comply with current WTO standards. China's WTO accession makes significant boosts to foreign

investments and refuels the economy, which supports its massive population of 1.3 billion people. Estimates state that nearly 400 million people have been lifted out of poverty due to trade over the last 25 years.

China exports the following materials to the US and various countries: Steel & Metals; Petroleum; Construction; Plastic Goods; Uranium; Textile Products; Coal; Stones; Natural Gas; Adhesives; Kerosene; Cement; Ceramics; Surgical Materials; Semiconductors; Packing & Shipping materials; Electronics; Industrial Methanol; Air Condition; and Rubber. With so many materials moving out of the country Standards are critical in ensuring products meet consumer expectation. These exports are monitored and regulated through the following committees created by China's government and the WTO:

(3)

- Administration for Quality Supervision Inspection & Quarantine (AQSIQ)
- Standards Administration of China (SAC)
- China National Regulatory Commission for Certification and Accreditation (CNCA)
- WTO Agreement on Technical Barriers on Trade (WTO TBT)

The Administration for Quality Supervision Inspection & Quarantine (AQSIQ) was created in April of 2001 by the former State Administration for Entry-Exit Inspection and Quarantine (CIQ) and the State Quality and Technical Supervision Bureau (QTSB). The purpose of this administration is to: ensure that China meets its WTO national obligations; manage standards and conformity assessment regulatory structure; enforce compliance with certification requirements; and conduct quality and entry-exit inspections for commodities. (3)

The Standardization Administration of China (SAC) was also created in 2001 by the AQSIQ and China's State Council. The purpose of SAC is to: draft China's annual national standard agenda and approve, record, and publish the final standards; determine the scope of the standards each agency may set; and manage and coordinate the technical committees assigned to draft the technical standard. (3)

The China National Certification and Accreditation Commission (CNCA) was also created in 2001 by the AQSIQ and China's State Council. The purpose of CNCA is to: designate certification bodies, testing laboratories, inspection organizations and certificate-mark

issuing bodies; publish and official list of certification products and manufacturers; and direct local AQSIQ branches to find violators of compulsory certification. China's Compulsory Certification (CCC) program test products safety and conformity to technical standards. The (CCC) mark on products has the greatest impact to foreign companies because it ensures they are receiving a product that has been inspected and certified and meets applicable standards. (3)

The last but not least of China's trade governing agencies is the World Trade Organization's Agreement on Technical Barriers on Trade (WTO TBT). The WTO created the TBT National Inquiry Center in 1995 because they knew China was being invited into the WTO and with its massive Trade Industry, an agency needed to be in place to help guide their transition. The purpose of the WTO TBT center is to: respond to trade related issues from WTO members on China's Standards and conformity assessments; represent china when submitting TBT related inquiries to WTO; and notify the WTO of all new standards adopted within China. (3)

While all of these organization are in place to help regulate China's Trade Policies and Standards their conformity to the WTO's requirements has been challenging as best. China sets and drafts

standards at the national, provincial and industry levels without involving consultation from the international industry, which raised red flags by the U.S. companies buying their products. As a result it has affected the technology exports.

China's Protocol of Accession (paragraph 178) states their pledge to abide by WTO obligations and give advance notice of proposed standards and technical regulations they have created, however these provision are often vague or unclear as to how the process should happen. (3)

As a part of China's WTO agreement they pledged to adopt 2,000 international standards per year within the first five years. At the end of 2002, 42.4 % of China's international standards were not equivalent to the WTO's international standards. Only 2169 were identical to various versions of their international counterparts. (3) Conformity to international regulations will continue to be a serious issue with so many goods that have to be monitored.

China has involved some foreigners and foreign companies in the process of drafting standards through various technical committees; however the SAC has to approve their appointment onto the committee. For instance in order to improve trade relations with

U.S. and European companies, the SAC signed cooperative agreements with Siemens, Ltd., China and Volkswagen Investment (China)Co.,Ltd. These agreements entail standards exchange, training, and a voice in drafting relevant standards.

China prefers to work with Europeans when creating standards due to their “one country, one vote” voting structure and the European Commission directly negotiates with China on standards issues. The U.S. refers its National Institute of Standards and Technology to ensure “good Standard development”. The also U.S. allows the related government agency to draft standards rather than a centralized standards committee that drafts all standards. (3) This is not favored in China’s standards procedures.

Another example of China not fully embracing key WTO principles of non-discrimination and national treatment policy is an issue regarding their Steel Industry Development Policy. This policy, in 2006, still includes objectives and guidelines that call for the use of domestically produced steel-manufacturing equipment and domestic technologies whenever domestic suppliers exist. The Steel policy also attempts to dictate industry outcome and involves the government in making decisions that should be made by the market.

This high degree of government direction and decision-making is against the commitment China made in the WTO accession agreement that states the government “would not influence, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises.” (5)

The U.S. continues to be concerned with the uneven bilateral trade relationship that we have built with China. As a result of all the materials we export from China, U.S. consumers have been afforded the luxury of a wide variety of less costly goods, which help spur the economic growth while minimizing inflation. (4)

While we continually support China’s economy with exports, they create barriers on materials we produce for export. “The US’s main concerns with China’s trading are: failure to protect intellectual property; failure to protect labor rights and enforce labor laws and standards; unreported and extensive government subsidies; and preferences for its own industries; environmental concerns; spotty compliance with some international trade rules; and a large and growing imbalance in our bilateral trade flows, resulting in a trade deficit of \$202 billion in 2005.” (4) Many of these issues are a result of the Communist government that still persists in China. While

conformity to a more democratic country is ideal, China still has to maintain control over its large population and there in lies challenges with trying to keep up with one of the largest populated countries in the world.

The U.S. wants to ensure that Trade relations between China continue to improve and benefit both countries and the WTO, and that China steps up to the plate to level out the playing field as a fully functioning power player in world trade. To ensure China complies the U.S has set six objectives that it will follow in 2006 to monitor China's Trade Policy enhancements.

Those six objectives are:

1. **Participation:** Integrate China as a fully functioning stakeholder in global rules-base system of international trade with support from world markets. (4)
2. **Implementation and Compliance:** Monitor China's adherence to international and bilateral trade obligations and secure full implementation and compliance. (4)
3. **Enforcement of U.S. Trade Laws:** Ensure US trade laws are enforced, so that Chinese imports are fairly traded and competitive in the U.S. market. (4)

**4. Further Market Access and Reform:** Secure further access to Chinese market and greater economic reforms in China to ensure U.S. companies and workers can compete on the same level. (4)

**5. Export Promotion:** Effective export promotion with attention to U.S. export growth potential in China. (4)

**6. Proactive Identification and Resolution of Trade Problems:**  
Identify mid and long term challenges that are encountered in trade relationships and proactively address the issues. (4)

By working with China to ensure all Six Objectives are accomplished an alliance will be built between two of the world's most powerful countries that only stands to strengthen them both.

The future for China is very promising if it continues to conform to the WTO trade policies and standards. China's exports and imports are expected to exceed \$1.6 Trillion this year. (6) China is predicted to be the world's biggest economy by 2050 and be THE largest trading nation in the world. (7) The opportunities for China's growth are endless, but in order to get to the top and stay there, they must comply with world regulations. China's door is there and the world is knocking trying to get in and be a part of this giant in the making.

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