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1. INTRODUCTION

1.1 Background of China-Peru Free Trade Agreement (FTA)

Since China and Peru forged diplomatic ties in 1971, two countries have enjoyed frequent political and economic exchanges and communications; cooperation and coordination in science and technology, education, and culture have also been successfully expanded..

On January 28, 2001, Chief Representative of Negotiation of the Ministry of Foreign Trade and Economic Cooperation Long Yongtu signed a bilateral agreement on China's entry into the WTO at the headquarters of the WTO, with Ambassador of Peruvian mission in Geneva- Boto Penales. During the APEC Summit in 2004 in Chile, President Alejandr Toledo Manrique declared that Peru admitted China's market economy status. In January 7, 2005, when Chinese Vice President Zeng Qinghong visited Peru, both sides agreed to establish an all-around cooperative partnership.

In March 2007 H.E. Li Changchun, member of the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China, paid a visit to Peru. During his visit, Mr. Li, together with President Garcia, co-announced to launch the China-Peru FTA Joint Feasibility Study in 2007.

1.2 Major Characteristics of China's Macro Economy

China has successfully maintained a rapid economic growth for over two decades since its reform and opening-up, leading the world with an average annual GDP growth rate of more than 8%. By the end of 2006, China's GDP grew by 10.7% year on year to reach RMB20,940.7 billion. The number of working population was 764 million.. The registered urban unemployment rate decreased by 0.1% year on year to 4.1%. China's CPI rose up 1.5% than last year. In 2006, China had a trade surplus of US\$177.5 billion. By the end of 2006, China's foreign exchange reserves hit US\$1,066.3 billion, the largest amount in the world. The exchange rate of RMB has been relatively stable since the reform of exchange rate in July 2005.

Table 1.1 Macro Economy Items of China (2001—2006)

Year	Growth Rate of GDP(%)	Growth Rate of CPI(%)	Registered Unemployment Rate in Urban Areas (%)	Growth Rate of Investment in Fixed Assets(%)	Growth Rate of M2 (%)	Growth Rate of Bank Loan(%)
2001	7.5	0.7	3.6	13.1	17.6	13.0
2002	8.0	-0.8	4	16.1	16.8	16.9
2003	9.1	1.2	4.3	27.6	19.6	29.3
2004	9.5	3.9	4.2	25.8	14.6	14.4
2005	9.9	1.8	4.2	25.7	17.6	12.8
2006	10.6	1.5	4.1	24.0	16.9	14.7

Source: China Statistical Yearbook 2006.

China's trade in goods reached US\$1,760.7 billion in 2006, a year-on-year increase of

24%. China's export and import volume hit US\$969.1billion and US\$791.6 billion, up27.2% and 20.0% respectively.

In 2006, China's total investments on fixed assets increased by 24.0% to RMB10,987 billion. Investment in industrial sector grew significantly faster than that in other sectors. 41,485 foreign invested enterprises were granted approval of establishment, down 5.8% from last year. Actually utilized foreign investment decreased by 4.1% to US\$69.4billion. China's local and foreign currency deposits in financial institutions recorded a balance of RMB23.9 trillion, up 16% year on year.

Since 2000, industries with fastest growth rate are manufacturing (11.6% in 2005), construction (12.6% in 2005), transportation (11.7%) and so on. The fast growth of manufacturing reflects that China is in the middle-stage of industrialization. The investment in hi-tech industries such as computers, and in petroleum and chemical industries has been the driving forces of Chinese economy in recent years. With accelerated urbanization, the real estate investment is very high, which further facilitates the growth of construction. Since China joined the WTO in 2001, the leaping foreign trade is another force driving China's economy.

Table 1.2 Gross Domestic Product Growth by Sectors (%)

Sectors	Agriculture	Manufacture	Construction	Transportation, Warehouse & Post	Wholesale & Retail
2001	2.8	8.7	6.8	11.6	9.3
2002	2.9	10	8.8	9.9	10
2003	2.5	12.8	12.1	8.3	11
2004	6.3	11.5	8.1	17.1	8.1
2005	5.2	11.6	12.6	11.7	7.8
2006*	5.0	12.5	12.4	8.3	N.A.

Source: The data of 2001-2005 is from China Statistical Yearbook 2006, and the data of 2006 is from General Survey of year 2006 for National Economy and Social Development.

1.3 Status of China 's FTA with other countries

Currently, China has concluded or is undertaking FTA negotiations with 28 economies.

Table 1.3 China's FTA Negotiations

NO	NAME	PROGRES
1	CHINA-HK CEPA	CONCLUDED
2	CHINA-ASEAN FTA	PARTIALLY CONCLUDED
3	CHINA-CHILE FTA	PARTIALLY CONCLUDED
4	CHINA-PAKISTAN FTA	PARTIALY CONCLUDED
5	CHINA-GCC FTA	ONGOING
6	CHINA-AUSTRALIA FTA	ONGOING
7	CHINA-NZ FTA	ONGOING
8	CHINA-SINGAPORE FTA	ONGOING
9	CHINA-SACU FTA	ONGOING
10	CHINA-ICELAND FTA	On-going
11	CHINA-INDIA FTA	JOINT STUDY ONGOING
12	CHINA-KOREA	JOINT STUDY ONGOING
13	CHINA-PERU FTA	JOINT STUDY ONGOING
14	CHINA-NORWAY FTA	JOINT STUDY ONGOING

1) China-ASEAN Free Trade Agreement

China-ASEAN FTA is the first FTA China has signed. In the Framework of the Agreement on Comprehensive Economic Cooperation Between China and ASEAN (thereafter referred as “the Framework”) signed up in November 2002, two sides decided to establish the China-ASEAN FTA in 2010. In November 2004, China and ASEAN signed the Agreement of Trade in Goods under the Framework, to be in force in July 2005. In January 2007, the Agreement of Trade in Service under the Framework was signed, and put into practice from July 2007. The negotiation on Investment is ongoing.

2) Closer Economic Partnership Arrangement (CEPA) between Mainland and Hong Kong SAR, and between Mainland and Macao SAR

CEPA was signed between Mainland and HK, and Mainland and Macao in 2003, and took effect as of January 1, 2004. The Supplement, Supplement II , Supplement III and Supplement IV to the CEPA were signed in 2004, 2005, 2006 and 2007 respectively.

3) China-Chile Free Trade Agreement.

China and Chile signed the Free Trade Agreement in November 2005. The China-Chile FTA is the first FTA signed between China and a Latin American country. This agreement has been implemented since July 1 2006. According to this agreement, the tariffs of 97% products in the tariff lines of both countries will be eliminated within 10 years. Some textile raw materials exporting from China to Chile, and some kinds of paper importing from Chile by China are in the list of exclusive commodities. China and Chile will promote cooperation in economy, small and medium-sized enterprises, culture, education, science and technology, environment, labor and social security, intellectual property, investment, mineral products, and industry. Negotiations on trade in services and Investment were launched last year.

2. TRADE AND INVESTMENT POLICIES AND SYSTEMS

2.1 Introduction

Since 1979, China had been progressively reforming its economic system. China's consistent efforts to resume its status as a contracting party to GATT, and accession to the WTO Agreement are in line with its objective of economic reform to establish a socialist market economy as well as its basic national policy of opening to the outside world.

2.2 Measures Affecting Trade in goods

2.2.1 Tariffs

Under the Regulation on Import and Export Tariff (Article 9), duty rates on imports comprise: MFN tariff rates, agreement tariff rates, special preferential tariff rates, general tariff rates, tariff quota rates and interim tariff rates.

MFN tariff rates shall apply to goods imported from and originated in the members of the WTO providing the MFN treatment is mutually reciprocal between the People's Republic of China and these members; or those countries or regions with which the People's Republic of China has concluded a bilateral trade agreements for reciprocal tariff preference; or the Customs territory of the People's Republic of China;

The agreement tariff rates shall apply to goods imported from and originated in the countries or regions which join together with the People's Republic of China into regional trade agreements for tariff preferences.

The special preferential tariff rates shall apply to goods imported from and originated in the countries or regions with which the People's Republic of China has concluded a special tariff preferential agreement. This type of tariff rates is more preferential than the agreement tariff rates.

The general tariff shall apply to the imported goods originated from other resources or/and to the imported goods of undetermined origin;

The tariff quota rates shall apply to imported goods which are subject to the tariff quota administrative regulations;

The interim tariff rates are applied for a specific period of time to certain goods.

At present, the products subject to TRQ administration in China include wheat, corn, rice, sugar, wool, wool tops, cotton and three categories of chemical fertilizers.

Table 2.1 Simple Average Tariff Level of China

Year	1992	1993	1996	2000	2001	2002	2003	2004	2005	2006	2007
Tariff	43.2	39.9	23.0	16.4	15.3	12.0	11.0	10.4	9.9	9.9	9.8

Sources: Ministry of Finance, China.

Part 3.4 have described in details about China's tariff level and structure.

2.2.2 Non Tariffs Barriers

Apart from tariffs, China has implemented other policies in foreign trade administration, including: rules of origin, import licensing system, customs valuation, pre-shipment inspection, technical regulations and standards, sanitary and phytosanitary measures and trade remedies. After China's accession to the WTO, the Chinese government has been making great efforts to ensure that the policies adopted are WTO consistent.

2.2.3. Rules of Origin

In China, rules of origin can be divided into non-preferential and preferential rules.

Regulations on Rules of Origin of Import and Export Goods of the People's Republic of China took effect on January 1st, 2005, and applies in determining the origins of imports and exports in non-preferential trading measures implementation, such as MFN treatment, anti-dumping, anti-subsidy, safeguard measures, administration of geographical indications, country quotas, tariff quotas and other activities such as government procurement and trade statistics.

The followings belong to the preferential ones, namely, Provisional Rules of Origin of the General Administration of Customs of the People's Republic of China for Imports under Agreement on Trade Negotiations among Developing Member Countries of the Economic and Social Commission for Asia and the Pacific¹ (2001), Rules of Origin of China-ASEAN FTA under the Framework Agreement on ASEAN and China Economic Cooperation(2003), Rules of Origin for Trade in Goods under the Mainland and Hong Kong Closer Economic Partnership Arrangement (2004), Rules of Origin for Trade in Goods under the Mainland and Macao Closer Economic Partnership Arrangement (2004), China-Pakistan FTA Rules of Origin (2005), China-Chile FTA Rules of Origin(2006).

According to the Rules of Origin of FTA that China had signed with other Parties, the products could be generally divided into three kinds: products wholly obtained or produced in the exporting Party, products worked upon in conformity with relevant provisions, but not wholly obtained or produced in the exporting Party, and products satisfied with specific products rules. The contents of relevant documents should be referenced.

Also, information on rules of origin determination, administrative or judicial review and origin pre-determination can be referred to at www.customs.gov.cn.

2.2.4 Sanitary and Phytosanitary (SPS) Measures

China applies SPS measures only to the extent necessary to protect the life and health of human beings, animals and plants. And China has made every effort to base its SPS measures on international standards, guidelines and recommendations.

¹ In 2001 it was briefly called Bangkok Agreement and in 2005, it was renamed the Agreement on Trade in Asia and the Pacific Region.

With the booming growth of China's import of agricultural products and food, quarantine inspection measures are required to prevent the import of pest and diseases, protect agricultural and forestry production and at the same time, avoid harm to people's health through imported unsafe food.

The General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) is responsible for the entry and exit of plants, animals, their products, and food safety concerning inspection and quarantine. Based on risk analysis, AQSIQ is authorized to decide whether import is permitted, to establish requirements for entry-exit inspection and quarantine, and to negotiate with related government authorities of other countries on general SPS issues or detailed inspection and quarantine requirements for specific products.

Import permits for animals and plants subject to sanitary requirements, valid for a period of six months, must be obtained from the AQSIQ prior to import. Applications must be submitted to local authorities of inspection and quarantine, and permit or notice of refusal will be issued within 20 working days of receipt of the application once it is accepted. The applicant must reapply for the permit if the quantity shipped exceeds the quantity indicated in the permit by 5%.

China's laws and legislations relating to its SPS regime include: Law of the People's Republic of China on the Entry and Exit Animal and Plant Quarantine, Regulations for the Implementation of the Law of the People's Republic of China on the Entry and Exit Animal and Plant Quarantine, Law of the People's Republic of China on Frontier Health and Quarantine, Regulations for the Implementation of the Law of the People's Republic of China on Frontier Health and Quarantine, and Law of the People's Republic of China on Food Hygiene, and so on..

China's national SPS enquiry point is located in the Research Center of Standards and Technical Regulations of AQSIQ.

2.2.5. Technical Barriers to Trade

AQSIQ is a ministerial administrative organ in charge of national quality, metrology, entry-exit inspection, animal and plant quarantine, import and export food safety, certification, accreditation, standardization, and administrative law enforcement.

Certification and Accreditation Administration of the People's Republic of China (CNCA) is the governmental organ established and authorized by the State Council and administered by AQSIQ for management, supervision and overall coordination of certification and accreditation in China. AQSIQ/CNCA sets up the China Compulsory Certification (CCC) system and organizes its implementation, including but not limited to promulgation of CCC product list, designation of conformity assessment bodies, promulgation of category-specific implementation rules for CCC and organization of market surveillance. The major responsibilities of CNCA also include establishment and promotion of national voluntary

certification schemes, supervision over accreditation and certification in general, laboratory qualification evaluation, import-export food hygiene registration, management of certification and accreditation related standards, and international cooperation in the areas of certification and accreditation.

China Standardization Administration specializes in the management of national standardization, actively participates in the formulation of international standards and the harmonization between international and national standards. In 2001, AQSIQ promulgated The Management Measures of Adopting International Standards, specifying the principles and procedures for adopting international standards.

Since 1980, China has always referred international standards as the base for its technical regulations, which develops into an important technical and economic policy. Relevant laws and regulations of China request a review of its technical regulations at least every five years, so as to ensure their fitness for economic development, and their alignment with international standards.

According to the Law of Standardization of the People's Republic of China, there are two types of standards in China: mandatory and recommendatory. Mandatory standards in China are directly related to legitimate objectives such as product safety, health and environmental protection and so on., and their implementation is mandatory, which complies with the definition of "technical regulation" under the Technical Barriers to Trade (TBT) Agreement. Relevant information on preparation and revision of mandatory standards, and adopted standards are timely published on AQSIQ Gazette and /or China Standardization and /or the Standardization Administration of the People's Republic of China (SAC) website. Recommendatory standards in China are in full conformity with standards under the TBT Agreement, and all of them follow the relevant guides and recommendations of International Organization for Standardization (ISO) and International Electrotechnical Commission (IEC).

China's laws and legislations relating to its TBT regime include: Law of the People's Republic of China on Import and Export Commodity Inspection, Regulations for the Implementation of the Law of the People's Republic of China on Import and Export Commodity Inspection, Law of the People's Republic of China on Product Quality, Certification and Accreditation Regulation of the People's Republic of China, Standardization Law of the People's Republic of China.

China's national TBT enquiry point is located in the Research Center of Standards and Technical Regulations of AQSIQ.

2.3 Services

2.3.1 Measures Affecting Trade in Services

China's system of laws on trade in services is based on the Foreign Trade Law of the People's Republic of China taking effect on July 1, 2004 (Thereafter referred to as "Foreign Trade Law"). The system includes laws, regulations and rules concerning various sub-sectors of trade in

services. The details are listed in the following sub-sectors description. In March 2007, the State Council promulgated The Decision on Further Promoting the Development of Services Industry (No. 7 Document) which clearly defined the main goals, policies and measures of accelerating development of service industries.

All of these regulations, rules and polices have provided market access opportunities for foreign services suppliers. As shown by statistics, since 2006, foreign investment into China's services sectors has accelerated. By the end of 2006, 75000 enterprises had invested in services sectors in China, increasing by 10.6% over the previous year. The number of foreign enterprises in service sector accounted for 27.2% of all foreign investment enterprises². By the end of 2006, the registered capitals of foreign investment in Chinese real estate, business service, software, hi-tech exchange and service promotion sector have been US\$113.44 billion, US\$24.86 billion, US\$8.52 billion, and US\$74.8 billion, respectively, increased by 25.3%, 58.2%, 41.9%, and 31.4% year on year.

Although China has been opening its services sectors gradually and steadily, it still has some quantitative non-discriminatory restrictions, mainly related to technical considerations and national safety, while in certain sectors local presence is required to better protect consumer interests or domestic market stability. China is examining such limitations and exceptions in order to reduce or remove them, as appropriate.

(1) Business Services

A. Legal Services

China has gradually opened this area and made great progress in recent years. It has eliminated the quantitative and geographical limitations on foreign law firms, and reduced the limitations on years of professional experience of representatives in these firms. China has committed to approve the establishment of representative office of such firms within 9 months. In addition, China has simplified the administrative management, and streamlined the registering procedures.

Regarding legal services, the representative office of a foreign law firm can engage in the following businesses and charge its clients for services provided: (1) to provide its clients with consultancy on the legislation of the country/region where the lawyers of the law firm are permitted to engage in lawyer's professional work, and consultancy on international conventions, commercial laws and practices; (2) to handle, where entrusted by its clients or Chinese law firms, legal affairs of the country/region where the lawyers of the law firm are permitted to engage in lawyer's professional work; (3) to entrust, on behalf of foreign clients, Chinese law firms to deal with Chinese legal affairs; (4) to enter into contracts to maintain long-term entrustment relations with Chinese law firms for legal affairs; (5) to provide information on the impact of Chinese laws. At present, foreign law firms are not allowed to provide services related to China's laws, to engage in lawsuit activities, and to employ Chinese professional lawyers.

According to the contracts with Chinese law firms, the representative offices of foreign law firms may directly make a request to the entrusted Chinese law firms. Foreign representative offices can charge its clients when conducting businesses, but they and their members are not

² Source: The State Administration for Industry and Commerce

permitted to interpret Chinese laws to their clients and to employ Chinese lawyers.

In this area, the Administrative Regulations on Representative Offices of Foreign Law Firms in China took effect on January 1, 2002 and the Regulations on the Implementation of the Administrative Regulations on Representative Offices of Foreign Law Firms by the Ministry of Justice took effect on September 1, 2002. By the end of 2005, China had granted nearly 200 foreign law firms and 60 Hong Kong law firms, and allowed them to run businesses in several cities to provide offshore and international company law services. Half of the biggest 50 foreign law firms in the world have set up their businesses in China.

The competent authority of legal services in China is the Ministry of Justice (<http://www.moj.gov.cn>).

B. Accounting and management Consultancy Services

China provides foreigners with national treatment, and allows them to run joint venture accounting firms with a majority of shares after they pass the Certified Public Accountants (CPA³) qualifications examination. China allows foreign accounting firms to choose their partners freely, and to engage in profit-making activities, taxation and management consulting services. Under its WTO commitments China allows foreigners to provide business management and consultancy services for domestic enterprises, and to set up branch firms with whole shares.

The Ministry of Finance (MOF) released four revised auditing statements covering accounting estimates, inter-bank confirmation, capital verification, and financial statements audit on commercial bank in 2002. The MOF has been active in standardizing accounting procedures. The Chinese Securities Regulatory Commission⁴ requires that listed companies shall appoint a certified international CPA firm to conduct audits on prospectuses and annual reports in accordance with international standards.

Currently, laws and regulations related to foreign accounting firms include: the Administration of Sino-foreign Cooperative Accounting Firms Tentative Procedures; the Provisional Regulations on Representative Offices of Foreign Accounting Firms; the Notice Concerning Permission for International Accounting Firms to Identify Member Firms in China; the Provisional Regulations on Foreign Accounting Firms to Execute Temporary Auditing Business in China; the Regulations of the People's Republic of China on Chinese Certified Public Accountants.

The competent authority of Accounting Services in China is the Ministry of Finance (<http://www.mof.gov.cn>), while the competent authority of Management Consultancy Services is the Ministry of Commerce (<http://www.mofcom.gov.cn>).

C. Advertisement Services

On December 10, 2005, the Chinese government completely opened advertisement market, in consistency with its commitments to the WTO. Wholly foreign-funded companies

³ CPA is a professional association with some administrative function under the Ministry of Finance (MOF). For more information on CPA, please visit: <http://www.cicpa.org.cn/>.

⁴ The organization belongs to the State Council. For more information, refers to <http://www.csrc.gov.cn/>.

are allowed without further restrictions. The Advertising Law of the People's Republic of China has been put into effect. Moreover, the State Council promulgated the Regulation on Foreign-related Advertising Agency. The competent authority of advertisement services in China is the State Administration for Industry and Commerce (www.saic.gov.cn).

(2) Communication Services

A. Telecommunications

China has made great efforts to open its telecommunications services market. Foreign suppliers are permitted to provide a wide range of services through joint ventures with Chinese companies, including domestic and international wired services, data services and mobile voice, value-added services, such as electronic mail, voice mail and on-line information and database retrieval, and paging services. China has cancelled all geographical restrictions on joint ventures in telecommunication services. The share of the foreign capital permitted in the joint ventures has been increasing, reaching a maximum of 49 percent for most of basic telecommunication services, a maximum of 50% for value-added telecommunication services and calling services of basic telecommunication services

On January 1, 2002, China's Regulations on Foreign-Invested Telecommunications Enterprises went into effect. It defines the requirement of the share holding, registered capital, the Chinese and foreign partners, and licensing procedures. The regulations stipulate that foreign-invested telecommunications enterprises can undertake either basic or value-added telecommunications services. Foreign ownership may not exceed 49 percent in the case of basic telecommunications services (excluding wireless paging) and 50 percent in the case of value-added services (including wireless paging, which is otherwise categorized as a basic service).

China also accepted key principles of the WTO Agreement on Basic Telecommunications Services⁵ when it acceded to the WTO. In order to abide by these key principles and its commitments, China has separated post and telecommunications services, and split the state-owned China Telecom⁶, the country's largest telecommunications company, into 4 enterprises in 1999. Now, the structure and form of Chinese telecommunication industry have basically formed, and the market share of any one of the 6 biggest companies is no over 50%.

In 2006, the Ministry of Information Industry released a serials of regulations: the Management Regulation on the Internet E-mail Service, the Management Regulation on Pollution Control for Electronics Information Products, the Radio Frequency Dividing Rule of People's Republic of China, the Certification Method of Testing and Approving Institutions for Wireless Equipments Shooting Characteristic and so on.

The competent authority of Telecommunication Services is the Ministry of Information Industry (www.mii.gov.cn).

⁵ WTO Agreement on Basic Telecommunications Services is the Reference Paper on Telecommunication Services.

⁶ At that time it was a state owned enterprise. At present all six biggest companies becomes the equity companies.

B. Audiovisual Services (Including Film Imports)

China's Regulations on the Management of Film and Regulations on the Administration of Audio-Visual Products went into effect on February 1, 2002. They are designed to bring more transparency and order to the film and audio-visual industries, with an eye to moving toward greater commercial efficiency in accordance with domestic reform efforts and its commitments to the WTO.

China allows to import twenty foreign films annually by the type of sub-account opening request under its WTO commitments. China also partially liberalized the distribution of audio-visual products. Joint ventures are allowed to be established. Foreign investors may also provide services in construction or renovation of cinemas with foreign share less than 49.0%.

The main legislation relevant to this sector is contained in the Industrial Guidance Catalogue for Foreign Investment in China; the Temporary Regulation on Investing in Movie Theater, the Management Regulation on Investing Audio Visual Products, the Management Regulation on Audio Visual Products Distribution for Chinese-Foreign Contractual Joint Venture.

The competent authorities of Audiovisual Services are the Ministry of Culture (www.mc.gov.cn) the State Administration for Radio, Film and Television (www.sarft.gov.cn), and the General Administration of Press and Publication (<http://www.gapp.gov.cn>).

(3) Distribution and Retailing

According to China's commitment to the WTO, China has canceled the limitations on the location, ownership of a share, quantity for foreign capitals to access the commission agency and wholesales services (excluding salt and tobacco), and the retail service (excluding tobacco), China has also canceled all restricts of charter operation and distribution and retail without the fixed places for the foreign capital. But the chain stores that sale many different categories and brands, in case that their branches are over 30 houses and sale following products: food; cotton; plant oil; sugar; books, newspapers and magazine; pharmaceutical; agrochemical; agriculture film; refined oil; fertilizer; and appointed state-operated trading goods; couldn't be shared the most equities of the company by foreign capital.

On June 1, 2004, the Managing Regulation on Foreign Capital to Invest in Commercial Fields took effect. According to this Regulation, foreign capital retailers are allowed to set up their branches in any cities at provincial level in China. On December 11, 2004 China canceled limitations on business form, location, ownership of a share, and quantity, which means that China allows foreign capitals to invest retail services without any restrictions. In 2005, 1027 foreign businesses were permitted to enter into Chinese market, 3 times as much as that from 1992 to 2004. By the end of November 2006, Carrefour, Wal-Mart, Lotus had totally developed 229 retail stores.

The main laws and regulations include: the Experimental Measures for Commercial Enterprises with Foreign Investment; the Regulations on Direct Selling Administration. The competent authority of Distribution and Retail services is the Ministry of Commerce

www.mofcom.gov.cn).

(4) Construction and Related Engineering Service

In September 2002, the Ministry of Construction and former Ministry of Foreign Trade and Economic Cooperation (now referred to as Ministry of Commerce) jointly issued Decrees 113 and 114, which opened up construction and related construction design services to joint ventures with majority foreign ownership and wholly foreign-owned enterprises. On February 13, 2003, they also jointly promulgated the Regulations on the Management of Foreign-funded Urban Planning Service Enterprises which took effect as of May 1, 2003. According to the regulations, all foreign companies, enterprises, other economic entities or individuals are allowed to provide services to urban planning.

All foreign companies, enterprises, other economic entities or individuals that hope to specialize in urban planning services in China shall set up Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures, or ventures with exclusive foreign investment, and apply for the Certificate of Qualification of Foreign-funded Enterprises for Urban Planning Services. Apart from meeting requirements set in pertinent Chinese laws and regulations on foreign-funded enterprises, the following requirements shall be met for the establishment of foreign-funded urban planning service enterprises: (1) The foreign party shall be an enterprise or professional specializing in urban planning services in its resident country or region; (2) The applicant shall have more than 20 employees specializing in urban planning, architecture, road transportation, gardening and related disciplines, with foreign specialists accounting for no less than 25 percent of this total, and have at least one expatriate technician specializing in urban planning, architecture, road transportation, and gardening respectively; (3) The applicant shall have technical apparatus and fixed work site as stipulated by the State.

Since December 1, 2002, wholly foreign-owned enterprises have been permitted, but they can only undertake the following 4 types of construction projects: (1) Construction projects wholly financed by foreign investment and/or grants; (2) Construction projects financed by loans or international financial institutions, and awarded through international tendering according to the terms of loans; (3) Chinese-foreign jointly constructed projects with foreign investment equal to or more than 50.0%, and Chinese-foreign jointly constructed projects with foreign investment less than 50.0% but technically difficult to be implemented by Chinese construction enterprises alone; (4) Chinese invested construction enterprises which are difficult to be implemented by Chinese construction enterprises alone can be jointly undertaken by Chinese and foreign construction enterprises with the approval of provincial government. Above permission is belonging to implementation of China's commitments to WTO in advance.

Since December 1, 2002, the following limitations on national treatments have been eliminated: a) registered capital requirements for joint venture construction enterprises are slightly different from those of the domestic enterprises; b) joint venture construction enterprises have the obligation to undertake foreign-invested construction projects. There are no discrimination treatments for domestic and foreign enterprises to enter in this field.

The Administrative Ordinance on Development and Management of Urban Real Estate (Decree No. 248 of the State Council) specifically stipulates that the registration capital and

professionals for establishing a real estate development enterprise, and the development and management of real estate. The Administrative Ordinance on Development and Management of Urban Real Estate (Decree No. 248 of the State Council) and the Administrative Regulations on the Qualifications of Real Estate Development Enterprises (Decree No. 77 of MOC) make no specific provisions on the qualification administration of foreign-owned enterprises or joint ventures, with Chinese and foreign enterprises equal in status.

The competent authority of Construction and Related Engineering Services is the Ministry of Construction (www.moc.gov.cn). The main regulation is the Regulations on Administration of Foreign-Invested Construction Enterprises.

(5) Tourism and Travel Services

In December 2001, China issued the Regulations on the Administration of Tourist. It allows large foreign travel and tourism service providers to operate full-service joint venture travel agencies in four major foreign tourist destinations in China: Shanghai, Beijing, Guangzhou and Xian. Within six years after accession, wholly foreign-owned firms catering to foreign inbound tourists will be permitted, and all geographic restrictions will be removed. For now, the agencies must have an annual worldwide turnover in excess of US\$40 million, and local registered capital of almost US\$500,000⁷.

China issued the Provisional Measures for the Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-funded Travel Agencies, effective as of July 2003, and fulfilled its commitments to the WTO in advance.

Current laws and regulations include: the Catalogue for the Guidance of Foreign Investment Industries; the Interim Provisions on the Establishment of Foreign-Controlled and Wholly Foreign-funded Travel Agencies, and the Regulations on the Administration of Tourist.

The competent authority of travel agency services, the foreign restaurant, hotel and catering services is China National Tourism Administration (www.cnta.gov.cn).

(6) Financial Services

According to its commitment to the WTO, the Chinese government has opened its financial industry mostly in time and partially even in advance. The Chinese government have committed to expand market access and professional scope. Current laws and regulations include: the Law of the Peoples Republic of China on the Peoples Bank of China, the Law of the People's Republic of China on Commercial Banks, and the Regulations of the People's Republic of China Governing Financial Institutions with Foreign Capital.

A. Banking Services

In December 2003, the Chinese Government increased the stake a single foreign investor can take in a Chinese bank from 15 to 20 percent, with a total combining 24.9 percent allowed for many foreign investors in one Chinese bank. and reduced working capital requirements for various categories of foreign banks by at least RMB 100 million.

On December 11, 2006, the Regulations of the People's Republic of China for the

⁷ The standard is just for the joint venture travel agencies/travel operators without applying for the national agencies.

Administration of Foreign Banks was formally enforced. China Banking Regulatory Commission announced that foreign banks could be permitted to establish branches or representative offices in China, and conduct domestic currency business with Chinese enterprises without any geographical limitation.

By the end of September 2006, China had already allowed foreign-capital banks to develop RMB business in 25 cities, and the number of the foreign-capital banks permitted to operate RMB business had reached 111. The total amount of asset including RMB and foreign currency had reached US\$105.1 billion, accounting for 1.9% of total asset of financial institutions in Chinese banking sector.

The competent authority of Banking Services is the China Banking Regulatory Commission ([Http:// www.cbrc.gov.cn](http://www.cbrc.gov.cn)). The banking services are regulated by the Regulations of the People's Republic of China Governing Financial Institutions with Foreign Capital and its Implementing Rules.

B. Securities Services

China Securities Regulatory Commission issued regulations on the establishment of joint venture fund management companies and securities underwriting by Chinese-foreign joint ventures shortly after China's WTO accession. Right now foreign securities firms are receiving the right to form joint ventures for fund management upon China's accession to the WTO and joint ventures for securities underwriting.

China has implemented the Provisional Measures on Administration of Domestic Securities Investments of Qualified Foreign Institutional Investors (QFII) and corresponding detailed implementing rules, which set forth the details for QFII's qualification, criteria, approval procedures, registration and settlement, investment operations, fund management, and so on. Qualified Foreign Institutional Investors are defined in this Regulation as overseas fund management institutions, insurance companies, securities companies and other assets management institutions which have been approved by China Securities Regulatory Commission to invest in China's securities market and granted investment quota by State Administration of Foreign Exchange. Recently China released the revised management regulation on QFII so as to reduce the related limitations and facilitate the QFII.

Up to now, China has already implemented all its commitments related to capital market, provided opportunities in sharing China's economic booming. By the end of November ,2006, China had granted to establish 8 joint venture securities companies and 24 joint venture funds management companies in which there are 11 joint venture funds management with foreign capital equity share reaching 49%. Shanghai and Shenzhen stock exchanges, each with 4 special members, and 39 foreign stock institutes in shanghai and 19 in Shenzhen are operating directly B shares businesses.

Since February 1, 2006 China has implemented the Management Regulation on Strategic Investment to the Listed Companies for Foreign Investor, allowing foreign investors to invest companies which have completed the reforming of the ownership of a share.

The competent authority of Securities Services is China Securities Regulatory Commission (www.csrc.gov.cn).

C. Insurance Services

The competent authority of Insurance Service is the China Insurance Regulatory Commission (CIRC, [http:// www.circ.gov.cn](http://www.circ.gov.cn)). The insurance services is regulated by the Insurance Service Law. The main law is the Insurance Law of The People's Republic of China.

CIRC issued several new insurance regulations in recent years targettingt the regulation of foreign insurance companies. The Regulation on Foreign Insurance Company effective as of Feb 1, 2002, stipulated the basic requirement of market access for foreign insurance companies. In August 2003, CIRC issued new draft implementing rules regarding capitalization requirements and transparency. These draft rules clarify licensing procedures and the lowest capital requirements for market access.

In he field of insurance China has strictly executed all its commitments to the WTO. So far, insurance industry has been completely opened excepted 2 cases, including: the foreign capital insurance companies are not allowed to operate the business of compulsory automobile liability insurance; life insurance companies must be owned by Chinese-foreign equity joint ventures, where the share of foreign capital will not exceed 50%.

(7) Transportation

A. Maritime Transportation

The competent authority of Maritime Transportation is the Ministry of Communications (hereinafter referred to as the MOC, Website: [Http:// www.moc.gov.cn/](Http://www.moc.gov.cn/)). Laws and regulations include: the Regulations on International Maritime Transportation and its Implementing Rules, and the Provisions on Administration of Foreign Investment in International Maritime Transportation.

Upon approval of the MOC, foreign investors may, in accordance with relevant laws, administrative regulations and other pertinent provisions of the State, make investment to establish Chinese-foreign equity joint ventures or contractual joint ventures to be engaged in international shipping services, and make investment to establish Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures or wholly foreign capital enterprises to offer such routine services as canvassing of cargoes, issuance of bills of lading, settlement of freight and signing of service contracts for their owned or operated vessels; if they have not established any Chinese-foreign equity joint ventures, Chinese-foreign cooperative or wholly foreign capital enterprises within Chinese territory, they must commission a Chinese international shipping agent to undertake the above-mentioned business. In addition, upon the approval of MOC, foreign cooperators of international shipping services may establish representative offices within Chinese territory according to law.

The regulations on International Maritime Transportation became effective on January 1, 2002. To be engaged in international liner services, an application shall be submitted to the MOC, and the following documents shall be attached thereto:(1) name of international liner service operator, its registered place of business, photocopy of its business license, and information of its main investor(s); (2) names and identification documents of operator's main management staff; (3) particulars of vessels under operation; (4) description of intended

shipping lines, shipping schedules and ports of call along shipping lines; (5) freight tariff; and (6) sample of its bill of lading, passage ticket or multimodal transport documents. The MOC shall complete examination and verification within 30 days from the date of receipt of the application for international liner services. If application documents are authentic and complete, registration shall be granted, and the applicant shall be notified of the result, or, if application documents are inauthentic or incomplete, no registration shall be granted and the applicant shall be notified in writing, and given the reasons therefore.

In recent years China has implemented the International Maritime Transportation Regulation and its supplement administration regulations, and provided a "competing, opening, transparent" market environment for the development of Chinese international maritime transportation. More and more offshore shipping service companies entered Chinese shipping market. Currently, more than 100 offshore containers shipping companies have developed the regular international shipping liners in Chinese ports, and the market share is already over 80%. More than 30 international maritime transportation companies have established about 200 ventures or branches with exclusive foreign investment in China.

B. Air transportation

The Provisions on Foreign Investment in Civil Aviation has come into force as of August 1, 2002. According to the provisions, the scope of foreign ownership in China's civil aviation industry is enlarged, a variety of modes of foreign investment is allowed, and the proportion of foreign ownership is increased while the management power of foreign owners is enhanced. Further liberalizing measures were adopted in 2003, including: further opening the 5th freedom traffic rights to foreign air companies, deliberating and approving in principle "opening the 3rd, the 4th, and the 5th freedom rights scheme", and launching the work of opening air transportation market in Hainan special economic zone.

China has effectively improved market access opportunities for foreign services suppliers in the sector of air transportation. Market access for scheduled international services is determined through bilateral Air Services Agreements. Market access for non scheduled services is determined on a case-by-case basis mainly taking into account the market needs. Foreign airlines, maintenance and repair companies, and aviation manufacturers are permitted to establish joint venture aircraft maintenance and repair companies in China. Foreign ownership of Chinese airlines is permitted up to 49% while a single foreign investor's share should be no more than 25%. Foreign ownership for the airports other than air traffic control systems in China is permitted with Chinese share holders remaining as a majority share holder.

Now, foreign citizens are allowed to hold the post of president of Chinese airlines or airports. The designated foreign airlines are allowed to wet lease third country aircraft and crew to operate the agreed services into China, subject to their compliance with the safety requirements set forth by the aeronautical authority of China.

The competent authority of Air Transportation is the General Administration of Civil Aviation of China (www.caac.gov.cn). Air Transportation is regulated by the Civil Aviation Law of the People's Republic of China.

C. Road transportation

In November 2002, China issued the Notice on Further Opening the Investment Field of Road Transport to Foreign Investors. Since December 12, 2002, foreign investment has been allowed to enter the fields of road cargo transport, storage, cargo handling, and transport related services. The portion of foreign investment could reach 75.0% in the joint ventures.

Project proposal for foreign investment in road transport services and the relevant issues shall be subject to the approval of MOC. The contract and articles of a foreign-invested road transport enterprise shall be subject to the approval of competent foreign trade and economic cooperation department of the State Council.

The operation duration of a foreign-invested road transport enterprise shall be no more than 12 years normally. However, the operation duration of a foreign-invested road transport enterprise may be 20 years, provided more than 50.0% of the total investment of the enterprise is used for the construction of infrastructure, such as passenger and goods transport stations and depots. A foreign-invested road transport enterprise, whose business operation is in compliance with industrial policies on and development plans of road transport industry, and which has passed operation qualification (quality and credibility) assessment, may apply for prolongation of operation duration with a period of no more than 20 years each time upon the approval of the competent department which granted the original approving document.

A foreign-invested road transport enterprise applying for operation duration prolongation shall submit an application, 6 months in advance of the invalidity of the operation duration, to the competent communications department of a province, where the enterprise is located, and records of operation qualification (quality and credibility) assessment and other relevant documents shall be attached thereto. After being considered and verified by the competent communications department of the province, the documents shall be submitted to MOC and be decided by MOC after consulting with the competent foreign trade and economic cooperation department of the State Council. To suspend, withdraw or terminate a business, a foreign-invested road transport enterprise shall go through the relevant formalities forthwith at MOC, the competent foreign trade and economic cooperation department of the State Council or their authorized department and the industry and commerce administrations.

The Ministry of Communications (www.moc.gov.cn) is in charge of road transportation which is regulated by the Management Regulation on Foreign investment in Road Transportation and its supplementary regulations.

Table 2.2 Regulations related to Trade in Services

Regulation	Date
Regulations on Administration of Foreign-Funded Financial Institutions	effective 01 Feb 2002
Regulations on International Maritime Transportation	effective 01 Feb 2002
Regulations on Administration of Travel Agencies	amended on 11 Dec 2001
Measures on the Trial of Foreign-Invested Merchandising Enterprises	effective 25 June 1999
Provisional Regulations Governing the Foreign Invested Movie Theater	effective 25 Oct 2000
Rules for Establishing Foreign-Invested Securities Companies	effective 01 June 2002
Rules for Establishing Foreign-Invested Fund Management Companies	effective 01 June 2002
Proclamation by the People's Bank of China on the Related Issues of Foreign-Funded Financial Institutions' Market Access	effective 09 Dec 2001
Regulations on Administration of Foreign Funded Insurance Companies	effective 01 Feb 2002
Measures for Administration of Representative Offices of Foreign-Capital Financial Institutions in China	effective 18 July 2002
Provisions on Administration of Foreign Investment in Road Transport Sector	effective 20 Nov 2001
Provisions on Administration of International Freight Forwarding Agency Enterprises with Foreign Investment	effective 1 Jan 2003
Regulations on Administration of Foreign Invested Telecommunications Enterprises	effective 1 Jan 2002
Regulations on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises	effective 23 Sep 2001
Regulations on Exploitation of On-shore Petroleum Resources in Cooperation with Foreign Enterprises	effective 23 Sep 2001
Implementing Rules of the Regulations of the People's Republic of China on International Maritime Transportation	effective 1 Mar 2003
Measures for the Administration of Foreign-invested International Freight Forwarding Agencies	effective 10 Jan 2003
Measures Governing Foreign Invested Distribution Enterprises for Books, Newspapers and Periodicals	effective 1 May 2003
Interim Regulations on the Establishment of Travel Agencies with Foreign Majority Ownership and Wholly Owned by Foreign Investors	effective 11 July 2003
Administrative Rules Governing the Auto Financing Companies	effective 3 Oct 2003
Regulations of the People's Republic of China on Chinese-Foreign Cooperation in Running Schools	effective 1 Sep 2003
Implementing Rules of the Regulations on the Administration of Foreign-funded Financial Institutions	effective 1 Feb 2002
Provisional Rules on the Establishment of Sino-Foreign Foreign Trade Companies	effective 2 Mar 2003
Rules Governing the Foreign Invested Urban Planning Service Enterprises	effective 1 May 2003
Regulations on the Administration of Foreign Invested Architectural and Engineering Enterprises	effective 1 Dec 2002
Regulations on the Administration of Foreign Invested Construction Enterprises	effective 1 Dec 2002
Notice on Issues Relating to the Experimental Establishment of Foreign Invested Logistic Enterprises	effective 20 July 2002
Implementation Rules for the Administrative Measures on Auto Financing Companies	effective 12 Nov 2003
Regulations on the Administration of Representative Office of Foreign Law Firms	effective 1 Jan 2002

Regulation	Date
Implementation Rules for the Regulations on the Administration of Representative Office of Foreign Law Firms	effective 1 Sep 2002
Provisional Measures on the Administration of Domestic Securities Investment of Qualified Foreign Institutional Investors (QFII)	effective 1 Dec 2002
Provisional Provisions on Operational Qualification Access to Film Producing , Releasing and Projecting	Effective 1 Dec 2003
Administrative Measures on Chinese-Foreign Cooperative Enterprises for the Distribution of Audio and Video Products	effective 1 Jan 2004
Supplementary Provisions to the Provisional Measures of Registering and Approval of Foreign Nationalities to Chinese CPA	effective 1 Jan 2004
Implementation Rules for the Regulations on the Administration of International Freight Forwarding Agencies	effective 1 Jan 2004 after amendment
Administrative Measures on the China-based Representative Offices of Foreign Insurance Institutions	effective 1 Mar 2004
Administrative Measures on Foreign-funded Advertisement Enterprises	Effective 2 Mar 2004
The detail regulation for Foreign capital financing institution	Effective 1 Sep, 2004
The stock certificate investor protection fund manages the way	Effective 1 Jul, 2005
The management rule for QFII	Effective 1 Sep, 2006
Foreign capital bank management regulation	Effective 11 Dec, 2006
Foreign capital bank management regulation	Effective 11Dec, 2006
The management rule for QFII	Effective 1 Sep, 2006
Basic rule for enterprise accountancy standard after revising	Effective 1 Jan, 2007
The supplement rule on foreign company investing books, newspaper, periodical retail business	Effective 1 May, 2007
The management rule on registering partnership enterprise registers	Effective 1,Jun 2007(revised)
The management rule on the representative of offshore stock exchange	Effective 1, Jul 2007

Source: edited according to Foreign Economic and Trade Gazette of MOFCOM of the People's Republic of China

2.3.2 International Commitments related to Services

As a result of the Uruguay Round, commercial disciplines extended beyond those related to trade in goods to cover areas such as services, investment and intellectual property. After entry to WTO, China has continued to participate in WTO working groups on services and investment.

Under the GATS, China maintains horizontal commitments on mode 3 (commercial presence) and mode 4 (movement of natural persons). China allows the entry and temporary stay of employees of a corporation of a WTO Member for an initial period not longer than 3 years.

In China, foreign invested enterprises include foreign capital enterprises (also referred to as wholly foreign-owned enterprises) and joint venture enterprises. There are two types of joint

venture enterprises: equity joint ventures and contractual joint ventures⁸. The proportion of foreign investment in an equity joint venture shall be no less than 25 per cent of the registered capital of the joint venture. The establishment of branches by foreign enterprises is unbound, unless otherwise indicated in specific sub-sectors. Representative offices of foreign enterprises are permitted to be established in China, but they shall not engage in any profit-making activities except for the representative offices under CPC 861, 862, 863 and 865 in the sectoral specific commitments. The conditions of ownership, operation and scope of activities, as set out in the respective contractual or shareholder agreement or in a licence establishing or authorizing the operation or supply of services by an existing foreign service supplier, will not be made more restrictive than they exist as of the date of China's accession to the WTO. The land in the People's Republic of China is State-owned. Use of land by foreign invested enterprises, domestic enterprises and individuals is subject to the limitations: 70 years for residential purposes, 50 years for industrial purposes, 50 years for the purpose of education, science, culture, public health and physical education, 40 years for commercial, tourist and recreational purposes, and 50 years for comprehensive utilization or other purposes.

Regarding the sector classification, China adopted commitments in 9 of the 12 sectors of GATS⁹: Business Services, Communication Services, Construction and Related Engineering Services, Distribution Services, Education Services, Environmental services, Financial Services, Tourism and Travel Related Services and Transportation Services.

The openness of service sectors in China can be measured by its commitments under GATS. One method is to compute the sector coverage ratio. There are 12 major categories of service sectors and 155 sub-sectors covered by GATS. The sector coverage ratio is the number of committed sub-sectors divided by the total number of sub-sectors of each sector¹⁰.

Table 2.3 China's Sector Coverage Index under GATS (%)

Sector	China
All Sectors	54.2
Business Services	60.9
Communication Services	66.7
Construction and Related Engineering Services	100.0
Distribution Services	100.0
Education Services	100.0
Environmental services	100.0
Financial Services	76.5
Health services	0.0
Tourism and Travel Related Services	50.0
Entertainment Services	0.0
Transport Services	17.1

⁸ The terms of the contract, concluded in accordance with China's laws, regulations and other measures, establishing a "contractual joint venture" govern matters such as the manner of operation and management of the joint venture as well as the investment or other contributions of the joint venture parties. Equity participation by all parties to the contractual joint venture is not required, but is determined pursuant to the joint venture contract.

⁹ The sector analysis is based on the WTO document GNS/W/120, Services Sectors Classification List.

¹⁰ Each sub-sector or further subdivisions are taken into account, when possible.

Other services	0.0
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Note: calculated according to WTO schedule of specific commitments by China.

China made 100% commitments in construction, distribution, education and environmental services. In business and financial services, China's sector coverage is high.

However, sector coverage alone is not sufficient to depict the degree of market openness. We need to look at what the specific commitments are. There are four modes of supply for trade in services. Making commitments in one mode is obviously different from making commitments in all modes of supply. There are also different levels of commitments, namely, unconditional commitments, limited commitments and no commitments (unbound). Therefore, one could construct an openness index based on different modes of supply and different levels of commitments to complement the results of sector coverage.

In order to comprehensively analyse impacts of the WTO Specific Commitments in Services made by China under the GATS, we follow the methodology developed by Bernard Hoekman in "Tentative First Steps: An Assessment of the Uruguay Round Agreement on Services" (1995). Based on the WTO document GNS/W/120, Services Sectoral Classification List, Hoekman quantifies the specific commitments of different countries in the GATS to compare the different levels of liberalization of services sectors.

Considering the restriction applies to Market Access (MA) and/or National Treatment (NT) in any sub-sectors or in any of the 4 modes of supply, commitments can be classified into 3 categories: (1) None (no restrictions for the sector), (2) Some restrictions apply or (3) Unbound (no liberalization commitments for the sector). To estimate the scope of sector commitments, numbers "1", "0.5" or "0" are assigned, respectively to each case (weighting methodology A).

Because this kind of restrictions hinder trade as more commitments of this type are undertaken, it can be helpful to use "n" as the exponent of 0.5, where "n" represents the number of specific restrictions applied in each sub-sector. Therefore, a sub-sector with a larger number of commitments qualified as "Some Specific Restrictions" will be graded with a lower liberalization indicator: a sub-sector with two specific commitments will have a liberalization indicator of 0.5^2 (or 0.25) and a sub-sector with four specific commitments will have a liberalization indicator of 0.5^4 (or 0.125). The other two kinds of commitments: "None" and "Unbound" keep the same weighting (weighting methodology B).

With these values, the degree of the liberalization in services of China has been evaluated with the use of index numbers obtained by adding up all the values. The higher the index number resulting from the total sum shows, the deeper the level of liberalization is.

Table 2.4 shows the possible quantity of China's commitments undertaken in each sector. Each sector has three columns: the first one (it/Q) related to the number of commitments undertaken as a percentage of the total-possible number of commitments undertaken by sector; and the second and third ones regarding the weighted sum of the commitments by their level of liberalization, taking into account the two different weighting methodologies.

Table 2.4 China's Openness Index Based on GATS Commitments (%)

Sector	Q Item	It/Q	Sum1/Q	sum2/Q
Business Services	368	44.02	62.64	62.38
Communication Services	192	40.63	60.68	45.71
Construction and Related Engineering Services	40	50.00	34.38	34.38
Distribution Services	40	65.00	53.75	52.81
Education Services	40	62.50	43.75	39.59
Environmental services	32	75.00	62.50	62.50
Financial Services	136	21.32	17.28	15.75
Health Services	32	0.00	0.00	0.00
Tourism and Travel Related Services	32	40.63	34.38	32.55
Recreational, Cultural and Sporting Services	40	0.00	0.00	0.00
Transport Services	280	21.43	18.04	16.89
Other Services	8	0.00	0.00	0.00
total	1240	35.24	40.71	37.67

Note: Q Items: Total Quantity of possible Commitments (Score from Hoekman if all possible sectors and sub-sectors were liberalized for MA and NT in all modes); IT/Q: Number of Commitments made in the sector for MA and NT in all modes/Q (Percentage of Commitments made as a share of Q); SUM1/Q: Percentage of Commitments made (weighted by the score of each category "0", "0.5" or "1") using weighting methodology A; SUM2/Q: Percentage of Commitments made using weighting methodology B. Considered the methodology is in terms of the quantity of the commitments in stead of quality, the calculating results could be references in statistics but couldn't really and exactly reflects the liberalization degree of service sectors.

It is also helpful to make cross-comparisons by modes of supply, specific sectors and sub-sectors. Table 2.5 shows results.

In Business Services Sectors, China made commitments on Professional Services (legal, Accounting, auditing and bookkeeping services, Taxation, Architectural, Engineering), Computer and Related Services, Real Estate Services and Other Business Services. Regarding the services mentioned, China made full commitments on Modes 1 and 2, and partial commitments on Mode 3.

In Communication Services Sectors, China made commitments on sub-sectors of Telecommunication services, including Courier Services, Telecommunication Services and Audiovisual Services. On each of the sub-sectors listed, China made partial MA commitments on Modes 1, 2 and 3, full National Treatment (NT) commitments on Modes 1, 2 and 3 and no NT commitments on Mode 4.

In Construction and Related Engineering Services sectors, China made commitments on sub-sectors of CPC511, 512, 513, 514, 515, 516, 517, 518. On each of the sub-sectors listed, China made full commitments on Modes 2, partial commitments on Modes 3 and no commitments on Mode 1 and Mode 4.

Table 2.5 China's Openness Index Based on GATS Commitments (%)

Sector	Q item	Methodology A				Mehodology B			
		Mode1	Mode2	Mode3	Mode4	Mode1	Mode2	Mode3	Mode4
Business Services	46	87.0	90.8	65.8	7.1	85.1	90.8	68.5	5.2
Communication Services	24	26.0	33.3	71.9	0.0	21.2	33.3	44.7	0.0
Construction and Related Engineering Services	5	0.0	100.0	37.5	0.0	0.0	100.0	37.5	0.0
Distribution Services	5	50.0	100.0	65.0	0.0	50.0	100.0	61.3	0.0
Education Services	5	0.0	100.0	25.0	50.0	0.0	100.0	25.0	33.4
Environmental Services	4	75.0	100.0	75.0	0.0	75.0	100.0	75.0	0.0
Financial Services	17	20.6	27.9	20.6	0.0	18.1	27.9	16.9	0.0
Health Services	4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism and Travel Related Services	4	50.0	50.0	31.3	6.3	50.0	50.0	24.0	6.3
Recreational, Cultural and Sporting Services	5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport Services	35	16.4	34.3	20.0	1.4	15.2	34.3	17.3	0.7
Other Services	1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
total	155	40.6	56.5	44.3	4.2	38.8	56.5	39.6	2.9

Note: Modes of Supply include (1) Cross Border Supply, (2) Consumption Abroad, (3) Commercial Presence and (4) Movement of Natural Persons. Considered the methodology is in terms of the quantity of the commitments in stead of quality, the calculating results could be references in statistics but couldn't really and exactly reflects the liberalization degree of service sectors.

In Distribution Services sectors, on all 5 sub-sectors (Commission Agents Services¹¹, Wholesale trade services¹², Retailing Services¹³, Franchising, Wholesale or retail trade services away from a fixed location), China made full commitments on Mode 2, partial commitments on Mode 1 (Hoekman's index gives a result of 50%) and Mode 3 (Hoekman's index gives a result of 65%) and no commitments on Mode 4.

In Education Services Sectors, on all 5 sub-sectors including Primary, Secondary, Higher, Adult and Other education services, China made full MA commitments on Modes 2, partial commitments on Modes 3 and 4, fully NT commitments on Modes 2, partial NT commitments on Modes 4 and no NT commitments on Mode 3. It should be point out that Education Sector has the highest Hoekman's index (50%) in Mode 4 compared with other 11 sectors.

In Environmental Services Sectors, on all sub-sectors including Sewage Services, Solid

¹¹ Excluding salt, tobacco.

¹² Excluding salt, tobacco.

¹³ Excluding tobacco..

Waste Disposal Services, Cleaning Services of Exhaust Gases, Noise Abatement Services, Nature and Landscape Protection Services, Other Environmental Protection Services, Sanitation Services, China made full commitments on Modes 2, and partial commitments on mode 1 and 3.

In Financial Services Sectors, commitments were made on almost all sub-sectors (All Insurance and Insurance Related Services, Banking and Other Services, Securities etc.). In each of the sub-sectors listed, China made partial or full MA commitments on Modes 1, 2 and 3. Regarding NT, China made almost full commitments on Modes 1, 2 and 3. The Hoekman's indexes are not so high (about 20%) in Mode 1, Mode 2 and Mode 3.

In Tourism and Travel Related Services Sectors, China made commitments on sub-sectors, such as Hotel (including apartment buildings) and Restaurants, Travel Agencies and Tour Operators. On the aspect of market access and national treatment, the openness level on Mode 1 and Mode 2 are 50%, on Mode 3 is 31.1% and Mode 4 is 6.3%.

In Transport Services Sectors, China made commitments on Maritime Transport Services, Auxiliary Services, Internal Waterways Transport, Air Transport Services, Rail Transport Services and Road Transport Services on all Modes. China made full commitments on Mode 2, partial commitments on Mode 1 and Mode 3 and made partial commitments on International transport of Maritime Transport Service on Mode 4.

2.4 Foreign Investment Regimes

2.4.1 Treatment of Foreign Investment

Since late 1970s, China has carried out a series of reforms on investment. The government encourages foreign investment into the Chinese market, and has uninterruptedly expanded the scope of investment. Effective and better utilization of Foreign Direct Investment (FDI) is the basic long-term principle for the Chinese government to adhere to.

The Catalogue for the Guidance of Foreign Investment Industries has been revised three times since 1997. The 2nd revision of the Provisional Regulation on Foreign Investment Guidance was completed in 2002 and took effect on April 1, 2002, and the 3rd Catalogue for the Guidance of Foreign Investment Industries was completed in 2004, and took effect on December.13, 2004. In recent years, China has further removed the restrictions on the proportion of foreign equity in investment projects, and opened more sectors to foreign investment, including telecommunications, urban water supply and drainage, construction and operation of gas and heat distribution network. China has also further opened such service sectors as banking, insurance, distribution, trading right, tourism, telecommunications, transportation, accounting, auditing and legal services. The production and publishing of broadcasting and TV program, and film production is also opened to foreign investors. The timeframe and pace of opening of these markets has been contained in annexes to the Catalogue for the Guidance of Foreign Investment Industries. Foreign investment belonging to the encouraged category will be given preferential policies including exemption from importing equipment tariff and Value Added Tax (VAT) of importing.

The basic laws in China concerning foreign investment are: the Law of the People's

Republic of China on Chinese-Foreign Equity Joint Venture; the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Venture; and the Law of the People's Republic of China on Wholly Foreign Owned Enterprises. These three basic laws on FDI have stipulated that the State will not nationalize or expropriate any foreign invested enterprises. Only under special circumstances, for the requirement of social and public interests, foreign invested enterprises may be expropriated in accordance with legal procedures, and appropriate compensation shall be provided.

Upon approval by the National People's Congress and its Standing Committee, China has revised the following laws and regulations at the time given: in October 2000, the Law of the People's Republic of China on Chinese-Foreign Contractual Joint Venture; in October 2000, the Law of the People's Republic of China on Wholly Foreign Owned Enterprises; in March 2001, the Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture; and in July 2001, the Implementation Rules on Law of the People's Republic of China on Chinese-Foreign Equity Joint Venture, including the elimination and cessation of enforcement of requirements on trade and foreign local content, export performance, compulsory technology transfer, and so on. Chinese authorities would not enforce the terms of contracts containing such requirements. The term of foreign exchange balancing¹⁴, permission or rights for importation and investment would not be conditional upon performance requirements set by national or sub-national authorities, or subject to secondary conditions covering, for example, the conduct of research, the provision of offsets or other forms of industrial compensation including specified types or volumes of business opportunities, the use of local inputs or the transfer of technology. Permission to invest, import licenses, quotas and tariff rate quotas would be granted without regard to the existence of competing Chinese domestic suppliers.

In China, foreign invested enterprises mainly include wholly foreign-owned enterprises, equity joint venture and contractual joint venture. China keeps on searching new forms of FDI. The regulations on setting up venture capital companies, foreign invested share companies and foreign invested holding companies have been either promulgated or complemented. The function for Foreign Invested Holding Companies has been further expanded. China has issued the regulation on M&A which allows foreign investors to use the way of M&A to set up foreign invested companies in China. Foreign investors are encouraged to take part in the restructuring and reform of State-owned Enterprises. The government allows foreign investors to play a role in the restructuring and disposal of the assets owned by the Asset Management Corporations.

A new regulation on venture capital that took effect March 1, 2003, which replaced the previous provisional regulations permitting the establishment of foreign-invested venture capital firms, including wholly foreign-owned enterprises, and which aimed at funding high-technology and new technology startups in industries open to foreign investment. The new regulation lowers capital requirements, allows these firms to manage funds directly invested from overseas, and offers the option of establishing venture capital firms under an

¹⁴ One of the common measures using by the developing countries for current account control, etc.the requirement for the enterprises seeking for their foreign currency balance by themselves partially or completely.

organizational form similar to the limited partnerships used in other countries.

On February 15, 2007, the Ministry of Finance and the State Administration of Taxation issued the Document of Tax Policy Regarding Promoting the Development of Venture Capital. If an enterprise of venture capital invests the small and medium high-tech enterprises unlisted by the means of stocks more than 2 years (including 2 years), 70% of its investment for such enterprises would be counterbalanced the enterprises income tax.

China has expanded the business scope and operations of holding companies. A new regulation that took effect in April 2003 made it possible for holding companies to manage human resources across their affiliated companies, and provide certain market research and other services to their affiliates. China has also made efforts to expand the foreign invested enterprises to be listed in the stock market by ways of IPO, or directly purchase the shares of enterprises in the stock market.

Examination and approval procedure are required by the Government for setting up foreign invested enterprises. Efforts have been made to further streamline the examination and approval procedures based on the expansion of the approval authorization from central government to provincial governments for all FDI projects in the encouraged category of the Catalogue for the Guidance of Foreign Investment Industries with no limit on its investment scale, and these projects are not subject to national planning. Many provinces can provide one-stop shop services, and each province has set up the investment promotion center to help investors.

For foreign investment, China abides by the Most Favored Nation (MFN) and the National Treatment requirements. Efforts have been made to keep continuity and stability of FDI policies. Currently Foreign invested enterprises still enjoy preferential treatments in terms of taxation and so on, comparing with domestic enterprises. The Dispute Settlement Centers for Foreign Investors/foreign invested enterprises have been established at both central and provincial level to help investors solving problems.

In order to ensure the transparency related to foreign investment, China promulgates the changes of laws and regulations guiding FDI in time; Compiles and publishes investment regulations on an annual basis; seeks opinions/comments from the Foreign Invested Enterprises before the adjustment of some FDI policies; allows a reasonable transitional period for foreign invested enterprises to make adjustments, or to make a comment on the draft of laws and regulations in some cases; allows businesses and other interested parties to get information on FDI in the government website (www.mofcom.gov.cn). The government website designed specially for FDI (www.fdi.gov.cn) has been set up.

2.4.2 Special investment regimes and/or zones

China had established a number of special economic areas where more open policies were applied, including 5 Special Economic Zones (SEZs), 14 open coastal cities, 6 open cities along the Yangtze River, 21 provincial capital cities and 13 inland boundary cities. Those special economic areas enjoyed greater flexibility in utilizing foreign capital, introducing foreign

technology and conducting economic cooperation overseas. From January.1, 2008 the new setting-up foreign enterprises in the special economic zones will pay income tax by the rate 25%, same with the Chinese enterprises.

Continuous efforts have been made to encourage foreign investors to invest in new and high-tech industry, fundamental and related industries, conduct technological renovations, and set up R&D centers in China.. Many implementing regulations have been promulgated. Preparation work for the revision of the Advantageous Industrial Catalogue in Central and Western China has also been started in order to encourage foreign investors to invest in central and western China. From January.1, 2008, all high-tech enterprises whatever in or not in the special economic zones will be given the preferential enterprises income tax rate, 15%.

2.5 Trade Remedies

2.5.1 Safeguards

Pursuant to the provisions of the Foreign Trade Law of the People's Republic of China and China's WTO commitments, the Regulations of the People's Republic of China on Safeguards was formulated, which became effective on January 1, 2002, and were revised on March 31, 2004, according to the Decision of the State Council on Revising the Regulations on Safeguards of the People's Republic of China.

China has also formulated two administrative rules regarding safeguards, the Provisional Rules on Initiation of Safeguards Investigation and the Provisional Rules on Hearing in Safeguards Investigation, promulgated by the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) in Decree No. 9 and No. 11 respectively on February 10, 2002. These two rules came into effect on March 13, 2002. In addition, The Rules on Investigations and Determinations of Industry Injury for Safeguards were issued on November 12, 2003 and took effect 30 days later.

Up to this date, only one investigation into safeguard measures has been initiated and duly notified to the WTO Safeguards Committee. The investigation was related to Partial Iron & Steel Products (provisional and final measures were adopted).

2.5.2 Anti-dumping Measures and Countervailing Duties

The State Council issued the new Regulations of the People's Republic of China on Anti-Dumping, which became effective on January 1, 2002. In early 2002, the MOFTEC, which at that time was responsible for making determinations of dumping under the new regulations, issued several sets of rules covering initiation of investigations, questionnaires, sampling, verifications, information disclosure, access to non-confidential information, price undertakings, hearings, interim reviews, refunds and new shipper reviews. The State Economic and Trade Commission (SETC), which at that time was responsible for making determinations of injury, issued rules covering industry injury investigations and public hearings in January 2003. According to the Decision of the State Council on Revising the Regulations on Anti-dumping of

the People's Republic of China, the Regulations of the People's Republic of China on Anti-Dumping were revised on March 31, 2004. The Rules on Investigations of Industry Injury for anti-dumping were issued on November 12, 2003 and took effect 30 days later. Meanwhile, this new rules replaced the rules that SETC issued in early 2003.

In August 2002, the Supreme People's Court issued Rules Regarding Supreme People's Court Hearings on Judicial Review of International Trade Disputes, which provide guidance concerning judicial review of administrative agency decisions affecting international trade, including those in the Anti-dumping area. In September 2002, the Supreme People's Court issued Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of Laws in the Hearing and Handling of Antidumping Administrative Cases.

According to the above laws and regulations, countervailing and anti-dumping duties may be applied to goods whose importation into the country injures or threatens to injure the relevant national industry on account of reduced prices owing to artificial conditions, such as subsidies or dumping, in the export markets concerned.

By the end of June of 2006, China had initiated 45 anti-dumping investigations and 1 safeguarding on products from over 20 countries and regions, covering 45 kinds of products including chemicals (30), light industry (2), textile (3), steel (3), electronic (1), paper products (5), pharmacy (1) and so on. With regard to these measures, some exporters were granted 0% duty free; some exporters were given price undertakings treatment; and certain members were excluded from the investigation on the basis of negligible import volume. Up to now, Chinese investigation authorities have not initiated any investigation on countervailing measure.

2.5.3 Institutional Arrangements

In March 2003, a general reorganization of the State Council ministries and commissions consolidated the safeguard functions of the MOFTEC and SETC into the newly formed MOFCOM. Presently, the Ministry of Commerce (MOFCOM) and the Tariff Commission of the State Council (TCSC) are the competent authorities of safeguard matters.

According to the Regulations on Safeguards, the MOFCOM is in charge of the investigation and determination of increase of imports, and also responsible for investigation and determination of injury. If a definitive safeguard measure takes the form of quantitative restriction, a decision shall be made and published by the MOFCOM as the foreign trade administrative authority. TCSC is to decide whether to increase tariff level as provisional or final safeguard measure, upon proposal made by MOFCOM on the basis of investigation findings. The reason that MOFCOM and TCSC decide upon different forms of safeguard measures is to ensure the uniformity in administration of trade laws and regulations, as required by Article 10 of GATT 1994. While the MOFCOM is the government agency to formulate and enforce administrative measures concerning trade, TCSC is in charge of matters relating to formulation of custom tariffs.

Table 2.7 Trade Remedy Regime

Regulation	Date
Regulations on Antidumping	effective 01 Jan 2002 and
Provisional Rules on Initiation of Antidumping Investigations	effective 13 Mar 2002

Regulation	Date
Provisional Rules on Questionnaire in Antidumping Investigation	effective 15 Apr 2002
Provisional Rules on Public Hearing in Antidumping Investigations	effective 13 Mar 2002
Provisional Rules on Sampling in Antidumping Investigations	effective 15 Apr 2002
Provisional Rules on Disclosure of Information on Antidumping Investigations	effective 15 Apr 2002
Provisional Rules on On-the-Spot Verification in Antidumping	effective 15 Apr 2002
Provisional Rules on Access to Non-Confidential Information in Antidumping Investigations	effective 15 Apr 2002
Provisional Rules on Price Undertakings in Antidumping Investigations	Effective 15 Apr 2002
Provisional Rules on New Shipper Review in Antidumping Investigations	effective 15 Apr 2002
Provisional Rules on Refund of Antidumping Duty	effective 15 Apr 2002
Provisional Rules on Interim Review of Dumping and Dumping Margin	effective 15 Apr 2002
Rules on Investigations of Industry Injury for Antidumping	effective 12 Dec 2003
Regulations on Anti-subsidy	effective 01 Jan 2002 and
Provisional Rules for Initiation of Countervailing Investigation	effective 13 Mar 2002
Provisional Rules for Questionnaire in Countervailing Investigation	effective 15 Apr 2002
Provisional Rules for On-the-spot Verification of Countervailing Investigation	effective 15 Apr 2002
Provisional Rules for Conduct of Public Hearing in Countervailing Duty Investigation	effective 13 Mar 2002
Rules on Investigations of Industry Injury for Countervailing Measures	effective 12 Dec 2003
Regulations on Safeguard	effective 01 Jan 2002 and
Provisional Rules on Initiation of Safeguard Investigations	effective 13 Mar 2002
Provisional Rules on Hearing in Safeguard Investigations	effective 13 Mar 2002
Rules on Investigations of Industry Injury for Safeguard	effective 12 Dec 2003
Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of	effective 01 Jan 2003
Provisions of the Supreme People's Court on Certain Issues Concerning the Applicability of	effective 01 Jan 2003

Source: edited according to Foreign Economic and Trade Gazette of the Ministry of Commerce of the People's Republic of China

The Bureau of Fair Trade for Imports and Exports (BOFT) of the MOFCOM is in charge of investigation and determination of dumping and subsidy; The Bureau of Industry Injury Investigation (BIII) of the MOFCOM is responsible for investigation and determination of Injury. If a provisional countervailing measure takes the form of undertakings, a decision shall be made and published by MOFCOM as the foreign trade administrative authority. TCSC decides whether to levy provisional or definitive anti-dumping duty and countervailing duty, including the level of duty, upon proposal made by the MOFCOM on the basis of the investigation findings. However, the level of the duty decided by the TCSC cannot exceed the dumping margin determined by the MOFCOM; no countervailing duties shall be levied in excess to the amount of subsidy as determined in the final determination made by the MOFCOM.

The MOFCOM deals with the other issues related to anti-dumping and countervailing measures, including consultation, notifications, dispute settlement concerning anti-dumping and countervailing measures and so on, other than the above functions carried out by the Tariff Commission.

2.6 China's commitments regarding WTO

China became a WTO member on December 11, 2001 and it has abided by WTO fundamental principles and general applicable stipulations since accession. It would ensure uniform administration and transparency of the trade regime and non-discrimination. It also

makes commitments in trade in goods, trade in services and trade-related intellectual property regime and etc. China's Protocol of Accession, accompanying Working Party Report and Goods and Services Schedules are available on www.mofcom.gov.cn.

Like all acceding WTO members, China agreed to assume the obligations of more than 20 existing multilateral WTO agreements, covering all areas of trade in goods, trade in services, as well as IPR etc. China made a commitment that upon accession it would participate in the Information Technology Agreement ("ITA") and would eliminate tariffs on all information technology products as set out in China's schedule, furthermore, China would eliminate all other duties and charges for ITA products. China began to implement relevant tariff reduction on January 1, 2002 and became a member of ITA on April 24, 2003.

One of the most important commitments made by China in acceding to the WTO was in the area of trading rights. The area of trading rights covers both the right to import products into, and export products from, China. In its accession agreement, China committed to substantially liberalize in the area of trading rights. Specifically, China committed to eliminate its system of examination and approval of trading rights, and make full trading rights automatically available for all Chinese enterprises, Chinese-foreign joint ventures, wholly foreign-owned enterprises and foreign individuals, including sole proprietorships, within three years of its accession, or by December 11, 2004, and trading rights will be granted in a non-discriminatory and non-discretionary way, and any requirements for obtaining trading rights will be for customs and fiscal purposes only, and will not constitute a barrier to trade.

Prior to the adoption of an automatic trading rights system, China committed that it would eliminate for both Chinese and foreign-invested enterprises any export performance, trade balancing, foreign exchange balancing and prior experience requirements, such as in importing and exporting, as criteria for obtaining or maintaining the right to import and export. This commitment took effect immediately upon China's accession (on December 11, 2001). China further committed to expand the availability of trading rights pursuant to an agreed schedule covering the first three years of its WTO membership. First, China committed that it would make trading rights available to Chinese enterprises immediately upon its accession, subject to certain minimum registered capital requirements, to be gradually decreased during the three-year transition period (ending December 11, 2004). The minimum registered capital was to be set at RMB 5 million on December 11, 2001, and then reduced to RMB 3 million one year later (December 11, 2002) and to RMB 1 million two years later (December 11, 2003) before being eliminated three years later (December 11, 2004). Second, China committed that it would make full trading rights available to joint ventures with minority foreign ownership beginning not later than one year after China's accession, except with regard to those goods still reserved for state trading under China's accession agreement. Third, China committed that it would make these same trading rights available to joint ventures with majority foreign ownership beginning no later than two years after China's accession.

China Promulgated the Revised Foreign Trade Law of the People's Republic of China, which became effective on July 1, 2004. Compare to the former Foreign Trade Law, it allows individuals to engage in foreign trade dealings, so the new revised law has extended the scope of foreign trade dealers to individuals who engage in foreign trade dealings in compliance with

this law, and other relevant laws and administrative regulations. Furthermore, it has abolished the examination and approval procedures of import and export of goods and technologies dealings, and it has only required foreign trade dealer to register as required.

China's accession agreement also includes several special mechanisms. These include a unique, China-specific safeguard provision allowing a WTO member to restrain increasing Chinese imports that disrupt its market (available for 12 years), a special textile safeguard (available for 7 years) and the continued ability to utilize a special non-market economy methodology for measuring dumping in anti-dumping cases against Chinese companies (available for 15 years). In addition, the WTO also created a special multilateral mechanism for reviewing China's compliance on an annual basis. Known as the Transitional Review Mechanism, this mechanism operates annually for 8 years after China's accession, with a final review by year 10 or the earlier date decided by the General Council.

We should note that China has been fulfilling its WTO accession commitments in a positive and serious spirit. Great improvement has been made in terms of legislative construction, market access opportunities, policy transparency since China accession to the WTO. China should also enjoy its rights while fulfilling its commitments, but there are some unfair treatments to China. For example, the market economy status of China and the implementation of Annex 7 to our accession protocol by certain members. Despite the fact that China has made remarkable achievements over the past two decades in the establishment of its market-economy, and that Chinese companies are now totally driven by Market Forces in their business operations, we notice that few Chinese companies have been granted market economy treatment. To large extent, this is due to the fact that those criteria and procedures provided for in China's Protocol of Accession, which justifies fair treatment towards Chinese companies meeting market conditions, are not properly reflected in the anti-dumping rules and practices maintained by some Members. These inconsistencies seriously impair the interests of Chinese companies, and impede the normal trade between China and these members.

Table 2.8 Selected Aspects of China's WTO Accession

<p>Trade in goods—China's average bound tariff level will decrease to 15% for agricultural products. The range is from 0 to 65%, with the highest rates applied to cereals. For industrial goods the average bound tariff level will go down to 8.9% with a range from 0 to 47%, with the highest rates applied to photographic film , automobiles, and related products. Some tariffs will be eliminated and others reduced mostly by 2004 but in no case later than 2010.</p>
<p>Trading and investment regimes.</p> <p>National treatment/non-discrimination—Measures and practices that discriminate against imported products or foreign companies will be removed.</p> <p>Trade-Related Aspects of Intellectual Property Rights (TRIPs)—China will enforce the rights protecting intellectual property within China.</p> <p>Trade-Related Investment Measures (TRIMs)—Foreign investment approvals will no longer be subject to mandatory requirements (e.g., technology transfer or local content requirements).</p> <p>Agricultural subsidies—China has agreed to limit domestic agricultural subsidies to 8.5 percent of the value of production (i.e. less than the 10 percent limit allowed for developing countries under the WTO Agreement on Agriculture), and to eliminate all agricultural export subsidies upon WTO entry.</p> <p>Export subsidies—Upon accession, all forms of export subsidies inconsistent with WTO rules, including grants and tax breaks linked to export performance, were eliminated.</p>
<p>Trade in services—foreign access is to be ensured through transparent and licensing procedures in various sectors, including banking and insurance, legal and other professional services, telecommunications, and tourism. Specifically:</p> <p>Telecoms—Upon China's accession, foreign service suppliers will be permitted to establish joint venture enterprises, without quantitative restrictions, and provide services in several cities. Foreign investment in the joint venture shall be no more than 25%. Within one year of accession, the areas will be expanded to include services in other cities and foreign investment shall be no more than 35%. Within three years of accession, foreign investment shall be no more than 49%. Within five years of accession, there will be no geographic restrictions.</p> <p>Banking—foreign financial institutions will be permitted to provide services without client restrictions for foreign currency business upon accession; local currency services to Chinese companies within two years (by December 2003); and services to all Chinese clients within five years (by December 2006)</p> <p>Insurance—Foreign non-life insurers will be permitted to establish as a branch or as a joint venture with 51% foreign ownership. Within two years of China's accession, foreign non-life insurers will be permitted to establish as a wholly-owned subsidiary. Upon accession, foreign life insurers will be permitted 50% foreign ownership in a joint venture with the partner of their choice. For large scale commercial risks, reinsurance and international marine, aviation and transport insurance and reinsurance, upon accession, joint ventures with foreign equity of no more than 50% will be permitted; within three years of China's accession, foreign equity share shall be increased to 51%; within five years of China's accession, wholly foreign-owned subsidiaries will be permitted.</p>
<p>Trading partner safeguards.</p> <p>Anti-dumping. Under WTO agreement, other members can invoke "non-market economy" provisions to determine dumping cases for 15 years following accession. Non-market economy provisions imply that domestic prices cannot be used as a reference point and make it much easier to reach a positive finding in an antidumping investigation.</p> <p>Transitional product-specific safeguard mechanism—As provided under the WTO Agreement on Safeguards, a country may impose restrictions on imports if it can demonstrate that they cause or threaten to cause serious injury to domestic firms producing similar products.</p>

Source: Edited according to China's Protocol of Accession and Working Party Report

3. ECONOMIC RELATIONS, PROBLEMS AND PROSPECTS BETWEEN CHINA AND PERU

3.1 Bilateral Trade in Goods

With the development of the Chinese-Peruvian trade and economic relations, and the complementarities in their economic structures, the two countries have witnessed continuous expansion of economic and trade cooperation, as evidenced by the rapid increase in the economic and trade activities.

According to the statistics issued by China Customs, bilateral trade volume totaled US\$3919 million in 2006, increasing by 35.80% over the previous year, with US\$1009 million exports and US\$2910 million imports on the Chinese side, increasing by 65.63% and 27.82% respectively. From January till March 2007, bilateral trade volume totaled US\$1256, up by 61.49% over the same period of the previous year, with US\$287 million exports and US\$969 million on the Chinese side, up by 54.40% and 63.72% respectively over the same period of the previous year. China is currently the 2nd largest trade partner of Peru whereas Peru is China's sixth largest trade partner in Latin America.

The primary items that China exports to Peru are mechanical & electronic products, high and new technological products, textile products and garments, etc. while China's imports are mainly fish flour and mineral products. China has long faced an unfavorable balance of trade with Peru, which has been increasingly widening in recent years. China's trade deficit from 1998 to 2006 totaled US\$ 6662 million.

Chart 3.1 Bilateral Trade in Goods



Source: the Ministry of Commerce.

Table 3.1 Chinese-Peruvian trade in main category in 2006
(US\$ Thousand)

Category 1	626	76205
Category 2	5154	550976
Category 3	7320	2059645
Category 4	139792	21386
Category 5	31018	592
Category 6	17072	32523
Category 7	159578	19385
Category 8	48955	136
Category 9	180728	148608
Category 10	418278	217
Total	1008523	2909672

Note: The products are classified mainly on the basis of the classification standard of Chinese customs.

Category 1 includes Chinese customs' Class 1 – Alive animals and animal products; Class 2: vegetable products; Class 3 – animal/vegetable fats, oils and waxes, prepared edible fats.

Category 2 includes Chinese customs' Class 4 – Prepared foodstuffs, beverages, spirits, vinegar, tobacco and manufactured tobacco products.

Category 3 includes Chinese customs' Class 5 – Mineral products.

Category 4 includes Chinese customs' Class 6 –Products of the chemical and allied industries; Class 7 – plastics and articles thereof; rubber and articles thereof.

Category 5 includes Chinese customs' Class 8 –Raw hides and skins, leather, furskins and articles thereof.

Category 6 includes Chinese customs' Class 9 –Wood and articles of wood, wood charcoal, cork, wickerwork; Class 10 –cellulosic material, waste paper, paper, paperboard and articles thereof.

Category 7 includes Chinese customs' Class 11 – Textiles and textile articles.

Category 8 includes Chinese customs' Class 12 – footwear, headgear, umbrellas, feathers and articles made therewith, artificial flowers, articles of human hair; Class 13 – Mineral material products, ceramic products, glass and glasswear; Class 14 – natural or cultured pearl, precious stones, precious metals.

Category 9 includes Chinese customs' Class 15 – Base metals and articles of base metal.

Category 10 includes Chinese customs' all other miscellaneous products.

3.2 Bilateral Trade in Services

In 2006, China's imports and exports in service trade amounted to US\$191,750 million, an increase of 22.1% over 2005. Among them, the exports amounted to US\$9.20 billion, an increase of 23.7% over 2005, representing 8% of the global total exports in service trade, the third place in the world's service trade exports in 2006; the imports amounted to US\$100,830 million, an increase of 20.3% over 2005, accounting for 6.4% of the global total imports in service trade; China has a trade deficit of US\$8910 million, down by 3.9% from 2005, largely due to the increase of trade surplus in tourism, computer and information service, and other business service, etc. Germany, the U.S. and China were the top three exporters of service trade in the world in 2006.

China started to operate the business of engineering project contracting with Peru in 1986. As of the end of 2006, China had concluded contracts of engineering project contracting, labor

service cooperation and design consulting with a total value of US\$338 million, which realized a turnover of US\$397 million, taking up only 1.3% of the total US\$30 billion turnover of China's engineering projects with foreign parties in 2006. China has only carried out a small number of contracting, labor service and design consulting businesses in Peru, and China's presence in other areas of service trade in Peru is also limited to a small scale.

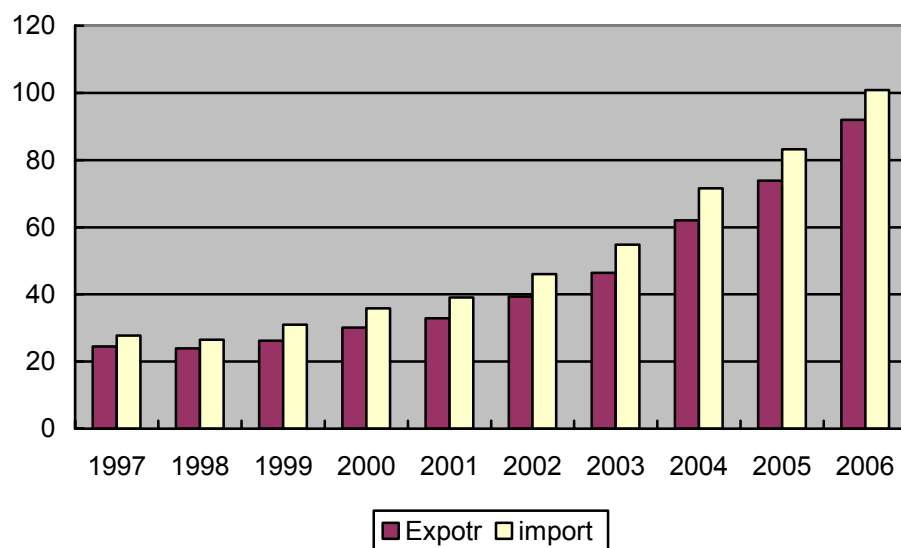
Table 3.2 China's trade in services (E/I)

unit: billion USD

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total amount	Export	24.50	23.88	26.17	30.15	32.90	39.38	46.38	62.06	73.91	92.00
	Import	27.73	26.47	30.97	35.86	39.03	46.08	54.85	71.60	83.17	100.83
Difference in amount (E-I)		-3.23	-2.59	-4.80	-5.71	-6.13	-6.70	-8.47	-9.54	-9.26	-8.83
Transport	Export	2.94	2.30	2.42	3.67	4.64	5.72	7.91	12.07	15.43	21.02
	Import	9.94	6.76	7.90	10.40	11.32	13.61	18.23	24.54	28.45	34.37
Tourism	Export	12.07	12.60	14.10	16.23	17.79	20.39	17.41	25.74	29.30	33.95
	Import	8.13	9.21	10.87	13.11	13.91	15.40	15.19	19.15	21.76	24.32
Other services	Export	7.68	6.21	6.91	7.08	7.28	8.76	15.06	15.95	16.89	19.69
	Import	5.25	5.44	6.59	6.12	5.74	4.98	6.46	8.48	9.39	11.26

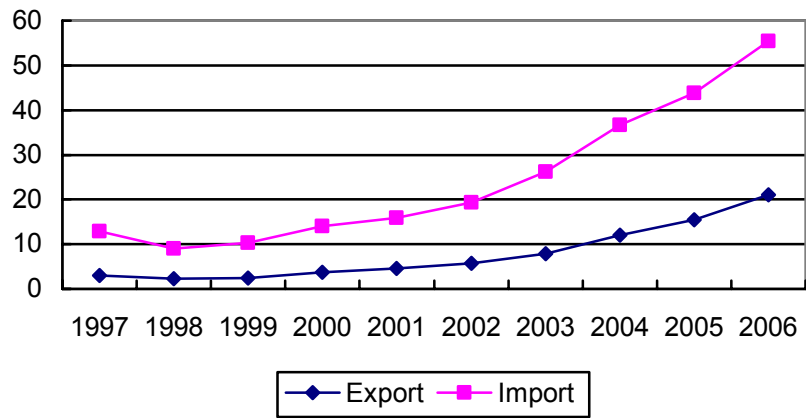
Source: State Administration of Foreign Exchange.

Chart 3.2 China's services Export and Import(1997-2006)
US\$ Billions



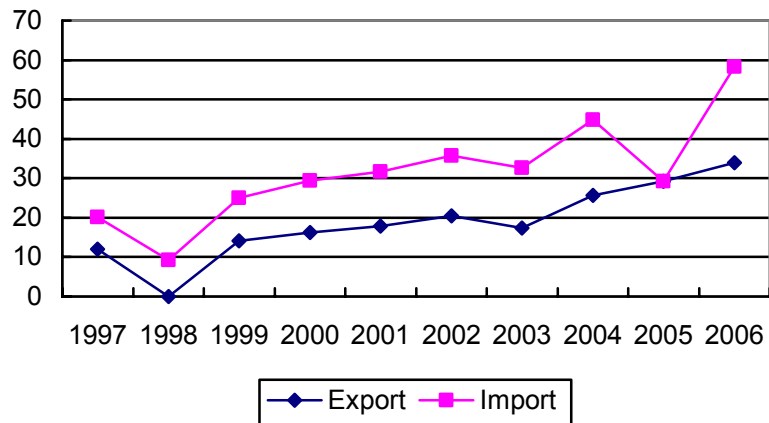
Source: State Administration of Foreign Exchange.

**Chart 3.3 Trade in Transportation Services(1997-2006)
US\$ Billions**



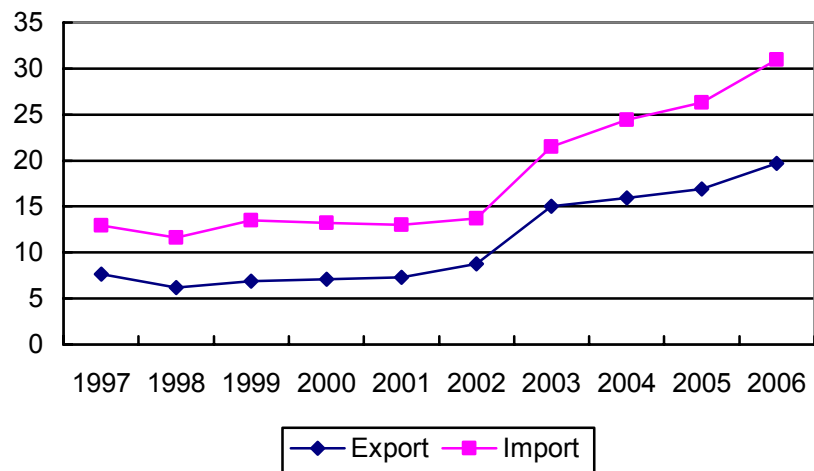
Source: State Administration of Foreign Exchange.

**Chart 3.4 Trade in Travel Services(1997-2006)
US\$ Billions**



Source: State Administration of Foreign Exchange.

**Chart 3.5 Trade in Other Services(1997-2006)
US\$ Billions**



Source: State Administration of Foreign Exchange.

3.3 Bilateral Investment

Economic cooperation between China and Peru has a late start but a fast growth. Peru is currently one of China's biggest investment targets in Latin America. By the end of 2006, Peru has invested 152 projects in China with the agreed-upon investment valued at US\$159 million, and the actual inflow of investment valued at US\$34.06 million, covering a range of sectors such as electronics, real estate, automobile spare parts, and textiles, etc. China has increased its investment in Peru at a brisk pace over recent years. By the end of 2006, China has directly invested in Peru about US\$600 million, with most of its investments flowing into the sectors of trade, textile and mineral resource exploitation.

China's Capital Steel Group and China National Petroleum Corporation (CNPC) have set up some big businesses in Peru, and gained remarkable economic returns. The Capital Steel Group purchased 98.4% equities of the original Peru Ferric Mineral Company with US\$118 million in February 1992. CSC then set up the CSC-Peru Ferric Mineral Ltd., which is a successful example of Chinese invested company in mining in Peru. It also discovered copper mineral reserves in Husta region, to the North of Markena in 1997, which have great potential for exploitation value. CNPC set up its Peruvian subsidiary under its China-American Petroleum Development Company, which carries out projects in Peru. In the joint-venture, CNPC invested its technology, equipment, laborers and cash flows.

China and Peru signed several government agreements in 2005, such as the Cooperation Understanding Memorandum for Investment Promotion, the Agreement for Promotion of Cooperation of Private Investments, and the Cooperation Understanding Memorandum for Further Cooperation in Exploration, Exploitation of Petroleum and Natural Gas, and in Oil Refining and Chemicals. China will promote the investments and technological cooperation with Peru in development and export of natural gas. CNPC will invest US\$83 million in Peru to explore energy. If this agreement can be successfully implemented, which has the duration of

40 years, the investment in jungles in Southeast of Peru may reach US\$1 billion, and Peru will become the net energy export country since 2009.

3.4 Tariff Level in China

Table 3.3 China's tariff level

Classification of Products	Average applied tariff in 2006
Animal & Animal products	7.6
Vegetable Products	14
Animal or Vegetable Oil and Fat	12.9
Foodstuff & Beverage	18
Mineral Products	2.8
Chemical Products	8.1
Plastics & Plastic Products	9.9
Leather, Fur skins & Articles	16.1
Wood and Wood Products	6.9
Paper products	3.3
Textile and Apparels	10.4
Footwear, Hats & Umbrellas	18
Products of Mineral Materials	13.6
Jewel and Precious Metal	10.3
Base Metals & Articles Thereof	7.2
Telecoms, Electronics & machinery	8.8
Transportation Equipment	6
Precision Instruments	14.3
Miscellaneous articles	11

According to its WTO commitments, China has committed bounded tariff on all commodities, reduced the tariff rates remarkably, and abolished most non-tariff measures to further opening up the market. In 2007, the average tariff rate of China is 9.8%, of which, the average tariff rate for agricultural products is 15.2%, and the average tariff rate for manufacturing products is 8.95%. Now, China only exercises the administration of tariff quota on grains (wheat, rice and maize), cotton, vegetable oils, edible sugar, wool and chemical fertilizers, etc.

In terms of tariff distributions in 2006, zero-tariff products of China account for 8.5% of the total number of 8-digit tariff headings, and the number of high tariff products with tariff rates greater than 15% is decreasing, with the proportion falling to 16.2%. In terms of tariff structures, the sectors such as agricultural products, transportation equipment, textiles and apparels, handcraft works and machinery equipment, etc. maintain high average tariff rates. The tariff reduction commitments of China made at the WTO accession have basically been fulfilled.

3.5 Analysis of the Competitive and Complementary Industries

(RCA and TSC calculating)

3. 5.1 Introduction of Main Indexes

The key indexes in measuring the export competitiveness and complementarity of industries include RCA, RPC, RIX, RIM and TSC, etc. Table 3.4 sets out the calculation methods and description of these indexes.

Table 3.4 Trade Indexes

Commercial Index	Formula	Description
Reveal Comparative Advantages(RCA)	$(X_{ih}/x_i)/(W_{ih}/W)$	Compares the importance of a specific sector or good within the total exports of a country, in relation to the weight of such sector or good in global trade; where the numerator represents the share of good h in the exports of country i, and the denominator indicates the contribution of good in global trade.
Relative Purchase Capacity(RPC)	$(M_{ih}/M_i)/(W_h/W)$	Allows to identify the sectors where the countries possess a disadvantageous position in global trade; where the numerator represents the share of good h in the imports of country i, and the denominator indicates the contribution of good in global trade.
Relative Importance of Exports(RIX)	$(X_{ijh}/X_{ih})/(X_{ij}/X_i)$	Compares the importance of a specific sector or good h within the exports of country i to country j, in relation to the weight of the exports from country i to country j in the total exports of country i
Relative Importance of Imports(RIM)	$(M_{ijh}/M_{ih})/(M_{ij}/M_i)$	Compares the importance of a specific sector or good h within the imports of country i from country j, in relation to the weight of the imports of country i from country j in the total imports of country i.
Trade Specific Coefficient(TSC)	$(X_{ih}-M_{ih})/(X_{ih}+M_{ih})$	Describe country i is a net exporter or net importer in good h

The calculation is based on the customs' six-digit HS codes. The following is a brief description of some important results of calculation.

3. 5.2 Results of RCA and RPC Calculation

China's data on these two indexes is available from China Customs' statistics, and the world's import and export data from COMTRADE global trade database.

A. Analysis of RCA Results

Comparing with COMTRADE database and Chinese exports, 5222 products at six-digit HS level could be found in both sides. Among all 5222 products, there are 1940 with export competitiveness index above 1. It can be found that these 1940 products are distributed in every sector.

Among 32 major products exported from China, there are 19 with RCA index value above 1, including textiles, trunks and suitcases, and small-sized mechanical and electronic products like digital automatic data processing machines & units. Only one of 20 energy raw material products has a RCA index value above 1 (bituminous coal 270112). Among the products with RCA index value below 1, traffic control equipment, duplicating machines, semi-tractor engines, and hybrid integrated circuits have a relatively smaller value of RCA index value.

Table 3.5 RCA Indexes of Main Exported Commodities

HS	Product	Exports(million USD)	RCA
847149	Digital Adp Mac & Units,Entered As Systems, Nesoi	29902	2.28
847350	Pts Suitble Fr Use W Mac Of 2/More Head 8469-8472	28355	0.29
847180	Automatic Data Processing Units, N.E.S.O.I.	24953	1.85
852540	Still Image Video Cameras & Othr Video Camera Rec	23709	2.68
853080	Electrical Signaling Or Traffic Control Eqpt,Nesoi	17320	0.31
854260	Hybrid Integrated Circuits	11955	0.57
901410	Direction Finding Compass	11045	0.23
847190	Adp Mac&Unts Thereof,Mag/Opt Rder,Trnscr,Proc Dat	9207	0.47
852290	Pts & Access F Sound/Video Reproducing,Record Appr	7493	4.08
852020	Telephone Answering Machines	6291	2.93
870120	Road Tractors For Semi-Trailers	5871	0.08
852691	Radio Navigational Aid Apparatus	5860	1.23
852821	Video Monitors, Color	5845	2.62
853521	Automatic Circuit Breakers > 1000 V But < 72.5 Kv	5342	0.03
850490	Pts For Elect Transformers Static Converters Indct	5282	1.06
640399	Footwear, Outer Sole Rub Etc & Leather Upper Neso	5082	3.33
852312	Magnetic Tape Unrecord Width > 4 Not Over 6.5 Mm	4425	0.01
611030	Sweaters, Pullovers Etc, Knit Etc, Manmade Fibers	4414	5.27
640299	Footwear, Outer Sole & Upper Rubber Or Plast Neso	4302	7.36
950430	Coin/Tokn Oper Games Ex Bwng Ally Eq; Pts & Acces	3891	0.12
847210	Duplicating Machines	3866	0.17
270112	Bituminous Coal, Not Agglomerated	3818	1.43
610910	T-Shirts, Singlets, Tank Tops Etc, Knit Etc Cotton	3804	2.92
420212	Trunks, Suitcases,Etc.Surface Plastic/Text Materls	3788	10.44
620462	Women'S Or Girls' Trousers Etc Not Knit, Cotton	3646	3.25
847170	Automatic Data Processing Storage Units, N.E.S.O.I	3569	2.26
271011	Light Oils& Prep (Not Crude) From Petrol & Bitum	3487	0.34
851790	Pt Elect Appr F Line Telephony Or Telegraphy Etc.	3482	0.84
841581	Air Conditioning Mach Etc Incl Refrig Unit Etc	3168	2.89
392690	Articles Of Plastics, Nesoi	2984	1.25
850910	Vacuum Cleaners, Electromechanical Domestic	2942	4.12
271019	Oil (Not Crude) From Petrol & Bitum Mineral Etc.	2919	0.19

B. Analysis of RPC Results

Similar with the RCA method, 1392 out of 5218 products have RPC index values above or equal to 1. Most of these 1392 products are aquatic products, mineral products, textile raw materials, furnish and equipment. The following table shows the RPC indexes of Chinese major import products. 27 of the top 30 products have RPC indexes above 1. The three products with RPC index value below 1 are crude oil (270900), other oil (271019), and passenger vehicle with an engine displacement from 2500 ml to 3000 ml.

Table 3.6 RPC Indexes of Main Imported Commodities

HS	Commodities	Imports(in million USD)	RPC
854221	Digital Monolithic Integrated Circuits	56906.38	4.33
270900	Crude Oil From Petroleum And Bituminous Minerals	47860.53	0.82

901380	Optical Devices, Appliances And Instruments, Nesoi	27666.44	11.52
854229	Monolithic Integrated Circuits, Other Than Digita	17437.47	3.18
852990	Pts,Ex Antenna,For Trnsmssn,Rdr,Radio,Tv,Etc Neso	16257.84	3.45
260111	Iron Ore Concen Nesoi & Non-Agglomerated Iron Ores	15917.51	7.45
847330	Parts & Accessories For Adp Machines & Units	15685.01	1.29
847170	Automatic Data Processing Storage Units, N.E.S.O.I	11418.29	2.52
271019	Oil (Not Crude) From Petrol & Bitum Mineral Etc.	10224.6	0.77
120100	Soybeans, Whether Or Not Broken	7777.374	6.03
854260	Hybrid Integrated Circuits	6680.504	3.5
853400	Printed Circuits	6568.682	3.48
847989	Mach & Mechanical Appl W Individual Function Neso	6521.8	3.02
880240	Airplane & Ot A/C, Unladen Weight > 15,000 Kg	5605.154	1.31
291736	Terephthalic Acid And Its Salts	5209.32	10.91
740311	Refined Copper Cathodes And Sections Of Cathodes	4309.076	2.49
260300	Copper Ores And Concentrates	3662.899	3.38
290531	Ethylene Glycol (Ethanediol)	3527.289	7.57
520100	Cotton, Not Carded Or Combed	3192.72	5.88
740400	Copper Waste And Scrap	3181.105	5.86
852290	Pts & Access F Sound/Video Reproducing,Record Appr	3148.272	4
390210	Polypropylene, Pr Fms	3020.145	3.58
290250	Styrene	2989.842	4.9
901390	Pts Of Liq Crystal Device, Laser&Oth Optical,Nesoi	2834.628	8.69
850780	Storage Batteries Nesoi	2774.203	4.61
281820	Aluminum Oxide, Except Artificial Corundum, Nesoi	2593.422	4.44
390330	Acrylonitrile-Butadiene-Styrene (Abs) Copolymers	2579.319	6.04
854140	Photosnsitve Semicndctr Dvice Inc Phtvltc Cell Etc	2565.263	2.23
870323	Pass Veh Spk-Ig Int Com Rcpr P Eng >1500 Nov 3M Cc	2549.457	0.24
390120	Polyethylene Having A Spec Gravity Of 0.94 Or More	2511.796	2.82

Table 3.7 Products with higher RPC

HS	Commodities	RPC
30332	Plaice Except Fillets, Livers And Roes, Frozen	15.1
261220	Thorium Ores And Concentrates	14.62
261710	Antimony Ores And Concentrates	12.85
901380	Optical Devices, Appliances And Instruments, Nesoi	11.52
71410	Cassava (Manioc) Fresh Or Dried, W/Nt Pellet	11.38
900662	Photo Flashbulbs, Flashcubes And The Like	10.92
291736	Terephthalic Acid And Its Salts	10.91
391530	Waste, Paring And Scrap Of Vinyl Chloride Polymers	10.9
470710	Waste, Scrap Unbleach Kraft, Corrugatd Paper/Pprbd	10.9

530490	Sisal Oth Text Fib Gen Agave Tow Waste Nt Sp Othe	10.86
854040	Data/Graphic Display Tubes,Color, W/ Pitch < 0.4 M	10.85
810790	Cadmium And Articles Thereof, Nesoi	10.64
530121	Flax, Broken, Or Scutched	10.23
290313	Chloroform	10.18
261000	Chromium Ores And Concentrates	9.77
910812	Watch Movements,Battery,Opto-Electronic Displ Only	9.76
260500	Cobalt Ores And Concentrates	9.75
845522	Cold Rolling Mills Except Tube Rolling	9.71
520542	Ct Yr N Sw Td > 85% Wt Ct M/Cb Cmb > 14Nm & N > 4	9.57
550992	Yrn N Swg Th Syn Stp Fb N Rtl Sl Oth Yrn Mx Cotton	9.41
911019	Rough Movements Of Watches	9.23
901390	Pts Of Liq Crystal Device, Laser&Oth Optical,Nesoi	8.69
251511	Marble And Travertine, Crude Or Roughly Trimmed	8.38
30360	Cod Except Fillets, Livers And Roes, Frozen	8.33
510111	Wool, Not Carded Or Combed, Greasy, Shorn	8.26
844400	Machines Extruding, Drawing Etc Manmade Textiles	8.09
391510	Waste, Paring And Scrap Of Ethylene Polymers	8.06
721913	Fr Ss 600Mm Ao W Hr Cls 3-Un 4.75Mm Thck	8.01
410330	Swine Raw Hided/Skins,Nt Pretan,Frh Or Salted, Etc	7.97
720918	Flat-Cold-Rld Ir,Stl,Coils,600Mm Wide,<0.5Mm Thick	7.87

Marine products and mineral products account for a large share in the products with higher RPC index value. In addition to aquatic products, mineral products, primary raw materials, some spare parts of mechanical and electronic products, including unspecified LCD and optical devices, appliances and instruments (901380) and rough movements of watches (911019), have a high RPC index, too.

C. Analysis of RIX and RIM Results

(1) RIX Index

China's exports are mainly textiles, steel products, chemicals and medicines, mechanical and electronic products, etc. The results of RIX index calculation indicate that those sectors have higher RIX index (further details in Table 3.7).

Table 3.8 Products with higher RIX Indexes

HS	Commodities	RIX
300331	Medicaments Containing Insulin, No Antibiotics Etc	961.06
283711	Cyanides And Cyanide Oxides Of Sodium	232.64
330190	Concentrates Etc Of Essential Oils, Nesoi	160.57
720853	Fr los Nal 600 Ao Hr Nt C/P/C/Cls 3-Un 4.75Mm Thck	158.48
370210	X-Ray Film In Rolls, Sens, Unex, No Paper Etc	148.80
521111	Wov Cot Fab, Unbl PI Wv Un85%Cot Mmf Ov200G/M2	133.05
370239	Phot Film No Sprocket Holes,Nt Ov 105Mm,In Rolls	122.44

521141	Wov Cot Fab <85% Cot Mixd Mmf Yn Dy Pl Wv >200G/M2	111.61
720854	Fr Irr/Nal Stl 600Mm Ao Hr Nt C/P/C/Cls Un 3Mm Thk	107.38
845939	Boring-Milling Mach Remove Met N Numerical Control	101.48
300431	Medicaments Cont Insulin, No Antibiotics, Dosage	96.16
722790	Bars And Rods Oth Alloy Stl, Hot-Rld, Irreg Coils	79.30
700521	Nonwrld Glss Clrd Opc Flshd Or Srfc Grnd N Ab/Rf Ly	71.61
293371	6-Hexanelactam (Epsilon-Caprolactam)	56.35
520922	Wov Cot Fab, 85% Cot, Bl 3-Or4-Th Twill Ov 200G/M2	50.66
720840	Fr Ios Nal 600Mm Ao Hr Nt C/P/C/Cls Pttrns In Rel	50.41
551432	Wv Fb Pol Sf <85% S F M/Ms Ct >170G/M2 Ydf 3-4T P	46.17
701720	Lab, Hyginc, Pharm Glswr W Lin Coef Nov 5X10-6 Nes	44.55
841869	Refrigerating/Freezing Equipment, Nesoi	44.40
841710	Ind Or Lab Furnnaces, Heat Treat Ore, Met Etc, N E	40.78
292423	2-Acetamidobenzoic Acid And Its Salts	40.11
283531	Sodium Triphosphate (Sodium Tripolyphosphate)	39.90
480920	Self-Copy Paper, In Rolls Or Sheets Over 36Cm Wide	35.77
720852	Fr Ios Nal 600Mm Ao Hr Nt C/P/C/Cls 4.75-10Mm Thck	34.03
291521	Acetic Acid	33.81
480255	Paper Nesoi, Nov 10% Fib Mech Pr, 40G/M2Nov150G/M	31.46
732591	Grinding Balls A Sim Artic For Mills, Cst, Ios Nes	30.18
350510	Dextrins And Other Modified Starches	29.88
521142	Wov Cot Fab, Denim, Un 85% Cot Mmf Over 200 G/M2	29.73
284130	Sodium Dichromate	28.36

As shown in the list, the products with higher RIX index are mainly medicines, chemicals, equipment manufacturing machines and textiles, etc.

(2) RIM Index

Among China's imports from Peru, the products with higher RIM index are mainly mineral products and aquatic products, and almost all the top ten products in terms of RIM are related to these two products. For example, chloride oxides and chloride hydroxides of copper (282741) has a highest RIM index of 200.74, followed by flour, meal & pellet of fish crustaceans, a major item imported by China from Peru, with a RIM index of 157.52. Generally, Peru's competitiveness as compared with China rests in the resource products.

Table 3.9 Main RIM Indexes

HS	Commodities	RIM
282741	Chloride Oxides And Chloride Hydroxides Of Copper	200.74
230120	Flour Meal & Pellet Of Fish Crustaceans Etc Inedib	157.52
160590	Molluscs, Etc., Prepared Or Preserved	134.62
150420	Fish Fats & Oils (Not Liver), Fract, Not Modified	118.81
510539	Fine Animal Hair, Carded Or Combed, Nesoi	93.71
261610	Silver Ores And Concentrates	90.43
261390	Molybdenum Ores And Concentrates Not Roasted	87.7
260700	Lead Ores And Concentrates	73.3
30749	Cuttle Fish & Squid, Froz, Dri, Salted Or In Brine	62.48
121291	Sugar Beet, Fresh Or Dried, Whether Or Not Ground	60.3
511000	Yarn Coarse Animal Hair Put Up Or Not Retail Sale	54.38
30270	Fish Livers And Roes, Fresh Or Chilled	41.06

260300	Copper Ores And Concentrates	39.29
790700	Articles Of Zinc, N.E.S.O.I.	35.92
520210	Cotton Yarn Waste (Including Thread Waste)	31.17
320300	Coloring Matter Of Vegetable Or Animal Origin	30.45
260112	Agglomerated Iron Ores	17.11
30420	Fish Fillets, Frozen	16.06
160413	Sardines/Sardinella/Brisling Prep/Pres, Not Minced	16.06
280490	Selenium	16.05
121220	Seaweeds & Other Algae Frsh Or Dried W/Not Ground	15.46
30739	Mussels, Frozen, Dried, Salted Or In Brine	15.21
80610	Grapes, Fresh	11.81
260800	Zinc Ores And Concentrates	11.05
520299	Cotton Waste, Nesoi	11.02
510810	Yarn, Fine Animal Hair, Carded, Not Retail Pk	10.97
520543	Ct Yr N Sw Td > 85% Wt Ct Ml/Cb Cmb > 43Nm & N > 5	10.41
510820	Yarn, Fine Animal Hair, Combed, Not Retail Pk	9.4
30759	Octopus, Frozen, Dried, Salted Or In Brine	9.37
440799	Nonconiferous Wood Nesoi, Sawn, Sliced Etc, Ov 6M	9.03

D. Analysis of TSC Results

According to China Customs' statistic, 5159 products at 6-digit HS level have trade flows in 2006. Among these 5159 products, there are 3164 products with a TSC index higher than 0, 1977 lower than 0, and the remainder equal to 0. There exists no clear demarcation in sectoral distribution between the products with a TSC index above 0 and those below 0.

The major products with TSC index valued at 1 are some farm products and textiles, whereas the products with TSC index valued at -1 include, in addition to resource products, mechanical and electronic products and high tech products for which China enjoys no competitiveness or which China has not manufactured, e.g. gasoline vehicles with engine displacement above 3000 ml (870324), and helicopters with unladen weight in excess of 2000 kilograms (880212).

E. Analysis of the Chinese Export Supply to Peru

Complementarities between China's Export Supply and Peru's Demand

We compare China's RCA indexes and Peru's RPC indexes. If China's RCA about a subheading is higher than 1 while Peru's RPC is higher than 1, then the HS code is expressed in gray in the table.

From the table, we can find that the commodities that China has potential supply and Peru has potential demand are mostly concentrated on chapter 28, 29, 52, 73, 82, 84, 85. It means that in chemical industry, textile material of cotton, metal products, and mechanical products, China's exports and Peru's imports are strongly complementary. An FTA might stimulate China's exports in these sectors.

Table 3.10 Complementarities Table between China's Export Supply and Peru's Demand

CHA	RCA China	RPC Peru
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01						010511	010210			
02					021099	020622	020712			
						020629	020727			
03	030559	030729	030759	030379	030191	030269	030339			
	030614	030749		030791	030343	030349	030374			
	030710	030751			030375	030563	030623			
04	040221	040299	040390	040410	040490	040590	040620	040819		
05			050400	051110						
07	071232	071332		071231	071310					
	071239	071490		071333	071340					
	071290									
08			080810	080620	080940					
				080820	081320					
09			090610	090230	090620	090930				
			090910	090411	090700	091040				
10			100590	100110	100300	100630				
			100830	100190	100400	100640				
11			110812	110290	110520	110813	110900			
				110422	110710	110814				
12			120220	120710	120810	120925				
				120720	120921	120991				
				120750	120922					
13				130190	130220					
				130213	130239					
14	140490			140190						
15			150500	151211	151610	150200	150790	151710	151800	
			151550	151499	151620	150710	151110	151790	152110	
16	160430	160590	160414							
	160520									
	160540									
17			170111	170199	170211	170219	170290	170410	170490	
18									180500	
19	190300		190110	190190						
20	200979									
			200870	200410						
				200710						
				200860						
21			210310	210111	210112	210130	210210	210220		
				210230	210330	210610	210690			
22			220290	220710	220840					
23	230800		230110	230240	230400	230670	230990			
25	251319	251910	250590	252921	250510	251320	252400			
	251400	251990	251010		250810	251830	253020			

	253010	252310	252810		251200	252210	253090			
26								261610	262190	
27	271311		271220	270112						
28	282611			270400	270900	271019	271113	271210	271290	
	282620	283090	283660	281119	282919	283330	283720	280300	281390	283323
	282690	283324	283692	281511	282990	283429	283911	280440	281520	283421
	282734	283325	283699	281640	283010	283524	284020	280540	281530	283522
	282735	283326	283800	282010	283110	283531	284030	280620	281830	283526
	282739	283327	283919	282110	283190	283539	284161	280800	282090	283640
	282751	283340	283990	282619	283210	283610	284910	280920	282490	283670
	282759	283410	284170	282630	283230	283620		281122	282550	283711
	283030	283510	284180	282710	283311	283630		281310	283220	284011
	284990	283523	282749	282720	283321	284120	284130	284700	285000	284110
	284920	283525	282810	282731	283329					
	284610	283529								
	284390	292119					291732	293420	290312	
29	291522	292142		292010	290341	293721	291734	293690	290323	
	291529	292143		292241	290342	293731	291735	293929	290410	
	291540	292144	293319	292242	290361	293930	291890	293942	290512	
	291620	292159	293331	292310	290542	294110	292112	293961	290515	
	291634	292221	293352	292511	290820	294140	292151	293962	290516	
	291635	292222	293354	292620	290890	291539	292211	290230	290519	
	291711	292229	293361	293010	291241	291550	292213	290244	290532	
	291713	292239	293369	293311	291242	291560	292320	291260	290541	
	291720	292243	293610	293372	291421	291570	292610	291411	290544	
	291811	292419	293723	293621	291511	291611	292910	291412	290545	
	291812	292429	293810	293622	291535	291612	293030	291521	290911	
	291813	292520	293890	293623	291619	291614	293040	291531	290943	
	291815	292700	293949	293624	291631	291615	293332	291532	290944	
	291821	292990	294000	293625	291632	291714	293353	291533	290949	
	291822	293212	294120	293626	291639	291731				
	291823	293213	294130	293627	291719					
	291829	293221	294190	293628	291814					
	291900	293293		293629	291816					
	292090	293299								
30	300432	300440	300450	300640	300660	300670	300220			
	300230	300290	300410	300420						
31	310100	310210	310530	310490	310510	310559	310560	310490		
	310221	310230	310250	310260	310420	310430	310590	310510		
	310559	310560	310590							
32	320720	320416	320411	320500	320611	320619	320210	320420	320110	
	321310	320417	320412	320641	320414	320620	320290	320490	320120	
	320643	320415	320413	320500	320611	320619	320630	320710		

	320740	320890	321000	321100	321210	321511	321519			
33	330741	330111	330112	330124	330210	330290	330300	330410	330420	
	330430	330510	330590	330610	330620	330690	330720	330790	330491	
34	340119	340211	340212	340213	340219	340220	340290	340311	340391	
	340490	340510	340520	340530	340540	340590	340700	340399	340410	
35			350400	350211	350300	350610	350691	350710	350790	
36	360200	360300	360500							
37	370256	370254	370320	370110	370120	370130	370220	370239	370243	
				370244	370251	370390	370510	370790		
38	380690	381210	380130	380290	380400	380590	380820	380840	380890	
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		380610	380830	381590	381600	381900	382000	382100	382313	
		380991	380992	380993	381119	381121	381190	381300	381400	
		382460	382490							
39	392094	392620	390760	392043	392640				391710	
	392210	392690	391220	392112	392030	392049	392061		391721	
	392321		391290	392220	392091	391610	390950		391729	
	392340		391739	392329					391731	
	391732	391740	391910	391990	392010	392020	391000	391190	391231	
	390230	390311	390319	390320	390410	390422	390690	390720	390910	
	392113	392310	392350	392510	390430	390530	390599			
	390110	390120	390130	390210	391239	390940				
40	401700	401199	401320	400300	401511	401120	401695	401162	400122	400220
		401310	401390	401019	401692	401150	401694	401161	400219	400249
	400591	400700	400821	400911	400912	400921	400922	400931	400932	400400
	400941	400942	401011	401012	401013	401031	401032	401034	401035	400520
	400941	400942	401011	401012	401013	401031	401032	401034	401035	401036
	401039	401140	401163	401169	401193	401194	401211	401212	401219	401290
	401410	401519	401590	401699						
41									411410	
42	420222	420330	420212						420229	
	420231	420500	420299						420610	
	420321	420310	420329							
43	430390									
44	441219	442010		440310	440690	441031	441032	441039		
	441293	442090		441111	441121	441139				
	441300	442110								
	441400	442190								
45									450490	
46	460199	460210	460290							
47							470321	470329	470720	
48	482360	480100	480255	480256	480257	480258	480261	480300	480411	

	482390	480421	480429	480431	480441	480451	480459	480511	480512	
		480519	480524	480525	480591	480620	480630	480820	480830	
			480254	480910	482110	482320	482340	482370		
			482020	481610	481620	481630	481840	481890	481930	
49	491000			490191	490199	490600	490700	490890	491199	
50	500720	500790	500200	500390						
51	511230		510529	510539	510121	510219				
	511300									
52	520548	520919	520641	520949	520514	520959	520524	521031	520821	520100
	520613	520921	520812	521029	520522	521011	520526	521041	520822	520512
	520622	520929	520819	521042	520523	521021	520528	521049	520832	520513
	520623	520931	520823	521112	520543	521141	520535	521129	520922	520515
	520632	520939	520829	521119	520547	521142	520942	520943	520951	520521
	520839	520841	520842	520843	521143	521149	521224	520932	520952	520615
	521159	521212	521221	520941			520625	521051	521122	521131
53	531100	530890	531090	530590						531010
	530620	530929					540773	540242	540210	540252
54	540500	540783	540341	540774	540233	540761	540793	540249	540220	540342
	540620	540792	540262	540753	540243	540769	540781	540251	540231	540410
	540741	540821	540752	540754				540782	540720	540744
55	551343	551299	551642	550320	550942		551511	550120	550620	
	551349	551319	551644	550390	551211	551342	551614	550130	550630	
	551411	551323	551691	550810	551311	551421	551621	550410	550951	
	551412	551331	551692	550820	551312	551422	551622	550610	550953	
	551413	551333	551693	550921	551321	551433	551623	551521		
	551419	551339	551694	550922	551341	551443				
	551423	551441	551432	551522	551439					
	551429	551449								
56	560890		560391	560729	560750	560819		560221	560394	
	560900		560392	560749	560811			560229	560500	
57	570299	570500						560393	560721	
	570310			570292	570210	570330	570242		570252	
58	580390	580890								
	580429	581010	580122	580620					580710	
	580500	581099	580136	581091					580790	
	580610		580421	581092						
	580810		580430							
59	590320		590210	590310	590900			590390		
				590700	591000	591120	591131	591132	591190	
60	600534	600590	600110	600410	600532	600632	600634	600240	600533	
	600542	600621							600633	
	600624	600642								
61	610792	611220	610910	611593	611211	611790	610130			

	610811	611231	610990	611599	611090	611710				
	610821	611241	611011	611610	611120	611720				
	610822	611249	611012	611691	611130	611780				
	610831	611300	611019	611692	610891	611511				
	610832	611420	611020	611693	610892	611519				
	610839	611430	611030	611699	610899	611592				
	611212	620342	621310							
	611219	620343	621320					621111	621290	
62	620433	620349	621390					621520		
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	620441	620419	621420	620449	620429	621510	620459	620332	621143	
	620442	620421	621430	620451	620431	621600	620461	620333	621210	
	620443	620422	621440	620452	620432	621790	620462	620339	621220	
	620469	620711	620630	620510	620719	620640	620463	620341	621230	
	620530	620722	620610	620520	620721	620690				
	620590	620729								
63	630299	630311	630622	630800					630229	
	630493	630312	630629	630240					630510	
	630520	630319	630649	630291						
	630532	630391	630699	630411						
	630590	630392	630710	630533						
	630612	630399	630720	630539						
	630619	630419	630790	630691						
	630621	630491	630492							
64	640610	640520	640192	640220						
	640691	640590		640299						
	640319	640340		640510						
	640320			640620						
65	650400	650510	650590	650610						
	650100	650691	650699	650700						
66	660199	660200	660320							
68	681091		680430					680422	681110	681310
	681410		681190					680690	681260	681599
	681591		681290					680911	681270	
69	691410									
	691490	691200	690210	690290				690912	690390	690310
			690220	690790				691090	690890	690320
70	701400	701959	700490	701329	700239	700312	700319	700320	700420	701090
	701890	702000	700521	701339	701331	701332	701510	701720	701790	701810
	701912	701990	700529	701610	701321	701931				
	701919		700991	701690						
	701939		701200	701820						
71	711719									711039

	711790									711420
72	720521	721399	722694	720211	721391	720310	720853	721041	721410	721923
	720719	721430	722820	720230	721420	720449	720854	721050	721622	721924
	720836	721720	722860	720299	721790	720720	720916	721061	721631	721931
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			722790	722880	722920	720852	721012	721310	721922	722240
				722530	722540	722550	722592	722693		
73	731600	732310	732510	730300	730650	730792	730890	731414	731450	730210
	731812	732393	732619	730429	730711	730799	731210	731419	732391	730240
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	731823	732490	731582		730722	731511	731700	731824	732591	730431
	731449	732211	731589		730791	731520	731815	731910	732599	730439
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		731821	730793	730900	731010	731021	731100	731412	731413	731512
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	741121	741820	741510							741012
	741122	741991	741210							741910
75									750511	750521
76	760719	761010	761691	760429	761410	761490	761519		760421	761290
78										780600
79			790310	790390						
81	810210	811100	810411	811300						810920
	810295	811229	810419							
	810296	811292								
	810320	811299								
82							821420	820540	820220	820713
	820551	821193	821290	821510	820110	820190	820412	821000	820240	820719
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	820570	821195	821599		820140	820231	820520	821300	820340	820890
	820590				820320	820239	820530	821410	820420	821210
	820600				820411	820310			821591	821220
83	830242	830810	830260	831120	830110	830220	830590		830990	830621
	830249	831000	830300	845959	830130	830510	830790			830710
	830250	831130	830400	846410	830140	830520	831110			830910
84	845210	842420	846721	846719	840212	842381	844513	841370	841011	840211
	845221	842490	846722	846781	840732	842382	844520	841382	841013	840219
	845240	842520	846729	847021	840790	842390	844790	841391	841090	840290
	845410	842542	846799	847029	841012	842410	845011	841440	841199	840420
	845899	842549	846880	847050	841381	842519	845012	841459	841221	840490
	845929	842612	846890	847150	841392	842531	845019	841460	841229	840510

	846090	842619	846920	847290	841420	842790	845140	841480	841239	840590
	846150	843050	846930	848180	841780	842840	845229	841490	841311	840690
	846591	843319	847010	848210	841821	843041	845290	841520	841330	840810
	846592	844841	847030	848320	841830	844140	845420	841610	841340	840890
	846596	845090			841861	844351	845819	841620	841360	840999
	841810	841850	841869	841899	841920	841931	841932	841710	841720	841790
	841939	841950	841989	841990	842111	842112	842119	842121	842122	842123
	842129	842131	842191	842199	842220	842230	842240	842290	842320	842330
		843139	848220	844330	845180	842833	847780	843840	844842	842389
		843141	848230	844359	845190	842911	847910	843860	844849	842481
		843142	848250	844400	845230	842920	847920	843880	844851	842511
		843143	848280	844511	845310	842940	847982	843890	844859	842641
		843149	848299	844512	845320	842951	848050	844010	845020	842649
		843221	848330	844519	845380	842952	848060	844110	845110	842699
		843359	848340	844530	845390	843049	848110	844180	845129	842720
		843360	848360	844540	845430	843061	848130	844210	845130	842810
		843410	848390	844590	846019	843069	848140	844312	845150	842832
		843420	848410	844610	846039	847420	843621	844711	846310	846594
		843510	848490	844621	846231	847431	843629	844712	846330	846711
		843610	848590	844629	846249	847432	843691	844720	846490	846789
				847720	843810	847439	843710	844819	844832	846791
				847730	843820	847490	843780	844820	844833	846792
				847740	843830	847710	843790	844831	844839	847410
85	850990	851721	852530	853225	850152	850120	853922	851180	850133	850422
	851010	851810	852540	853321	850211	851730	853929	851539	850134	850423
	851020	851821	852691	853340	850220	851750	853931	851580	850153	850433
	851030	851829	852712	853400	850410	851822	853932	851621	850164	850434
	851120	851830	852721	853641	850610	851850	854420	851780	850213	850710
	851210	851840	852729	850980	850940	852190	854511	852039	850239	850740
	851529	851890	852732	854451	851230	852390	854519	852311	850240	850920
	851610	851921	852821	851711	851310	852520	854590	852330	850421	851110
	851629	851929	852822	852290	851390	852713	854620	852431	853339	853620
	851631	851999	852830	853224	851511	852719	854790	852440	853510	853649
	851632	852020	852910		851633	852731		853210	853521	853720
	851660	852033	852990		851640	852739		854470	853530	853910
	851671	852090	853110		851650	852812		854520	853540	854210
	851672	852110	853180		851679	852813		854690	853590	854459
	851690	852210	853222		851719	853661				854460
86				860120	860900	860210	860290	860400	860699	860729
87	871200	871680	871110	871494	870110	871310	871492	871496		870120
	871390	871690	871190	871499	871120	871419	871493	871495	871500	870210
			870410	870421	870422	870423	870520	870530	870540	870600

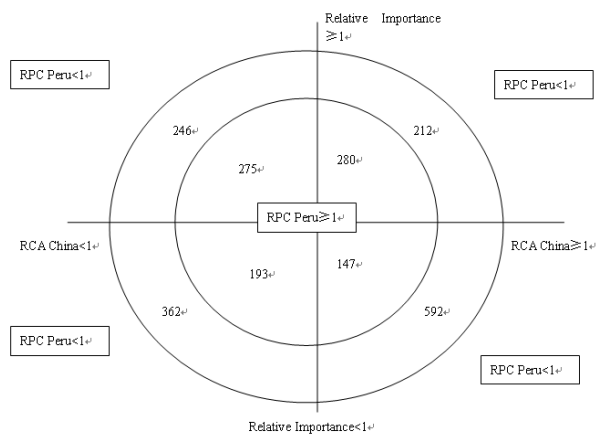
							870880	870893	871411	871631
88									880390	880212
89					890400				890710	890790
90	900653	901910	900580	901530	900490	902511	900792	901110	901600	900620
	900662	902890	900590	901730	901180	902519	900921	901480	901812	900711
	900669	903020	900640	901790	901720	902580	900922	901520	901831	900720
	900691	903031	900890	900912	901780	902830	901010	902000	901832	901850
	900699	903300	900991	902121	902212	902213	902221	902300	902480	902590
	900830			902610	902620	902680	902780	902810	902820	903039
91	910591	911320	910820		910291	910519				910529
	910599	911410			910310	910610				
	910690	911420			910390					
	910811	911430								
	910812									
92	920410	920992	920290	920910	920190					
	920420	920994			920710					
	920510	920999			920920					
93								930200	930610	930621
94	940179	940520	940350	940592	940130					
	940180	940540	940360	940599	940210					
	940320	940550			940410					
	940330	940591			940429					
	940390				940530					
95	950490	950390	950699		950100					950430
	950510	950410	950710		950210					
	950590	950420	950730		950360					
	950619	950440	950790		950380					
	950629				950662					
	950631				950720					
	950639							960622	961519	960831
96	960630	961390	960390	961320	960720	960321	960990	960711	961590	961100
	960839	961420	960500	961380	960810	960329	961220	960719	961620	961210
	960840	961490			960820	960350	961511		960629	961610
	960850	961800			960910	960621	961700	960200	960400	960610

Chinese Export Supply to Peru

The graphic 3.6 shows the Chinese supply ability to Peru. There are 2307 kinds of products, which have RCA indexes of China, RPC indexes of Peru, and RIX indexes of China. From the graph, there are 427 kinds of products with RCA index of China higher or equal to 1 and RPC index of Peru less than 1. Among these products, 147 kinds of products have an RIX index less than 1. It means that once the FTA is signed, the exports from China to Peru of these 147 products might have a bit increase. In a detailed analysis, it can be found that

besides a few agricultural products, the textile, steel and electromechanical products take a great share of all these products.

Chart 3.6 Analysis of the Chinese Export Supply to Peru



F. Analysis of Chinese import demand

Complementarities between China's Imports Demand and Peru's Export Supply

Similar with above tale, the HS codes of which China's RPC is higher than 1 and Peru's RCA is higher than 1 are expressed in gray in the middle of the table. It can be found that 80 products are in the gray area. The copper products, chemical products and cotton are all included in this category. It is similar with the above table except that fewer mechanical and electronic products are in the gray area.

Table: 3.11 Complementarities table of China's Imports demand and Peru's Export supply

CAH	RPC China			RCA Peru			
01	010310		010512	010511	010632	010639	010690
02	020649						020725
03	030319	030374	030379	030380	030760	030799	030110
		030791	030759	030751	030749	030741	030250
		030559	030563	030611	030613	030624	030721
		030729	030270	030321	030349	030375	030420
							030490
04					040291	040700	040819
05	050800			050590		051191	051199
06							060499
07	071390	071410	070310	070810	070890	070920	071010
				071022	071040	071080	071120
				071220	071290	071333	071339
08	080240	081090	081340	080121	080122	080290	080300
		081190	081400	080440	080450	080520	080610
09				090111	090420	091030	091040
10	100110	100300					100890
	110610	110813	110814	110290	110423	110620	110812
12	120100	120740	121230	120799	120991	120999	121130
				121190	121220		
13					130214	130219	130239
14	140110						140410
15	151190	151329	151530	150410	150420	151229	151590
				152000			
16				160239	160413	160414	160415
				160416	160420	160590	
17						170111	170410
18					180320	180400	180632
19						190219	190531
20			200190	200290	200551	200560	200570
			200590	200891	200899	200939	200980
21							210410

22	220820						
23				230120	230210	230230	230610
					230800	230990	
25	250300	251512	253090	250100	250200	250900	252010
	251311	252400	252890	252810	250840	251110	252310
	251511	252510			252321	252329	252620
26	260200	260900	261000	260111	260300	260800	262030
		261390	260112	260700	261610	261690	
27	270111	270740		271112			271011
	271320	271490		271113			271019
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	280480	282110	283510	280700	283525	281511	280610
	283711	283719	284019	281512	281700	282410	282490
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				282741	283322	283325	
29	290230	290513	290611	291412	291620		290410
	290322	290517	290711	291521	291712		292242
	290323	290519	290810	291570	291720		293010
	290420	290532	290943	291611			293991
	290512	290545	291411	291612			
	291900	292213	292419	291732			
	292910	293040	293331	291739			
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	310420	310520	310551				
32	320190	320414	320611	320720	321519		320300
	320210	320416	320641	320810			320500
	320412	320490	320649	320990	320290		
	321000	321100	321210	321290			
33				330790	330190	330499	330113
34	340213	340391	340490				340510
	340311	340399	340590				
35	350610	350691	350699				
36						360300	360200
37	370243	370244	370710				
38	380110	380993	381121	381230	382311	382420	380290
	380991	381010	381129	381400	382370		382319
	380992	381090	381190	381519	382490		
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	390120	390421	390730	390950	391990	392330	392010
	390130	390422	390740	391000	392043	392350	
	390190	390440	390750	391110	392051		
	390210	390450	390791	391290	392061		

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	390319	390610	390920	391530	392069		
	390390	390690	390930	391590	392091		
	392092	392099	392112	392113		390521	
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	400239	400700	401013				401169
41	410150	410441	410712	411200	410190	410411	410229
	410210	410449	410719	411310	410221	410419	410692
	410310	410711	410799	411320	410530	410510	
	411390	411410	411510	410622	410621	410632	
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43	430180	430220	430219	430400		430390	440724
44	440399	441129	440726		440729	440799	440890
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	470321	470710	470720				
	470730	470790					
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	480429	480511	480630	481151		482030	481810
	481630	482110	482312	482319			481930
49	490600	490890			490191	490591	491110
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		520823	520822	521142	520790	520959	520613
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	540249	540251	540261	540262	540752		
	540761	540769	540772	540773	540781		
	540782	540792	540822	540823	540832		
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	551429	551519	551599	551692			
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	560129	560312	560393	560790	560410	560819	560750
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	580122	580421	580632	581100			
	580125	580610	580710				
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	590390	591120					
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	600523	600532	600590	600610			600521
	600621	600622	600623	600624			600522
	600631	600632					
61	611790			610331			
	611691	610110	610210	610220	610322	610342	610421
	611710	610422	610431	610441	610442	610451	610452
		610462	610510	610520	610610	610620	610711
		610721	610821	610831	610891	610910	610990
		610721	610821	610831	610891	610910	610990
		611019	611020	611120	611420	611430	611591
62	621790	620211	620343	620422	620520	620610	620630
		620791	620821	621131	621141	621420	
63				630120	630130	630190	630533
64	640620	640691	640699			640110	640192
65							650692
68	680430	681599				681290	680221
						681310	681490
69	690290	690310	691410			691090	691390
70	700239	701190	701590	701959	702000	700992	700100
	701110	701400	701919	701990			700721
71	710420	711011	711590			710310	710691
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72	720449	720926	721070	721640	721933		721041
	720529	721012	721090	721730	721934		721420
	720839	721049	721190	721790	721935		721621
	720854	721061	721399	721914	722012		721622
	722090	722100	722230	722300	722540		722830
	722691	722694	722699	722990			722880
73	730421	731290	730459	731822	732020	732394	731300
	730429	731589	730690	731823		732591	731441
	730441	731821	730792	731824		732611	731442
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	760719	761610					
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79	790400			790111	790120	790112	790700
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	811240				811292	811010	811020
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83	830160	830810	831000	831120	831130	830170	831190
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	840690	841319	841620	841989	842430		
	840810	841350	841710	842010	842489		
	840890	841370	841780	842099	842511		
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	841221	841430	841931	842129	842539		
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	846593	845380	847780	844621	842810		
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	846599	845430	847910	844720	842833		
	846620	845530	847981	844790	842839		
	846693	845699	847982	844820	843050		
	846694	845720	847989	844831	843352		
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	847141	846039	848049	844851	843710		
	847149	846040	848071	844859	843860		
	847170	846090	848079	845130	843880		
	847330	846150	848120	845140	843920		
	847350	846190	848130	845150	843999		
	847410	846221	848140	845180	844110		
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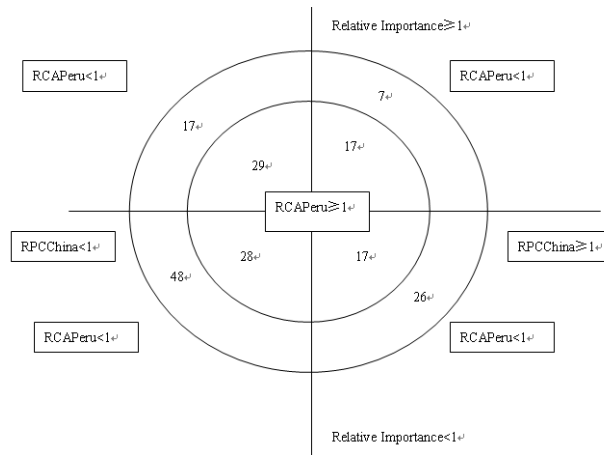
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	847720	846420	848310	844512			
	844180	848420	848340	844520			
	844230	848510	848410	844530			
85	850110	850511	851830	853340	853720	850690	850740
	850151	850519	851890	853390	853810		852453
	850153	850520	852290	853400	853890		854340
	850164	850730	852320	853521	853932		
	850212	850780	852390	853529	853939		
	850213	850790	852439	853530	853990		
	850300	851430	852530	853590	854011		
	850423	851440	852990	853610	854050		
	850431	851490	853210	853641	854081		
	850434	851529	853222	853650	854110		
	850440	851580	853229	853669	854129		
	850450	851810	853321	853690	854140		
	850490	851829	853331	853710	854150		
	854419	854190	854451	854229	854411		
	854449	854221	854520	854260			
	854710	854319	854620	854270			
	854790	854320					
86	860721	860791	860800				860120
90	900110	900640	901790	902410	902780		
	900190	900999	901812	902480	903020		
	900211	901210	901813	902610	903039		
	900290	901380	902212	902690	903040		
	900590	901580	902230	902720	903083		
	903089	903149	903289				
	903090	903180	903300				
	903110	903281					
91	910400	910990	911180	911440	911490		
92	920992						
93							930630
94							940370
95	950299	950639					950662
96	960621	960629	960719	960899		960711	960810
	960622	960630	960720				960820

China's Import Demand from Peru

The graph shows the China's potential demand from Peru. A product of which Peru's RCA is higher than 1, China's RPC higher than 1 while the RIM is less than 1 is the one that China has potential demand from Peru. In this graph, the up area of quadrant 4 presents such

products. There 17 subheadings in this area include snails, boron, wool, cotton, brass, zinc and zinc alloys etc. That mean agriculture products and raw materials are Chinese major potential demand from Peru.

Chart 3.7 Chinese Import demand from Peru



4. IMPACT of TRADE AND INVESTMENT LIBERALIZAION

4.1 Liberalization of Bilateral Trade in Goods

4.1.1 Analysis Based on Computable General Equilibrium Model (CGE)

----Model Introduction

In the modeling process, we have made reference to the IMMPA (Integrated Macroeconomic Model for Poverty Analysis) that the World Bank built for Brazil to do poverty analysis, and have made major changes to such model according to China's circumstances. There are seven blocks in this model: production block, income and distribution block, ultimate domestic demand block, trade block, labor market block, private capital and macro closure block, and price and GDP definition block. CGE model is based on the input and output data, and China's National Statistics Bureau prepared its input-output statement once every five year, so we use as the basic data the latest input-output statement of 2002.

----Analysis of Impacts on Macro economy

We make a general assumption here: under the simulated circumstance, both countries cut down their average tariff rates by 100%. The result shows:

The actual GDP will grow by 0.04%¹⁵. Due to the increase of 0.06% in price, the nominal GDP goes up by 0.1%. Resident consumption will grow at a rate of 0.16%; investment will grow at a rate of 0.08%; export will grow at 0.56%, with a rise after down period while import will grow at 1.08%, with a decline after a rise. The labor demand will rise by 0.06%. The fiscal revenue, and the disposable incomes of rural residents and urban residents will increase a little.

Table 4.1 The Macro-impact of China-Peru FTA by Dynamic CGE Model

Unit: %

		2009	2012	2015
GDP		0.038	0.038	0.038
Consumption		0.162	0.162	0.162
Investment		0.088	0.086	0.082
Export		0.558	0.57	0.586
Import		1.074	1.076	1.068
Fiscal Revenue		0.28	0.276	0.27
Labor Demand		0.048	0.048	0.042
Price level		0.06	0.06	0.058
Disposable Income	Rural	0.256	0.252	0.126
	Urban	0.32	0.322	0.161

¹⁵ The outcome of GDP is the average value from 2006 to 2015, and others in this sector have the same meaning.

N.B. The outcomes in the table are all about real item and the percentage change of simulation scenario against base scenario.

---- Impacts on Foreign Trade

A. Exports

Except for fishery and forestry, China-Peru FTA will promote agricultural export from China, with the exports up by 0.84% in grain growing sector and by 0.32% in stock breeding sector. But such effects will decline gradually. Forestry exports will remain relatively stable, down by 0.72%, and fishery exports will drop by 1.64%. China's export of food manufacturing and tobacco processing, and textiles will increase by 0.82% and 0.42% respectively. Export of electronic and communication equipment manufacturing, and transportation equipment manufacturing will rise by 1.06% and 0.92% respectively. China's mineral exports will suffer a certain adverse impact. Exports in ferrous metal mining and dressing, and non-ferrous metal mining and dressing will drop by 0.28% and 0.82% respectively.

B. Imports

Import of Mining and agriculture products will increase. Imports in ferrous metal mining and dressing, non-ferrous metal mining and dressing, and oil and gas exploitation will increase by 1.32%, 1.12%, 0.58% and 0.9% respectively. China's import of fishery and forestry products will increase by 1.04% and 0.24% respectively. Additionally, the imports in papermaking, oil processing, metalwork and metal smelting will show a modest increase.

4.1.2 Impacts on Major Industries

---- Agricultural, Forestry and Fishery Products

China's exports in forestry and fishery will decrease, and its imports will increase as Peru has certain advantages over China in these two sectors. Consequently the added value of the two sectors will be influenced adversely, with the added value of forestry down by 0.28% (relatively stable) and that of fishery down by 0.76%. That adverse effect will mount up when time goes on. Affected by the reduced added value, labor demand in forestry will drop by 0.15% , and that in fishery will drop by 0.03%.

----Mineral Resources and Energy

In mining sector, the overall cost of mining sector will drop, and its added value will thus increase due to the decline in price of imported resources as a result of reduced tariff rates. The added value of ferrous metal mining and dressing, non-ferrous metal mining and dressing, and oil and gas exploitation will increase by 0.64%, 0.36% and 0.38% respectively, indicating a rise after a decline. The labor demand in these three sectors climbs up by 0.15%, 0.06% and 0.03% respectively. Oil and gas exploitation remains stable in the growth of labor demand.

----Textile, Apparel and Footwear

According to the results of the simulation scenario, the China-Peru FTA will have only inconsiderable effects in enhancing China's textiles and garments sector. The added value of textiles will rise by 0.16%, with labor demand up by 0.02%; the added value of garments and other fiber products manufacturing sector will rise by 0.12%, with labor demand up by 0.02%.

Therefore, the added value and the labor demand of these two sectors will remain in stable movement.

----Petrochemical and Chemical Industries

Due to the effect of the decreased tariff rate, the price of imported raw materials of Petrochemical industries will be lower, inducing the decreasing of cost, therefore the added value and labor demand will increase somewhat. But, Peru only has a very limited share in China's total trade, so the positive influence is relative slender.

----Other Industries

The added value in the transportation equipment manufacturing sector, the electronic and communication manufacturing sector, metalwork, apparatus and instruments sector, and stationery and office supplies manufacturing sector increases by 0.96%, 0.81%, 0.5% and 0.32% respectively, each having a movement of rising after a decline; employment in these sectors grows by 0.09%, 0.08%, 0.04% and 0.03% respectively, indicating a stable movement.

4.1.3 Model Analysis on Trade Creation, Trade Diversion and Sensitive Industries

----Introduction of Partial Equilibrium Model (PEM)

In order to make a quantitative analysis on the influence of establishing the China-Peru FTA, a PEM model is created to act as the cornerstone of the analysis. Different from the CGE model that focuses on calculating the benefit effect of the trade policy, this model focuses on the influence on the price, and demand of the imported products due to the tariff reduction.

According to the assumptions of PEM, if the FTA Agreement is signed by China and Peru, both of the countries will reduce the import tariff based on the Agreement (to realize zero-tariff step by step); remove the non-tariff barrier such as the quantity limitation; further open the market. Such measures will have the following two effects in the short term:

Trade Creation effect: China's demand for products imported from Peru will increase since the import price is lower than before for the sake of the preferential tariff reduction.

Trade Deviation effect: after China carries out the preferential tariff reduction for the imported products from Peru, because the price of the products imported from Peru is lower than that from other countries, China's demand for some of the products will be deviated from other countries to Peru.

The details are explained as the follows:

$$\text{Trade Creation: } d_{TC} = \frac{IM_{PERU} * E_M * t}{(1+t)}$$

$$\text{Trade Deviation: } d_{TD} = \frac{IM_{PERU} * IM_{REST} * E_S * t / (1+t)}{IM_{PERU} + IM_{REST} + \frac{IM_{PERU} * E_S * t}{1+t}}$$

Where, d_{TC} is the value of trade creation, d_{TD} is the value of trade deviation,

IM_{PERU} is the CIF value of products imported from Peru by China, IM_{REST} is the CIF value of the same products imported from the rest of world, E_M is China's domestic price elasticity for the imported goods, E_S is the elasticity of substitution between the goods imported from Peru and goods imported from the rest of world, t is the initial customs tariff plus the non-tariff barrier .

The first formula is actually the transfiguration of the price elasticity formula ($E_M = \frac{d_Q/Q}{d_P/P}$), while the second formula is concluded through complicated calculation that has the following two special conditions:

When $E_S = 0$, i.e., when there is no substitute relation between two types of imported products, other countries will not be affected by the preferential tariff reduction between China and Peru.

When $E_S = \infty$, i.e., the substitute elasticity between two types of imported products is infinite, other countries will be seriously affected by the FTA. Once the FTA is implemented, all the products originally imported from other countries will be imported from Peru.

The PEM model is based on the trade structure and trade scale between China and Peru in 2003, while the duty is based on the duty rate stipulated in the Duty Charge Rule for the Most Preferential Countries announced officially by China that year. Because most of the products imported from Peru are within the import quota, all the duty rates used here were very low.

Both IM_{PERU} and IM_{REST} come from the statistics provided by Chinese customs, and t comes from *Customs Tariff of Import and Export of the People's Republic of China 2006*. Some of the specific duties are converted into the ad Valorem duty according to the relation between the quantity and the value.

The elasticity data E_M are estimated by us. From 1994-2003 Chinese Customs Bulk Products Import Quantity/Price Statistics Table (thereafter referred as "Statistics Table"), we can get the quantity and unit price of the imported products. Then logarithm of the quantity and unit is calculated and constant is added, at last the result is concluded through the regression analysis via the method of least square. For those products that are not included in the Statistics Table, a weight is granted to the elasticity by referring to the similar products categories. E_S is based on the countries substitute elastic data provided by GATP and converted via Amington arithmetic operators. Similar to all the other quantitative analysis on the elasticity, the elasticity data here is only a rough estimate.

The conclusion from the PEM model calculation shows that, in the major trade sectors, to some extent, the FTA does have the trade creation effect and trade deviation effect. For more details, please see Table4.2.

Table 4.2 Trade Creation Value and Trade Deviation Value for Major Categories Unit (US\$1,000)

Category	China's Total Import	China's Import from Peru	China's Import from other countries	Trade Creation Value	Trade Deviation Value	Ratio of Trade Deviation in Import from Peru (%)	Ratio of Trade Deviation in Import from other countries (%)	Ratio of Trade Creation in Import from Peru(%)
Category 1	1135989.46	76100.3	1059889.21	2970	6738.57	0.0885	0.0064	0.039
Category 2	1404769.19	550976	853793.44	8909.42	11410.42	0.0207	0.0134	0.0162
Category 3	71561056.55	2059645	69501411.79	0.47	0.62	0	0	0
Category 4	2958572.7	21386.1	2937186.66	1715.95	1081.96	0.0506	0.0004	0.0802
Category 5	778082.32	591.61	777490.7	40.96	27.55	0.0466	0	0.0692
Category 6	4045213.2	32523.1	4012690.07	0.45	0.71	0	0	0
Category 7	4388496.31	19384.6	4369111.76	1334.24	750.55	0.0387	0.0002	0.0688
Category 8	101342.77	136.43	101206.35	3.54	4.58	0.0335	0	0.026
Category 9	13079766.13	148608	12931158.29	2841.56	3584	0.0241	0.0003	0.0191
Category 10	20157676.3	217.25	20157459.06	7.64	9.73	0.0448	0	0.0352
Total	119610964.9	2909568	116701397.3	17824.23	23608.69	0.0081	0.0002	0.0061

Note: The conclusion of the table is calculated on the basis of China-Peru 2006 trade data and the tariff is the MFN tariff of 2005 of China. The products are classified mainly on the basis of the HS 6 digits of Chinese customs. The items that China has no imports from Peru are not calculated and the imports of China are not equal to the real Chinese imports.

Category 1 includes Chinese customs' Class 1 – Alive animals and animal products; Class 2: vegetable products; Class 3 – animal/vegetable fats, oils and waxes, prepared edible fats.

Category 2 includes Chinese customs' Class 4 – Prepared foodstuffs, beverages, spirits, vinegar, tobacco and manufactured tobacco products.

Category 3 includes Chinese customs' Class 5 – Mineral products.

Category 4 includes Chinese customs' Class 6 –Products of the chemical and allied industries; Class 7 – plastics and articles thereof; rubber and articles thereof.

Category 5 includes Chinese customs' Class 8 –Raw hides and skins, leather, furskins and articles thereof.

Category 6 includes Chinese customs' Class 9 –Wood and articles of wood, wood charcoal, cork, wickerwork; Class 10 –cellulosic material, waste paper, paper, paperboard and articles thereof.

Category 7 includes Chinese customs' Class 11 – Textiles and textile articles.

Category 8 includes Chinese customs' Class 12 – footwear, headgear, umbrellas, feathers and articles made therewith, artificial flowers, articles of human hair; Class 13 – Mineral material products, ceramic products, glass and glasswear; Class 14 – natural or cultured pearl, precious stones, precious metals.

Category 9 includes Chinese customs' Class 15 – Base metals and articles of base metal. Category 10 includes Chinese customs' all other miscellaneous products.

---General Analysis on the Trade Creation and Trade Diversion

The trade creation value totals US\$17.82 million, approximate to 0.61% of Peru's exports to China in 2006. The trade diversion value totals US\$23.61 million, equal to 0.81% of Peru's exports to China in 2006, which, as compared with the value of China's imports from other countries, is insignificant enough to be ignored.

Zero-tariff arrangement between both countries in sectors of agriculture, fishery, food, chemistry textiles and related raw materials manufacture, and base metals and related products manufacture will have a bigger trade creation effect (exceeding US\$1 million). Peru's export of relevant products to China will increase to a certain extent. A swift increase will occur in peltry, leather, fur and related products imported from Peru, too.

China's import of mineral products from Peru accounts for 70.79% of China's total import from Peru. However, the trade creation and diversion is insignificant enough to be ignored.

Especially, as three products with the trade value added over US\$ 1 million, fish flour and meals, refined copper cathodes , and sections of cathodes and cuttlefish & squid (frozen, dried, salted or in brine), will get the created-trade-value of US\$8.65 million, US\$2.15 million and US\$1.83 million respectively. For the same period, China's import of these three products totals US\$1080 million, US\$4310 million and US\$170 million respectively. Therefore, China's market of cuttlefish and squid will face a certain degree of challenge from the imports of those products after the implementation of free trade agreement.

From the above analysis, trade creation mainly happens in fishery, textile product and base metal production.

--Analysis of impact on industries

Fishery and relevant industries

Peru is a major aquatic products exporter and is the largest fish flour and meal exporter. In 2006, China imported US\$544.43 million from Peru. So the trade creation effect about this product only takes 1.6% of China's total imports. As to cuttlefish & squid, the trade creation is US\$1.83 million. In 2006, China imported US\$53.28 million from Peru. So the impact of trade creation on fishery is small.

Textile

The figure in the table shows that the trade creation and trade deviation about textile products are US\$1.33million and US\$0.75 million respectively. That means although China is a major textile products exporter, China and Peru have complementarities in textile products. Peru's exports of textile will increase by more than 10%. Peru's textile industry will benefit from the possible China-Peru FTA.

Base Metal Production

The major trade creation in base metal production happens to refined copper cathodes with a trade creation of US\$2.15 million. In 2006, China imported US\$114.64 million of refined copper cathodes from Peru and Chinese total import in 2006 was US\$5216.02 million. The potentially increased imports from Peru take 2.2% of the total imports. Chile, Australia and Mongolia are China's major importers of this product. The impact of trade creation is quite

limited.

----Impact on Other Import Markets of China

Agricultural products, aquatic products, food and beverage, chemicals, base metal and related products are those affected most due to the Trade Diversion Effect. The trade diversion in such four types of products accounts for 0.64%, 1.34%, 0.04% and 0.03% respectively of China's total import from abroad. Except the fourth category of products, the trade diversion value of all other products is lower than 1%. So, China-Peru FTA will have limited impact on other import markets of China.

4.2 Liberalization of Bilateral Trade in Service

Chinese government has issued relevant documents to promote the development of services sectors, aiming at deepening reforms, removing restrictions on market access, breaking monopoly, and enhancing market competition.

In 2006, trade in services (imports and exports) reached US\$ 192.8 billion, representing 9.9% of total amount of foreign trade. The most important export sectors were transport (34.1%), tourism (24.1%), and other services (11.2%) sectors. The most important import sectors were tourism (36.9%), transport (22.8%), and other services (21.4%) sectors.

There are direct impact and indirect impact on China's trade in services by China-Peru FTA. On the aspect of direct impact, bilateral trade in services will increase significantly, if bilateral governments could achieve agreements on such issues as restrictions on market access and national treatment, etc, to remove barriers to trade in services. On the aspect of indirect impact, increase of trade in services closely relates to trade in goods and direct investment. The possible China-Peru FTA would reduce tariff level, and remove non-tariff barriers of trade in goods. The trade in services will be subsequently increased by the increase of relevant trade in goods and investment, and by investment facilitation and improvement of investment dispute settlement. Therefore, it can be predicted that China-Peru FTA will promote bilateral trade in services.

4.3 Impacts on the Bilateral Direct Investment

4.3.1 Overall Impacts on Bilateral Direct Investments

China-Peru FTA will enhance the capacity to draw horizontal FDI of two countries. As the two countries are greatly distant, there is less possible to merge the existing FDIs in the two countries. Therefore, in general, the horizontal FDI from countries outside of the FTA will increase gradually after the establishment of the China-Peru FTA. It is especially true for Peru since a FTA will open the enormous Chinese market. In the other side, China has witnessed an increase in FDIs of US\$60 billion in recent years, with accumulated FDIs more than US\$400 billion. It is estimated that FDIs to China will rise with a FTA, however, it will have relatively limited impacts on China's overall utilization of foreign investments.

For bilateral horizontal direct investment in Peru and China, trade may substitute investment in some relatively simple processing products due to reduction of tariffs. However, FDIs in these areas are in small scale. For Peru's advantageous sectors, where FDIs are

usually enormous, such as resources and energy sectors, investment will increase as a result of zero-tariff exercised by China on resources products, and investment facilitation under the FTA . Therefore,, the horizontal FDI between China and Peru will go up in general.

Bilateral vertical investments will rise simultaneously. First, investment cost will be reduced significantly due to tariffs reduction on equipment and materials, Second, reduction of tariffs on re-export products will contribute to profit increases for investors.

In sum, a China-Peru FTA will have positive impacts on FDIs in both countries.

4.3.2 China's investment opportunities in Peru

The economic development of Peru and China are supplementary to each other. The rich natural resources and cheap labor force of Peru provide good investment opportunities to Chinese companies, especially in areas of mining, agricultural, forestry, fishery, textile, manufacture, ports, road construction, etc. Without advanced technology and sufficient funds for development, most of natural resources in Peru has yet been exploited and utilized, which in turn provides valuable opportunities for resource-intensive enterprises in China.

4. 4 Influences on Major Partners by China-Peru FTA

According to model analysis, China's exports to Japan, the U.S. and the EU will increase by 0.026%, 0.24% and 0.19% respectively, while China's import from them will go up by 0.31%, 0.61% and 0.28% respectively. The impact of China-Peru FTA on bilateral trade and investment between China and Latin American countries is relatively insignificant--- there are small effects on trade relationship between China and Chile, Brazil, and Argentina.

5. INFORMATION EXCHANGE ON OTHER ISSUES AND ECONOMIC COOPERATION

5.1 Intellectual Property Rights

Protection of intellectual property rights ("IPRs") has become an essential component of China's opening-up policy and socialist legal system reform. The formulation of laws and regulations in this field could be traced back to the late 1970s. Since then, China has joined many international conventions related to IPRs, and actively participated in activities initiated by relevant international organizations. Such practices have intensified exchanges and cooperation between China and other countries.

5.1.1 Industrial Property

(1) Trademark

The existing trademark legal system in China include the Trademark Law of the People's Republic of China, the Implementing Regulations of the Trademark Law of the People's Republic of China, and other relevant laws, administrative regulations and department rules. The objectives of these laws are to provide protection to right-holders by regulatiing trademark registration substance, procedure, and exclusive rights, in line with the international conventions and prevailing practices regarding intellectual property rights. In order to protect trademark owner's exclusive rights, China's Trademark Law contains not only civil and criminal liabilities but also provides administrative punishment for trademark infringers. The State Intellectual Property Office (SIPO) is responsible for trademark approval, and the Trademarks Bureau under the State Administration for Industry and Commerce (SAIC) is responsible for trademarks registration.

(2) Patent

In order to enhance the awareness of the general public on IPR protection, patent protection in particular, and to build up a sound social environment for tpromotion and commercialization of inventions, the National People's Congress approved the second revision of the Patent Law of the People's Republic of China on August 25, 2000. The revised patent law, which took effect on July 1, 2001, includes the following elements: (1) patent owners would have the right to prevent others from offering for sale the patented product without their consent (Article 11); (2) for utility model and design applications or patents, the final decision on re-examination and invalidation would be made by the people's courts other than for inventions that were patented prior to the amendment (Articles 41 and 46); (3) patent owners could, before instituting legal proceedings, request the people's court to take provisional measures such as to order the suspension of infringing acts and to provide property preservation (Article 61); and (4) conditions for granting a compulsory license would be further clarified.

(3) Protection of the undisclosed information

Article 10 of the Law of the People's Republic of China on Combating Unfair Competition, together with Article 219 of the Criminal Law of the People's Republic of China, regulates that a business operator must not infringe upon trade secrets. In compliance with Article 39.3 of the TRIPS Agreement, China would provide effective protection against unfair commercial use of undisclosed test or other data submitted to authorities in China as required in support of applications for marketing approval of pharmaceutical or of agricultural chemical products which utilized new chemical entities, except where the disclosure of such data is necessary to protect the public, or where steps have been taken to ensure that the data are protected against unfair commercial use. On May 18, 2006, the State Council promulgated the Regulation on the Protection of the Right to Network Dissemination of **Information**, effective as of July 1, 2006.

5.1.2 Copyrights and related rights

The Copyright Law of the People's Republic of China, which was promulgated in 1990, established the basic copyright protection system in China, together with the Implementing Rules of the Copyright Law (effective as of May 30, 1991), the Provisions on the Implementation of the International Copyright Treaty (effective as of September 25, 1992), and other related laws and regulations. In principle, this system is in compliance with international IPR treaties and practices. For the protection of copyright and neighboring rights, not only civil and criminal liabilities but also administrative liabilities have been provided in this system. Therefore, the infringing activities could be curbed in a timely and effective manner, and the legitimate rights of the right-holders could be protected.

To alleviate the difference between China's copyright laws and the TRIPS Agreement, amendments have been made to the Copyright Law, which include the following provisions: payment system by broadcasting organizations which use the recording products, rental rights in respect of computer programs and movies, mechanical performance rights, rights of communication to the public, and related protection measures, protection of database compilations, provisional measures, and measures of increasing the amount of legitimate compensation and preventing infringing activities. The Regulations for the Implementation of the Copyright Law, and the Provisions on the Implementation of the International Copyright Treaty have also been amended to ensure full consistency with China's obligations under the TRIPS Agreement.

5.1.3 Geographical indications

The relevant rules of the SAIC and the State General Administration of the People's Republic of China for Quality Supervision, Inspection and Quarantine provide some protection for geographical indications, including appellations of origin. The amendments to the trademark law have specific provisions on protection of geographical indications. China has committed to fully comply with relevant articles in the TRIPS Agreement on geographical indications.

5.1.4 Chinese policy regarding the main intellectual property treaties

China became a member of the World Intellectual Property Organization (WIPO) in 1980 and has been a member party in many Intellectual Property related agreements (table 5-1). In

addition, China participated in the TRIPS negotiations during the Uruguay Round, and initialed the Final Act.

Table 5.1 China's Participation in international intellectual property agreements since 1980s

Time	International intellectual property agreements
1985	Paris Convention for the Protection of Industrial Property
1989	Madrid Agreement Concerning the International Registration of Marks; Treaty on Intellectual Property in Respect of Integrated Circuits
1992	Berne Convention for the Protection of Literary and Artistic Works
1993	Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms
1994	Patent Cooperation Treaty; Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks
1995	Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure; Madrid Agreement Concerning the International Registration of Marks
1996	Locarno Agreement on Establishing an International Classification for Industrial Designs
1997	Strasbourg Agreement Concerning the International Patent Classification
	《 world copyright convention 》 , 《the international classification nisi pact for the goods and services》 , 《 the international convention in protecting new species in plant 》 , 《the intelligent property right pact that has something to do with trade under world trade organization》

5.1.5 Enforcement of Intellectual Property Rights

In the aspect of legislation, China have issued or amended laws or regulations such as the Patent Law, the Copyright Law, the Trademark Law, and the Regulations for the Protection of Computer Software, etc., which have improved the legal system and provided a favorable environment for IPR protection.

In judicatory aspect, since 1992, special IPR courts have been set up in major cities such as Beijing and Shanghai. Many special tribunals have been established in the Intermediate People's Courts at all levels to solve IPR-related disputes . According to relevant laws and regulations in China, individuals and enterprises would be held responsible for all their IPR infringing activities, subject to civil and/or criminal liabilities.

As for the execution of the law, administrative authorities have tried every effort to strengthen anti-piracy work, enhancing public education in order to ensure that legal environment in China would be able to meet the requirements for enforcing the TRIPS Agreement.

During the 15th China-US Joint Commission on Commerce and Trade (JCCT) of 2004, China presented an action plan designed to address the IPR protection. Under this plan, China has committed to:

Significantly reduce IPR infringement levels.

Increase penalties for IPR violations by taking the following actions by the end of 2004:. Subject a greater range of IPR violations to criminal investigation and criminal penalties; Apply criminal sanctions to the import, export, storage and distribution of pirated and counterfeit products; Apply criminal sanctions to on-line piracy.

Crack down on violators by:

Conducting nation-wide enforcement actions against piracy and counterfeiting – stopping production, sale and trade of infringing products, and punishing violators by increasing customs control and surveillance against import and export of infringing products..

Improve protection of electronic data by:

Ratifying and implementing the WIPO Internet Treaties as soon as possible; extending an existing ban on the use of pirated software in central governments and provincial agencies to local governments.

Launch a national campaign to educate the public about the importance of IPR protection. The campaign will include press events, seminars and outreach through television and print media.

Establish an intellectual property rights working group under the JCCT. Under this working group, the trade, judicial and law enforcement authorities in both sides will consult and cooperate on the full range of issues described in China's IPR action plan.

5.1.6 Evaluation of agreement on Intellectual Property Rights

According to the characteristics of bilateral trade between China and Peru, the intellectual property protection can be fulfilled under the frame of TRIPS.

5.2 Movement of Business Persons

In accordance with the Law of the People's Republic of China on the Entry and Exit of Aliens, aliens who would like to enter into China shall apply for visas to the Chinese diplomatic missions or consular posts or other agencies abroad authorized by the Ministry of Foreign Affairs of the P.R.C. The entry of nationals of an economy having visa agreement with the Chinese Government shall be dealt with in accordance with the said agreement. In cases where an economy has special regulations regarding the entry and transit of Chinese citizens, the competent authorities of the Chinese Government may take corresponding measures contingent on the circumstances.

In specific situations, such as being invited to China to enter a bid or to formally sign an economic or trade contract or being invited to China for scientific or technological consulting services, and in compliance with the stipulations of the State Council, aliens may apply for visas to port visa agencies authorized by the Ministry of Public Security. Port visas can be obtained immediately. While in China, foreign businesspersons may apply for visas and residence permits to the Entry-Exit Administration Department of the local Public Security Organs. The processing time is 1-5 working days. The application fee is in the principle of equality.

Chinese visa is a permit issued to a foreigner by the Chinese visa authorities for entry into, exit from or transit through the Chinese territory. The Chinese visa authorities may issue a diplomatic, courtesy, service or ordinary visa to a foreigner according to his identity, purpose of visit to China and passport type. The ordinary visas consist of eight sub-categories, which are marked with Chinese phonetic letters (D, Z, X, F, L, G, C, J-1 and J-2 respectively).

5.2.1 Tourists

Aliens who come to China for sightseeing, visiting relatives or other private purposes should apply for Visa L. For a tourist applicant, in principle he shall evidence his financial capability of covering the traveling expenses in China, and when necessary, provide the air, train or ship tickets to the heading country/region after leaving China. For the applicants who come to China to visit relatives, some are required to provide invitation letters from their relatives in China.

An applicant who is invited to China on a visit, on a study or lecture, business tour, for scientific-technological and cultural exchanges, for short-term refresher course or for job-training, for a period of no more than six months should apply for Visa F. To apply for a Visa F, the invitation letter from the inviting unit or the visa notification letter/telegram from the authorized unit is required. Businesspersons holding visas F may stay in China for the period prescribed in their visas without obtaining further residence permits. A visa F can be extended indefinitely, with each extension no more than 3 months and the total duration of stay no more than 1 year. Accompanying family members are subject to the same terms.

Aliens who transit through China should apply for Visa G. The applicants are required to show valid visas and on-going tickets to the heading countries/regions.

Train attendants, air crewmembers and seamen operating international services, and their accompanying family members should apply Visa C. To apply for a visa C, relevant documents are required to be provided in accordance with bilateral agreements or regulations of the Chinese side.

Foreign correspondents who make short trip to China on reporting tasks should apply for Visa J-2. The applicants for J-2 visas are required to provide a certificate issued by the competent Chinese authorities.

5.2.2 Residence

Aliens who are to take up posts or employment in China, and their accompanying family members should apply for Visa Z. To apply for a Visa Z, an Employment License of the People's Republic of China for Foreigners (which could be obtained by the employer in China from the provincial or municipal labor authorities) and a visa notification letter/telegram issued by an authorized organization or company are required. An Alien Residence Permit could be extended based on the purposes of the holder's stay. Accompanying family members are subject to the same terms. Family members should not work unless having been granted Employment Permit.

Aliens who come to China for study, advanced studies or job-training for a period of six months or more should apply for Visa X. To apply for a Visa X, certificates from the receiving unit and the competent authority concerned are required, i.e., Application Form for Overseas

Students to China (JW201 Form or JW202 Form), Admission Notice and Physical Examination Record for Foreigners.

Foreign resident correspondents in China should apply for Visa J-1. The applicants for J-1 visas are required to provide a certificate issued by the competent Chinese authorities.

5.2.3 Permanent Residence Permit (granted for an indefinite time)

Aliens who are to reside permanently in China should apply for Visa D. A permanent residence confirmation form shall be required for the application of Visa D. The applicant shall apply to obtain this form himself or through his designated relatives in China from the exit-and-entry department of the public security bureau in the city or county where he applies to reside.

5.2.4 Evaluation of an agreement on Movement of Business Persons

From the standpoint of movement of business persons, no inconveniences are foreseen for the execution of an FTA with Peru, as China has made great efforts to facilitate the entry and residence in the past several years, for example, some special policies have been made to facilitate the entry and residence of the following: a) Foreign senior management personnel who come to China to carry out agreements signed by China's central or local governments and foreign governments on major scientific & technological, or key construction projects at the state, provincial or ministerial levels according to Chinese standards; b) Foreign qualified scientists and technicians or high-level management personnel taking posts in China; c) Foreign nationals coming to China to carry out inter-governmental free aid agreements; d) Foreign investors, especially those investing in China's western areas; From July 1, 2003, businesspersons holding valid Singaporean and Brunei ordinary passports are exempted from visas when staying in China for no more than 15 days; From September 1, 2003, businesspersons holding valid Japanese ordinary passports are exempted from visas when staying in China for no more than 15 days; China joined the APEC Business Travel Card (ABTC) Scheme in 2001, and has issued the card in 2003; To facilitate business across the country mobility, half of the immigration channels are equipped with Optical Character Recognition (OCR) readers.

5.3 Transparency

China has made great efforts to ensure transparency regarding the laws, regulations and other measures it has issued and implemented. The Government of China regularly issued publications providing information on China's foreign trade system, such as the "Almanac of Foreign Economic Relations and Trade" and "The Bulletin of the MOFCOM" published by the MOFCOM; "Statistical Yearbook of China", published by the State Statistical Bureau; "China's Customs Statistics (Quarterly)", edited and published by the Customs. China's laws and regulations of the State Council relating to foreign trade are all published, as are rules issued by departments. Such laws, regulations and rules are available in the "Gazette of the State Council", the "Collection of the Laws and Regulations of the People's Republic of China" and the "MOFCOM Gazette". The administrative regulations and directives relating to foreign and domestic trade are also published on the MOFCOM's official website (<http://www.mofcom.gov.cn>) and in periodicals.

There are no foreign exchange restrictions regarding import or export. Information on foreign exchange measures is published by the State Administration of Foreign Exchange (SAFE) and is available on SAFE's website (<http://www.safe.gov.cn>) and via the news media. Information concerning the administration of imports and exports is published in the "International Business" newspaper and the "MOFCOM Gazette".

Information on China's customs laws and regulations, import and export duty rates, and customs procedures is published in the "Gazette of the State Council" and in the press media, and is available upon request. The procedures concerning application of duty rates, customs value and duty determination, drawback and duty recovery, as well as the procedures concerning duty exemptions and reduction, are also published. Customs also publish monthly customs statistics, calculated according to country of origin and final destination, on the basis of eight-digit HS levels.

Any bilateral trade agreements concluded between China and its trading partners, and protocols on the exchange of goods negotiated under them are published in "The Treaty Series of the PRC". In addition, the "Directory of China's Foreign Economic Relations and Trade Enterprises" and "China's Foreign Trade Corporations and Organizations" are two publications which identify foreign trade corporations and other enterprises in China engaged in foreign trade.

The full listing of official journals is as follows: Gazette of the Standing Committee of the National People's Congress of the People's Republic of China; Gazette of the State Council of the People's Republic of China; Collection of the Laws of the People's Republic of China; Collection of the Laws and Regulations of the People's Republic of China; Gazette of MOFCOM of the People's Republic of China; Proclamation of the People's Bank of the People's Republic of China; and Proclamation of the Ministry of Finance of the People's Republic of China.

China set up the China WTO Notification and Enquiry Centre immediately after the accession to provide enquiry service on trade-related information for all members, enterprises and individuals. The establishment of this enquiry point has been notified to the WTO. The Chinese government has also designated Foreign Economic and Trade Gazette as the official journal for the laws, regulations and other measures relating to or affecting trade in goods, trade in services, TRIPS or TRIMS. These laws, regulations and measures cannot be enforced before their publication.

5.4 Trade and investment promotion

China has made great efforts to promote trade and investment, for example the average tariff rate had been decreased from 15.3% to 9.9% from the entering of WTO to 2005; China has reduced some quota tariff rate and non-tariff barriers; made customs and other trade-related laws, regulations and guidelines accessible to the public in paper form (e.g. publication) or via Internet. For example, China Customs has set up its legal database updated regularly. This database contains all information on existing customs laws, regulations and administrative guidelines. All information can be obtained as well via customs website: (www.customs.gov.cn); China has also taken some measures to facilitate trade in movement

of goods, standards, business mobility and electronic commerce.

The China Council for the Promotion of International Trade (CCPIT) is the most important and the largest institution for the promotion of foreign trade in China. It comprises individuals, enterprises and organizations representing the economic and trade sectors in China.

The mission of the CCPIT is, in line with laws and government policies of the People's Republic of China., to facilitate foreign trade, to use foreign investment for the introduction of advanced technologies, to conduct activities of economic and technological cooperation in various forms, to promote development of economic and trade relations, and to improve the mutual understanding and friendship between China and all other countries in the world,

With the approval of the Chinese government, the CCPIT established a separate organ—China Chamber of International Commerce (CCOIC) - in 1988, which worked together with the CCPIT. The CCPIT admits new members from enterprises in all parts of China, and promotes trade through its functions of information consultation, exhibition, legal assistance, etc. Besides the CCPIT and the CCOIC, there are other trade promotion institutions, such as the Trade Development Bureau of the Ministry of Commerce, the China Export & Credit Insurance Corporation and so on.

The Investment Promotion Bureau of the Ministry of Commerce is the important institution for the promotion of investment in China. Its mission is to attend meetings of the World Association of Investment Promotion Agencies (WAIPA) on behalf of the Ministry of Commerce and handle relevant affairs; to contact and communication with overseas investment promotion agencies and chambers of commerce and associations; to organize and sponsor activities of bilateral investment promotion bodies; to provide guidance on and participate in the work of the joint mechanism of nationwide investment promotion agencies; to guide the work of investment promotion agencies at localities; and to guide the work of the China International Investment Promotion Center.

It also carry out publicity and promotion activities at home and abroad; conduct investment-related surveys and research; prepare and distribute materials and publications concerning investment promotion such as the Compilation of Laws and Regulations on Foreign Investment Utilization, Statistics on FDIs in China, and China Investment Guide; and take care of the daily operation of Invest in China and provide information to businesses; organize the China International Fair for Investment and Trade; undertake various investment promotion activities designated by the Ministry of Commerce; plan and organize large investment promotion activities at home and abroad; and organize training programmes, seminars, fairs and exhibitions specializing in investment; engage in investment-related consulting and information services, market research, credit investigation, and investment promotion planning, and etc; assist foreign-invested enterprises in going through required legal procedures; and handle investors' complaints involving more than one province or tasked by senior leaders.

China has taken some business facilitating measures to improve its domestic business environment. Improvements have been made on government administration, and the competitive market environment and supportive legal environment have been built up. More

one-stop shop services have been provided by local governments, and investment promotion agencies have been established at each province to assist investors.

To create an effective government administrative environment, efforts have been made to the following areas: (1) Gradually reform the existing administrative system to improve government efficiency. Currently the government focuses on decentralization and simplifying the approval procedures for foreign invested projects; (2) Set up governance linkages between different governments thanks to the fast development of computer network.; (3) Conduct training programs for officials in various specialized areas.

To create competitive market environment so as to increase the investors confidence, the government has kept on rectifying economic order by: strengthening the legitimate enforcement for infringements to protect IPR, removing barriers hinder regional/local protections and monopolies, cracking down the behaviour of making fake and shoddy products and other illegal activities, revoking all of the unauthorized fees, inspection, levies and fines on foreign invested enterprises (FIEs); strengthening the management of fee collection by making transparent fee collection items for FIEs.

To create supportive legal environment, Chinese government is keeping on reviewing the existing laws, regulations and administrative practices at both central and local level. Both central and local governments have established regular contacts with those main export enterprises in order to provide better services and help them solving the difficulties during their production and operation. The autonomy on operation and management of foreign invested enterprises is protected through improving related legislation, and intensifying the execution of law. Both the legal rights of all investing parties and workers' interests and rights are protected by law. The social services system has been further improved, as well as other social intermediary institutions.

5.5 Small and Medium Enterprises Cooperation

China has been encouraging the development of the small and medium-sized enterprises (SMEs). In order to improve the environment for the development of SMEs, provide job opportunities in urban and rural areas, and encourage the important role of SMEs in national economic and social development, China issued the SME Promotion Law, effective on January 1, 2003. Article 16 of the Promotion Law points out that the State will take measures to broaden the channels of direct financing for SMEs, and gives them active guidance in their efforts to create conditions for direct financing through various ways as permitted by laws and administrative regulations. Article 17 regulates that the State encourages, through taxation policies, legitimately established risk investment institutions to increase direct investment in SMEs. Article 3 underlines that the State will apply the principles of active support, strong guidance, perfect service, lawful standardization and guaranteed rights and interests, in order to create a favorable environment for their establishment and development. Article 4 emphasizes that the State Council shall be responsible for formulating policies regarding SMEs and make overall planning for their development; The department under the State Council in charge of work in respect of enterprises shall arrange for the implementation of the State policies and plans concerning the SMEs, making all-round coordination and providing guidance and services in the work regarding such enterprises throughout the country. The

related departments under the State Council shall, according to the policies and overall planning of the the State for SMEs and within the scope of their respective functions and responsibilities, provide guidance and services to such enterprises.

Article 5 points out that the department under the State Council in charge of work in respect of enterprises shall, according to industrial policies of the State and in light of the characteristics of the SMEs and the conditions of their development, determine the key ones for support by formulating a catalogue of SMEs to be provided with guidance for their industrial development or by other means, in order to encourage the development of all such enterprises. Article 6 outlines that the State protects the lawful investments made by SMEs and their investors, as well as the legitimate profits earned from the investments. No unit or individual may infringe upon the property and lawful rights and interests of such enterprises.

In practice the main measures promoting development of the SMEs adopted by the Chinese government are including: 1) Financial Supports. It is from both the central and local governments. 2) Support for Establishment of Enterprises. The State supports and encourages the establishment and development of SMEs through taxation policies. 3) Technological Innovation. The State formulates policies to encourage the SMEs to adopt advanced technology to improve product quality. 4) Market Development. The States encourages and supports large enterprises to establish stable relations of cooperation with SMEs. 5) Public Services. The State encourages all sectors of the society to establish and improve the service system for SMEs.

With regards to the Standards of SMEs, the Law of the People's Republic of China on Promotion of Small and Medium-sized Enterprises, and the Tentative regulations on the Standards of the Small and Medium-sized Enterprises outline the overall standards to classify the SMEs, and specific standards based on different industries according to the application conditions to enterprises with various ownership and forms of organization. Detailed information can be obtained at the website: <http://www.sme.gov.cn..>

5.6 Customs Procedures

China joined the International Convention on the Simplification and Harmonization of Customs Procedures in 1988, and signed the Protocol on the Amendment of the International Convention on the Simplification and Harmonization of Customs Procedures on June 15, 2000. The declaration, examination, levying of duties and release measures adopted by China Customs are consistent with international practice.

Being a contracting party of the revised Kyoto Convention, China Customs has started implementing a number of projects to simplify its clearance procedures. Pilot operations were carried out in some major regions with substantial achievements. Such initiatives are in line with the principles of the revised Convention and advocated by the World Customs Organization (WCO). The Guidelines on implementing the revised Convention has been translated into Chinese and will be made available to all customs officers and business on request.

China attaches great importance to international customs activities and is an active player

in the work of international organizations including the WCO and APEC. In meeting the challenges brought about by the globalization and rapid progress of science and technology, and meeting its commitments as WTO member, China has taken further measures to accelerate its modernization process to facilitate the business and international trade through full implementation of customs-related WTO Agreements and the Collective Action Plans under the Sub-committee on Customs Procedures (SCCP CAP) items. As a result, it has greatly improved the effectiveness of customs control, achieved a higher level of integrity, and come up with more streamlined customs procedures.

China E-port system was put into operation and has been working well. The system has been upgraded from H883 to H2000. H2000 system is being improved to realize electronic transmission and exchange of trade data or information between customs authority and other trade related government agencies and enterprises. The system is designed to deal with on-line processing of duty payment (electronic fund transfer), drawback and manifests, etc.

On January 1, 2002, China Customs has started its full implementation of the WTO Customs Valuation Agreement across the country, and carried out Measures of the Customs of the People's Republic of China for the Assessment of Dutiable Value of Import and Export Goods .After that, China Customs has implemented the Provisions of the Decision on the Treatment of Interest Charges in Customs Value of Imported Goods and the Decision on the Valuation of Carrier Media Bearing Software for Data Processing Equipment both adopted by the WTO Committee on Customs Valuation. In 2006, China Customs further revised the above Measures with a view to improving it.

The overwhelming majority of China's customs duties are ad valorem duties. The customs value of imported goods is assessed according to the C.I.F. price based on the transaction value, as defined in the Customs Valuation Agreement. If the transaction value of imported goods can't be determined, the customs value will be determined by other means provided in the Customs Valuation Agreement.

The Customs Law provides for appeal procedures. In the event of a dispute over calculation of duty paid or payable with the Customs, the importer can apply to Customs for a reconsideration of the case. If the appeal is rejected, the importer can sue at the People's Court. In order to ensure clear appeal provisions and procedures, progress has been made in developing software of Management System of Administrative Appeals System. Nationwide investigation and research on appeal work is undergoing.

On January 1, 2007, the import and export taxation rule and statistical catalogue of China's customs started to introduce "International Convention for Harmonized Commodity Description and Coding System" (Harmonized System, HS) of 2007 version issued by World Customs Organization. To implement Harmonized System and new content of 2007 version comprehensively, China's customs has advanced related training for the staff of the customs nationally.

China's customs has improved the regulation of sorting and issued "PRC Customs Import and Export Goods Sorting Management Regulation" which was implemented on May 1, 2007. Additionally, China's customs has updated the material database of present sorting rules to

ensure all customs of China can make use of it efficiently, and guarantee the consistence of sorting management.

More specific measures have been taken to raise the level of customs integrity. Integrity Action Plan has been implemented across the country. China Customs is making and will continue to make greater efforts than ever in modernizing its administration and performance. Its objective is to facilitate legitimate trade through more simplified procedures and more efficient administration, while protect the benefits of community and the country through more effective enforcement of customs laws and regulations.

5.7. Dispute Settlement

Generally speaking, there are three ways of resolving commercial disputes in Mainland China: consultation and mediation, arbitration, and litigation.

First, China has always advocated and encouraged settlement of international commercial disputes by arbitration. As early as in 1956, the Chinese Government set up an arbitration body whose sole purpose was to settle international commercial disputes. Now, China ranks first in terms of the number of cases handled by Chinese arbitration organizations. And there are two foreign-related arbitration organizations in China, which are, the China International Economic and Trade Arbitration Commission (CIETAC) and the China Maritime Arbitration Commission (CMAC).

Second, disputes could be brought to a people's court in a civil action for settlement if the parties concerned have had no arbitration clauses in their contract or have not consequently reached a written arbitration agreement.

Third, choosing consultation and mediation for dispute resolution is usually between arbitration and litigation.

- Consultation can be facilitated by a third party if agreed on by the disputing parties. It is largely an informal way of dispute settlement, but the result can still be legally binding if it is properly recorded in an agreement between the parties. Mediation that is presided over by a judge is a required step during litigation procedures according to the PRC Civil Procedure Law. The judge who hears the case will usually conduct mediation after the initial presentation of the case in court with evidence and argument by both parties.
- In simple words, arbitration is a legal process in which the dispute of the parties is heard by a private individual or panel of several private individuals (qualified arbitrators), rather than the courts. Arbitration results in an award or decision being made by the arbitrator(s). Arbitration between Chinese and foreign parties in China is usually conducted by the China International Economic and Trade Arbitration Commission (CIETAC) in Beijing, Shanghai or Shenzhen in accordance with its own Arbitration Rules and subject to the PRC Arbitration Law and other relevant laws.
- The basic framework for civil litigation in Mainland China is laid down in the PRC Civil Procedure Law. Other relevant sources of authority include various judicial interpretations by the Supreme People's Court or the Supreme Procurate, the PRC

Contract Law, the laws and regulations that govern foreign investment enterprises, and the Foreign Investment Enterprise Winding Up Measures.

Since becoming a WTO member in 2001, China has been extensively involved in the WTO dispute settlement affairs. On June 6 2006, the China Council for the Promotion of International Trade (China International Chamber of Commerce) launched its dispute settlement center in Xiamen. The center is positioned to provide mediation for business disputes of foreign trade and economic nature.

The settlement center has an advisory board consisting of representatives from such city authorities as the government, legislative council of the people's congress, intermediate court, maritime court, legislative bureau, judicial office, industrial and commercial administration, foreign investment bureau, trade development bureau, arbitrary committee and the Law School of Xiamen University. On top of that, 22 experts with their respective specialties are also taken on board. The objectives were to seek amicable solutions and avoiding going to courts.

5.8 Trade Facilitation Matters

As a participator and promoter of economic globalization and regional economic integration, as well as a big country of international trade, china is making efforts to accelerate the process of trade facilitation so as to improve its foreign trade efficiency, and reduce the trade costs. On one hand, China is active in taking part in the negotiation on trade facilitation under APEC and WTO framework, on the other hand, China is conducting negotiation on the issues under the RTA with other countries or regions. For example, under CEPA between Hong Kong and Mainland, the measures of trade facilitation are including: promotion of trade and investment, facilitation on clearance, inspection and quarantine on merchandise, food safety, quality standard, electronic business, transparency of law and regulations, cooperation on SME and cooperation on Chinese medicine and pharmaceutical industry.

At present, on the aspect of trade facilitation the main measures adopted by China are as follows:

1. To Establish and improve the relevant laws and policies, and increase transparency of laws and policies. Chinese government is gradually improving the relevant laws and administrative rules restricting medium agencies and enterprises on commercial behavior, and supervising the trade legally to promote trade facilitation fundamentally. The government publishes information regularly on laws and policies in Chinese and foreign languages, establishes websites to publish the information and deal with the related problems concerning laws and policies.

2. To simplify the procedures of goods clearance and reducing the time of goods clearance. The new clearance model which means at ports the coordinating mechanism among the related departments, such as custom, inspection and quarantine, foreign currency etc. is establishing. All the departments are using the unified windows to provide facilitated service for firms which need to deal with the governments, agencies for customs reporting, companies of international goods transportation, ports and banks etc. The customs are implementing risk management combining the examination after importing so that under the

reasonable and strict supervision of customs, the goods flow could be accelerated.

In July 2006, the General Administration of Customs declared that Office of Planning of the General Administration of Customs was renamed as Office of National Port Management to coordinate ports management for companies so as to decrease the cost of clearing customs.

3. On the aspect of inspection and quarantine, China is gradually improving and perfecting the procedures and standards of goods inspection, adjusting and reducing the kinds of importing and exporting goods needed to be inspected and quarantined, simplifying and regulating the procedures of inspection and quarantine, and reducing the related cost in order to promote trade facilitation.

4. As to foreign currency management, according to the requirements of market economy development, Chinese government is continuously adjusting rules and regulations on foreign currency management to facilitate trade and service firms better. More and more new measures regarding receiving and paying of foreign currency have been practiced. For example, some restrict conditions on foreign currency paying for imported goods have been eliminated.

5. On the aspect of entry and departure of business personnel, as a member of APEC, China has established green passageway to business personnel of APEC members. The administration of entry and departure has been in accordance with international practice. For Chinese commercial personnel, passport application has been simplified and time of issuing passport has been shortened significantly, with one week in general. Simplifying entry and departure formalities for enterprise staff improves efficiency gradually.

6. Improving infrastructure to facilitate trade. China is improving its ports infrastructure and its complements. Ports have been equipped with modern instruments to promote trade facilitation. Promoting non-paper clearance, constructing internet connection of relevant authorities, sharing information, and certificating digital credentials with other countries, could supply convenience and safety to trade facilitation. Some of automatic electronic checking systems for customs reporting, and vehicle pathway etc. have fully improved the clearance efficiency.

Since 2000, China Customs has provided an easier clearance procedure for large and high-tech enterprises, such as pre-arrival declaration, on-line declaration, fast transit procedure, checking and release on site, urgent clearance, release with deposit and prioritized consultation. Twenty-four-hour clearance, clearance consultation and quality service are also provided by the customs offices.

Since August.1, 2001, the sub-system for export exchange collection under "China E-Port" has been fully operated in all customs offices across the country, while in the meantime, China Customs has been wasting no time in securing nationwide application of "China E- Port" and working at ways to implement remote filing and declaration for export draw back.

5.9 Government Procurement

The implementation of government procurement is an innovation in the field of public consumption. At present, this system is an important component for public consumption management for a vast number of nations, and is playing an imperative role in social and

economic lives.

To improve government procurement institutions and unify government purchasing market, some international organizations have formulated a few of international lawful documents related to government procurement. Two of them are relatively important--the Government Procurement Agreement (GPA) drafted by the WTO and the Model Law on Procurement of Goods, Construction and Services drafted by the United Nations Commission of International Trade Law (UNCITRAL). GPA is the legal reflection of global government procurement liberalization. It is also one of the results of trade liberalization and economic globalization. Its main purpose is to make institutional arrangement for government procurement around the world.

China is a late comer in the practice of government procurement. In the middle of 1990s, in the process of drafting the Invitation and Submission of Bids Law of the People's Republic of China, the State introduced the method of fair market competition for government procurement. From 1996, pilot programs had been implemented in Shanghai and Shenzhen successively. After 1999, China promulgated some national regulations and rules concerning government procurement. Based on the Budget Law, the Ministry of Finance (MOF) issued the Tentative Measures on Government Procurement Management in April 4, 1999. In June of the same year, the MOF also issued supplementary documents: the Tentative Measures on Supervision of Government Procurement Contract and the Tentative Measures on Invitation and Submission of Bids for Government Procurement. They regulated the supervision rules regarding government procurement, and management and supervision plans during the process of invitation and submission of bids for government procurement. In September 2000, the MOF published the Management Measures on Government Procurement Information Notice and the Items Category on Government Procurement. The former stipulated specifically the means and methods of information publication; the latter provided the criterion for standardized operation regarding government procurement. On June 29 2002, The Government Procurement Law of the People's Republic of China was promulgated, effective as of January 1, 2003.

In July 2006, the MOF launched enforcement investigation and evaluation with respect to government procurement laws and regulations. Generally speaking, these laws and regulations have played positive role in guaranteeing open, fair and impartial behaviors in government procurement, and achieved remarkable economic and social benefits. From 1998 to 2005, the average scale of government procurement in the whole country had increased by 77.9% annually. In 2005, the actual scale of government procurement was RMB292.76 billion, up 37.1% as the same period in 2004, which accounted for 1.6% of GDP and saved RMB38.02 billion. Based on primary statistics, government procurement scale in 2006 was RMB350 billion.

According to Article 10 of the Government Procurement Law of the People's Republic of China, the domestic goods, construction or services should be preferred for all the government procurements in general except otherwise they fall within one of the following situations:

- 1) Where the goods, construction or services in need cannot be acquired within the territory of the People's Republic of China or even if acquired but not at arm's length

conditions;

2) Where the procurement items are procured for the consumption in abroad;

3) Other circumstances provided by laws or administrative regulations. The definitions for the domestic goods, construction or services mentioned above should be applied with reference to the relevant regulations approved by the State Council.

In General, the Government Procurement Law regulates that the goods, construction or services shall be procured domestically. However, it is not subject to the law if relevant goods, construction or services cannot be acquired within China or are procured for consumption abroad.

Although China has not entered the GPA, China has made some beneficial attempts on globalization of government procurement. On May 16, 2006, the first conversation of China and EU on government procurement was held in Beijing. Both sides were satisfied with the communication and cooperation since the establishment of bilateral dialogue mechanism on government procurement, strengthened the importance of regular conversation between China and EU, and agreed that profound development of the conversation mechanism would have a positive impact on deepening bilateral cooperation.

5.10 Competition Policies

In recent years, the government of China has made great efforts to improve its legislation and enforcement of competition laws and regulations to provide a more transparent and fair competition environment.

China has taken effective measures to break industry monopoly and sector blockage to maintain fair competition as stated below: (1) severely punish the abuse of dominant positions, monopoly collusion and mergers which may harm competitions. Great attentions have been paid to such industries as supply of water, electricity and gas; (2) Make research on the measures to deal with large companies who abuse their dominant positions in China; (3) Regarding the countering of unfair competition, Chinese government has severely punished counterfeit of famous commodities of food, medicine, house utensils and agriculture materials, and imitation of the peculiar name, package, decoration and registered trade mark, China also launched the Campaign of "Maintenance of Fair Competition Order and Breaking down Counterfeit and Fraud Activities", which put emphasis on punishment of brokerage and bribery in medicine, civil aviation, tourism and real estate sectors; (4) Strike on the fraudulent sale with prize or disguised sale with mint prize. Strengthen supervision of online business activities, and punish unfair competition activities online.

Recognizing the importance of establishing a normal market economic order to protect the normal operation of economy, and improve the socialist market economic system, China has set up a legal framework to enhance market competition regulations since 1980s, including the Law on Counteracting Unfair Competition, the Price Law, the Advertisement Law, the Product Quality Law, the Trademark Law, the Patent Law, the Law of Corporation, the Promotion Law of Small and Medium-sized Enterprises, the Temporary Provisions on the Prohibition of Price Monopoly Activities, the Regulations on Telecommunication, etc.

In order to further protect fair competition, China has promulgated the Promotion Law of Small and Medium-sized Enterprises of PRC, the Regulations on Administration of Technology Import and Export, the Provisions on Prohibition of Implementation of Regional Blockage to Cigarette Business. The Promotion Law of Small and Medium-sized Enterprises of PRC was promulgated in June 2002, and came into force as of January 1, 2003. This law is to promote the healthy development of small and medium-sized enterprises by establishing a fair competition mechanism.

The Temporary Provisions on the Prohibition of Price Monopoly Activities was promulgated in June 2003, and put into effect since November 1, 2003. Its purpose is to promote fair competition, and protect the lawful rights of businessmen and customers by prohibiting price monopoly activities.

Antimonopoly is another high point of China's legislation, since the promulgation of the Regulations on Telecommunication, China has formulated the Temporary Provisions on Foreign Investors' Merger with Domestic Enterprises, and the Temporary Provisions on the Prohibition of Price Monopoly Activities. The awareness of the necessity of antimonopoly legislation has been greatly improved.

The State Tobacco Bureau promulgated the Provisions on Prohibition of Implementation of Regional Blockage to Cigarette Business as of June 1, 2001, in order to break regional blockage, and establish a united, fair and orderly competitive nationwide cigarette market in China.

The Anti-Monopoly Law of the People's Republic of China has been promulgated on August 30, 2007, effective as of August 1, 2008. In addition, China is making efforts to draft the Telecommunication Law, in which provisions on monopoly activities will be stipulated. China is also considering the development of laws and regulations relevant to malfeasance and unfair trade activities. The review of the Law on Countering Unfair Competition is underway.

6. Conclusions and Recommendations

China and Peru formally established diplomatic relations on November 2nd 1971. After that, especially in the 21st century, bilateral relations in many aspects have been enhanced significantly. Trade and investment between the two countries have witnessed fast growth in the past few years.

In this sense, in order to strengthen their bilateral links, both countries decided to conduct a Joint Feasibility Study on a bilateral FTA. This study would allow to explore the opportunities and challenges that both countries would face and to measure the impact of an eventual FTA; and finally would provide recommendations on the best ways to conduct negotiations between the two countries.

For the purpose of this study, China and Peru analyzed each chapter from its own perspective and reached common conclusions and recommendations as following:

On Chapter 1: "Introduction", both countries present information on macroeconomic conditions and on their past and ongoing FTA negotiations. This chapter shows that both countries have strong macroeconomic indicators; for instance, in last few years China's GDP growth has been around 9%, while in the case of Peru, GDP growth has reached high levels (8% in 2006). Additionally, this chapter shows that China and Peru are following a very active trade agenda, on a bilateral and multilateral basis.

On Chapter 2: "Trade and Investment Policies and Systems", the most important features of the trade and investment policy of each country are briefly described, including tariffs and non-tariff measures, foreign investment regimes, services and trade remedies. For example, the average applied tariff level in China was 9.8% (2006), while in Peru it was 8.04% (July 2007). This chapter would contribute to have a better understanding of each country's policies and systems. Finally, it also allows the identification of some existing barriers to trade and investment between the two countries, which can be reduced or eliminated through an FTA.

Particularly, tariff elimination should be complemented with the removal of unnecessary non-tariff measures to improve trade between the two countries. FTA negotiations would improve disciplines in areas such as technical barriers to trade, sanitary and phytosanitary measures, among others.

The services sector represents an important share of the GDP of China and Peru. Aiming to promote bilateral trade in services, a possible FTA would serve as an instrument to consolidate and deepen the commitments made in the WTO and to provide a secure and stable environment to current and future investors and service providers in both countries.

On Chapter 3: "Economic relations, challenges and prospects between China and Peru", both

countries analyzed statistics on bilateral trade (in goods and services) and investment. This chapter shows that trade flows have experienced steady growth during the last few years. Some trade indexes (RCA, RPC, RIM, RIX and TSC) have also been used to evaluate the characteristics of the actual and potential trade flows between China and Peru. These indexes have shown a significant level of complementarity between the export supply and import demand of both countries.

On Chapter 4: "Impacts of trade and investment liberalization", both countries used general and a partial equilibrium models, in order to assess the impact of a possible FTA between China and Peru. Modeling results show main indicators such as GDP, trade and welfare, will increase in both countries as a result of bilateral full trade liberalization. In the case of China, real GDP will grow 0.04%; particularly, the sectors that would benefit the most are: electronic and telecommunication equipment, transportation equipment, livestock, food industry, tobacco processing and textile industry etc. In the case of Peru, GDP will grow 0.7% and welfare will improve by 0.53%; particularly, the sectors that would benefit the most are: fats and oils of fish, fishing, petroleum and mineral products, fishmeal, agriculture, chemicals, etc.

With respect to direct effects on trade, the partial equilibrium models show that in the case of China, trade creation and trade diversion will be 0.61% and 0.81%, respectively; while for Peru they will be 2.2% and 0.55%, respectively. The outcomes of these models suggest that net benefits for both countries can be expected from the negotiation of an FTA, but they also identify possible negative impact on some industries that should be taken into account in the negotiation process.

On Chapter 5: "Information Exchange on Other Issues and Economic Cooperation", both countries elaborated on additional disciplines and institutional issues such as: intellectual property rights, movement of business persons, transparency, trade and investment promotion, small and medium enterprises cooperation, customs procedures, dispute settlement, trade facilitation, government procurement and competition policy. These additional topics can help to promote and facilitate trade and investment between China and Peru; therefore, the above issues would be considered for their inclusion in a possible FTA.

In conclusion, this study has demonstrated that significant complementarities exist between the Chinese and Peruvian economies and that an FTA would benefit the people and economies of both countries. To secure these benefits and build on the long and warm relationships between the two countries, this study recommends that negotiations on an FTA between China and Peru covering goods, services and investment, among others, should commence as soon as possible.

This bilateral agreement has strategic connotations for each side. In the case of China, it is one of the important ways to strengthen its economic and trade relations with Latin America. In the case of Peru, it is a critical step to strengthen links with leading world countries like China, in order to become a business and productive platform within South America.

Taking account of the results of this feasibility study, the two sides recommend announcing and launching negotiations for an FTA after fulfilling their internal procedures. As equal trading partners, this should follow a written commitment by Peru not to apply Articles 15 and 16 of the Protocol on the Accession of China to the WTO and Paragraph 242 of the Report of the Working Group on the Accession of China to WTO.