STATE REGULATION IN CHINA IN THE LIGHT OF ITS WTO MEMBERSHIP

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ABSTRACT

When China entered the World Trade Organization (WTO) in December 2001, it also accepted some trade commitments in the area of state regulation, which have influence on the liberal free trade. The object of the paper is to highlight the changes that occurred in the selected areas of state regulation in the period 2001–2015, and to find out if China fulfilled its WTO commitments in the selected areas of state regulation. The aim of the qualitative research carried out in the area of state trading, price controls and state enterprises was to show the fact that although China liberalised its market in compliance with its trade commitments in the WTO, some strategic sectors of economy have remained under the influence of the Chinese state all the time.

KEY WORDS

General Agreement on Tariffs and Trade, price controls, state-owned enterprises, state trading enterprises, World Trade Organization

JEL CODES

F13, K33, P21

1 INTRODUCTION

After the approval of China's accession to the World Trade Organization (WTO) by the Ministerial Conference on 10 November 2001, a new era of China's trade relations with more than 140 countries around the world based on the multilateral principles started. The accession process took 15 years, during which many trade negotiations were held firstly through the GATT Working Party and later through the WTO Working Party. The results of the trade negotiations brought China a lot of trade commitments that were connected with the liberalisation of its trade regime. On the whole, it was advantage "trade" for all negotiated sides. China got an easier access to the markets of the other WTO Members

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and the possibility to participate in creating the world trade liberalisation, while the other countries achieved a lowering of the trade policy uncertainty in their exports to China (Feng et al., 2017). Now, it has been more than 15 years since China joined the WTO. In connection with this the question arises about what changes occurred in the domestic environment of the Chinese economy for doing business and trade, and what progress China recorded on its way to the market economy during the last 15 years. As only China has remained a communist state, in which state influence over the economy in different forms has already existed, discussion held by economists, politicians and the civil society on different forums is very often led by the idea if China has really liberalised its market for suppliers from foreign countries. The subject of frequent criticism is especially the existence of state-owned enterprises (SOEs) in China with respect to the fact that they are connected with subsidisation (Lee et al., 2017; Lopez et al., 2017) and other types of preferential treatment (OECD, 2016), including privileged access to information, tax concessions, preferential financing and other measures that deform market conditions. On the whole, state-owned enterprises are global competitors and they might also be more willing to shoulder political risk (OECD, 2016). They appear around the world, but on a different scale and with different power (see for example Büge et al., 2013; Fan and Hope, 2016). On the other hand, the results of the empirical analysis carried out by Yan (2017) show that privatisation and the wave of the 2002 Chinese state-owned enterprises reforms have positive and significant effects on the Chinese export performance. Leutert (2016) analyses challenges ahead in reforming China's centrally owned companies and introduces the policy implications of this reform and points out some intra-firm obstacles of the reform, such as auditing capacity, communication problems, etc. that will have impact on the results of the SOEs reform. Fan and Hope (2016) argue that as China integrates more with the world, the need for the reform of the government and the restructure of the SOEs sector becomes more imperative so as to avoid unnecessary conflicts with other economies.

The extent of government ownership or control over the allocation of resources, prices and production also played an important role in granting China the market economy status (MES). As only the official deadline for granting it was set by China's Accession Protocol by December 2016, for those WTO Members who officially committed to this during China's accession process into the WTO this issue became a more serious topic. Yu (2013) provides an analysis of the legal text of the non-market economy status under the WTO framework and bases it on the experience of some previous anti-dumping and countervailing cases. He states the idea that a non-market economy status may continue to play a different role and will have different forms of expression in trade remedy disputes against Chinese exports in the upcoming years (Yu, 2013). China is often a target of temporary trade barriers, such as anti-dumping duties, countervailing duties and safeguards. Chandra (2016) explores the impact of these barriers on Chinese exports and finds extensive evidence of trade deflection, but no evidence of trade depression. Brugier (2017) explores the new EU trade strategy towards China after 2015, which also includes the EU's refusal to grant China the market economy status and thoughts on the consequences of the new EU strategy on the EU–China trade relationship. While Taube and Schmidkonz (2015) confirm that China is not a market economy and point out that if the EU granted China such a status its ability to act against heavy Chinese dumping would be severely undermined. Curran and Maiza (2016) state that only a few EU Member States and a limited number of industries, such as ceramics and steel will be affected by granting China the market economy status. He also argues, based on the previous cases, regardless of granting China the market economy status, anti-dumping cases will continue and methodologies will have been adapted to take account of a new reality of markets. De Kok (2016) introduces some alternative methodologies that probably replaced the current EU methodology for non-market economies in response to refusing to grant China the market economy status.

Although many papers and studies about this issue were published, granting China the market economy status has importance only for determining the normal value in the anti-dumping investigations and was not a part of China's trade commitments in the WTO to trade liberalisation. Thus, the issue of granting the MES is governed by the criteria and the national legislative of the individual WTO Members. However, the object of this paper is to highlight what changes occurred in some forms of state regulation in China which can influence free trade, and to find out if China fulfilled its WTO trade commitments in these areas of state regulation in the period 2001 to 2015, i.e. after 15 years since its entrance into the WTO. The contribution of this paper to the recent literature is in presenting some evidence that shows a real progress of China in the area of state regulation that occurred in compliance with its commitments in the WTO. The exploration of these issues requires a qualitative research based on the study of the official documents and data published by the WTO or the Chinese government.

The structure of the paper is as follows: Firstly, the theoretical framework of China's membership in the WTO is depicted. In the next part of the paper, methodology and data are introduced. The following parts of the paper are focused on China's commitments in the WTO that China accepted in some areas of state regulation and mapping the changes that occurred in these areas during the last 15 years. In conclusion, the main facts of the analysis are summarised and the results are discussed.

2 THEORETICAL FRAMEWORK OF CHINA'S MEMBERSHIP IN THE WTO

China as the Member State of the World Trade Organization had to agree with the multilateral trade rules (the so-called "general commitments") and made some "specific trade commitments" that became integral parts of China's Accession Protocol to the WTO. General trade commitments cover all parts of the main multilateral trade agreements, namely the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade and Services (GATS) and Trade-Related Aspects of Intellectual Property Rights (TRIPS). As only the accession process to the WTO as well as the number and level of specific trade commitments are different for the individual countries, firstly, China's accession to the WTO and lastly, China's institutional framework of its trade regime will be briefly introduced. Trade commitments concerning state regulations are the subject of Chapter 4.

2.1 China's Accession to the WTO

According to Article XII of the Marrakesh Agreement establishing the World Trade Organization, any state or customs territory having full autonomy in carrying out its trade policy may accede to the WTO on terms to be agreed between it and the WTO (WTO, 1994). This is done through the Working Party of the WTO Members and a process that includes bilateral, plurilateral and multilateral negotiations. Although the accession process is based on united rules for all countries, each accession to the WTO is a unique event.

China was one of the 23 original contracting parties in the General Agreement on Tariffs and Trade (GATT) in 1948, but in connection with China's revolution in 1949 the Chinese government has not participated in the creation of a multilateral trade system governed by the GATT for almost 40 years. However, the open door policy, which has been promoted by the Chinese governments since the end of 1970s as a part of the entire reform process of China, caused that in 1986 the Chinese government notified the GATT of its interest in resuming its status as a GATT contracting party. Although almost thirty states, including, for example Brazil, Cuba, Czechoslovakia, Mexico, Turkey, New Zealand, Japan, Israel, Australia, etc., welcomed the submission of China's memorandum on its foreign trade regime and supported the establishment of a Working Party (GATT, 1987), the GATT Working Party on China's status did not bring a conclusion.

In connection with the establishment of the WTO in 1995, the GATT Working Party was converted into the WTO Working Party on the accession of China and negotiations continued simultaneously on the bilateral and multilateral level. Bilateral market access negotiations were carried out between China and 43 Member States of the WTO (counting 15 member states of the European Communities (EC) as one) that expressed interest in concluding the bilateral market access negotiations with China. However, China was able to make rapid progress in concluding its bilateral negotiations with most other WTO Member States once it reached a bilateral agreement with the USA in November 1999 and then with the European Communities in May 2000 (Gertler, 2002). In order to end the accession process, bilateral and multilateral negotiations about China's accession to the WTO were successfully concluded in September 2001. China's Protocol of Accession was approved at the Fourth Ministerial Conference held in Doha, Qatar, on 10 November 2001. One day later, China signed the agreement and deposited its instrument of ratification with the Director-General of the WTO. Thus China became the 143rd member of the WTO on 11 December 2001 in compliance with the Final Provisions of the Chinese Accession Protocol to the WTO.

2.2 Basic Institutional Framework of China's Trade Regime

China is a communist state, in which state power is distributed into a legislative, executive and judicial branch. The holder of legislative power is the National People's Congress (NPC) and its Standing Committee. The President of China promulgates the legislation adopted by the NPC and appoints the Prime Minister and other members of the central government. The State Council, i.e. the central government of China has executive power. China's judicial system consists of the Supreme People's Court, the local people's courts at different levels and special courts. There are also three intellectual property courts in China. This is the usual distribution of state power in a country. However, not all things are as simply as they seem at the first look. Specifically, China is a "communist" state, in which only one political party, i.e. the Communist Party of China (CPC), plays an important role. All members of the legislative, executive and judicial power in China have to be a member of the CPC. The second oddness of China is the China's National People's Congress. Although it has almost four thousand members, all members of the CPC, it is only unicameral. Lastly, China's total land and population can also be considered as specific. As only China has more than 1.3 billion people and is the third or fourth largest country in the world, for these reasons the state power in China is divided into lower levels. Thus besides the central government, there are four types of local governments, two types of provincial governments, several governments in municipalities and cities and rural area governments (The State Council, 2017). China's economic, trade and investment development is mainly outlined in the Central Government Five-Year Plans, sectoral and provincial Five-Years Plans. The current 13th Five-Year Plan, which will guide China's economic and social development from 2016 to 2020, was announced at the Fifth Plenum of the 18th Communist Party of the Chinese Central Committee in October 2016 (EURObiz, 2015). The 13th Five-Year Plan includes an ambitious programme of market-oriented reforms.

All these facts sparked the concerns of some WTO Members during the accession process about the presence of multiple trade instruments used by the different levels of government within China and whether the central government could effectively ensure that trade-related measures introduced at the sub-national level would conform to China's commitments in the

WTO Agreement. Although a Chinese representative confirmed that sub-national governments had no autonomous authority over issues of trade policy and accepted the Legislative Law of 2000 that determines the order of laws and regulations according to their importance, i.e. constitution, laws, administrative regulations and local regulations (WTO, 2001b), in practice the local rules and regulations may vary across regions, and many hidden barriers have existed on both state as well as local levels all the time.

3 METHODOLOGY AND DATA

The main object of the paper is to highlight the changes that occurred in the Chinese economy over three areas of state regulation in China, such as state trading, state pricing and the existence of state-owned enterprises and to find out if China fulfilled its WTO's commitments in these areas. In order to achieve the considered object of the paper, a qualitative research based on analysing different types of laws and documents published by the WTO or the Chinese state in compliance with its entrance commitments in the WTO will be used. China's trade commitments in the WTO are included in the Working Party Report and the Protocol of Accession of the People's Republic of China, including Goods and Services Schedules.

Besides the descriptive statistics of change, the research will be carried out using logical methods, such as abstraction, analysis, comparison and deduction. Firstly, by using abstraction, a model situation will be created, i.e. China and its accession to the WTO. The specification of China's trade policy framework and its commitments in the WTO will serve to analyse the role of the state and the regional institutions in the trade area. The changes in the area of state regulation will be carried out by the comparison of historical data. The results of the analysis will be used for the deduction of the main conclusions. With respect to the fact that a lot of information pertaining to the Chinese economy is published by the Chinese authorities only in Chinese, thus, the monitoring reports of the WTO Secretariat were the main source of information. The analysis will cover the period 2001–2015.

4 RESULTS OF LEGAL INTERPRETATION OF CHINA'S TRADE COMMITMENTS WITH FOCUS ON STATE REGULATION

The membership in the WTO means for China that it had to agree and to take concrete steps to remove trade barriers and to open its markets to foreign companies and their exports in every product sector and for a wide range of services. However, some forms of state regulation, which can disturb the market environment in China, occur all the time.

4.1 State Trading

When China accessed to the WTO, the right to trade was limited to some 35,000 qualifying enterprises that had to fulfil the qualification criteria, such as a minimum registered capital requirement of 5 million renminbi (RMB) and others. In compliance with Section 5.1 of the Protocol of Accession, China progressively liberalised the availability and scope of the right to trade, so that, within three years after accession, all enterprises in China get the right to trade in all goods throughout the customs territory of China, except for those goods listed in Annex 2A of the Protocol of Accession, which continue to be subject to state trading (WTO, 2001a). As for liberalisation in distribution services, it is carried out in accordance with China's schedule of specific commitments in the GATS. Goods subject to state trading can be imported and exported only by the authorised enterprises. Specific quantities of some goods that are subject to state trading may also be imported by non-state trading enterprises that have obtained trading rights through registration. However, exports subject to state trading must always be exported by STEs. Some STEs, however, are not state owned enterprises, i.e. STEs the exports of tungsten, antimony, and silver (WTO, 2012). Trading enterprises may import or export a limited volume of goods in the frame of tariff rate quotas (TRQ). While the National Development and Reform Commission (NDRC) issues the criteria for an enterprise to gain trading rights for grains and cotton on a yearly basis, the Ministry of Commerce (MOFCOM) issues it for other products. Besides issuing the licence, both authorities announce TRQ and the allocation method. However, usually no data on import and export quantities for products subject to state-trading arrangements are available, with the exception of 2006–2008.

On the import side, there are eight products, such as grain (wheat, maize and rice), vegetable oil, sugar, tobacco, crude oil, processed oil, chemical fertilizer and cotton that are the subject of China's state trading enterprises (STEs) according to the Protocol of Accession. The list of products subject to state trading includes a different number of commodity lines, i.e. lines of the Harmonised system (HS) as well as a different number of STEs. For example, the import of grain, which includes 18 HS commodity lines, can be carried out by only one STE, namely the China National Cereals, Oil & Foodstuff Import and Export Co. On the other hand, cotton is included in only two HS commodity lines, which can be imported by four STEs. The highest "competition" among STEs exists in trade in vegetable oil, which can be imported by six STEs. Tab. 1 shows products and TRQ that were the subject of state trading in the period 2002–2015. Tobacco and other chemical fertilisers are the only state-trade products that can be traded solely by STEs, although data about their imports have not been available since 2008. Only the China National Tobacco Import & Export Group Corporation, a state-trading corporation, is allowed to import tobacco (WTO, 2012). STEs remained significant also in the import of wheat, urea, sugar and maize, in which TRQ reached more than 50% during the entire period. Rapeseed, soybeen and palm oils were subject to state trading until 2006. The quota for oils and some other products, for example natural rubber, recorded in Tab. 1, was set in metric tonnes (mt). The non-STE share in the import of processed and crude oil should have been increased annually by 15% for the first ten years after accession under China's Accession Protocol. In reality, China's Customs are unable to collect data about the actual STEs imports under the existing customs clearing system, because non-STEs may import their allocated amount through STEs (WTO, 2006). The import of acrylic, plywood and steel was subject to automatic licence (AL).

On the export side, there are 21 products that are subject to state trading under China's Accession Protocol. These products again include a different number of HS lines and STEs that have a monopoly position in the export of these products. Especially cotton yarn has been exported by the are highest number of STEs, such as the Chinatex Cotton Import & Export Co., etc. STEs as well as products that were subject to state exports remained unchanged during 2002–2015 (see Tab. 2). While tea, soybeans and other products introduced in Tab. 2 were not exported by STEs during the entire period, tobacco was subject to state trading, although this product was not included in Annex 2A2 of the Protocol of Accession. Thus, tobacco is the only state-traded product that can be traded solely by STEs. Trade with another 245 products that were introduced in Annex 2B of the Protocol of Accession, such as natural rubber, timber, plywood, wool, acrylic and steel, was liberalised within 3 years after China's accession to the WTO according to the results of the WTO negotiations. Information about TRQ of STEs is available only in the Chinese language.

Tab. 1: Import quotas allocated to STEs in 2002–2015 (% of quota)

Product	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Wheat	90	90	90	90	90	90	90	90	90	90	90	90	90	90
Maize	68	64	60	60	60	60	60	60	60	60	60	60	60	60
Rice	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Sugar	70	70	70	70	70	70	70	70	70	70	70	70	70	70
Rapeseed oil	34	26	18	10	10	×	×	×	×	×	×	×	×	×
Soybean oil	34	26	18	10	10	×	×	×	×	×	×	×	×	×
Palm oil	34	26	18	10	10	×	×	×	×	×	×	×	×	×
Cotton	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Urea	90	90	90	90	90	90	90	90	90	90	90	90	90	90
NPK[a]	85	80	75	70	70	60	55	51	51	51	51	51	51	51
DP[b]	85	80	75	70	70	65	51	51	51	51	51	51	51	51
OCHF[c]	100	100	100	100	100	100	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tobacco	100	100	100	100	100	100	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cruide oil	mt	mt	mt	mt	mt	mt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Process. oil	mt	mt	mt	mt	mt	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
NR[d]	n.a.	mt	AL	AL	×	×	×	×	×	×	×	×	×	×
Plywood	AL	AL	AL	×	×	×	×	×	×	×	×	×	×	×
Wool	mt	mt	mt	×	×	×	×	×	×	×	×	×	×	×
Acrylic	AL	AL	AL	×	×	×	×	×	×	×	×	×	×	×
Steel	AL	AL	AL	×	×	×	×	×	×	×	×	×	×	×

Note: [a]NPK – mineral fertiliser; [b]DP – Diammonium phosphate; [c]OCHF – other chemical fertilisers; [d]NR – Natural rubber.; n.a. not applicable (these products, although subject to import under state trading, are not subject to TRQ). The "×" stands for TRQ was abolished. Source: WTO (2006, 2010, 2012, 2014, 2016).

4.2 Price Controls

Price controls represent another type of state regulation in China. China agreed in the WTO that the prices for traded goods and services in every sector would be determined by the market forces and the dual pricing for such goods and services would be eliminated, but some goods and services may be subject to price control all the time. The Chinese authorities apply price controls to products and services deemed to have a direct impact on the national economy and people's livelihoods. Price regulation is carried out on different levels of state administrative, i.e. via the NDRC at the central level, and the provincial level DRCs and the Bureau of Commodity Pricing in each province. The methodology for setting prices may differ across provinces, but takes into account the same factors, such as the market situation, average social costs, regional and seasonal factors and many others. The Chinese authorities publish in an official journal a list of goods and services subject to state pricing and changes thereto, together with price-setting mechanisms and policies. However, the Central Government Pricing Catalogue or Local Government Pricing Catalogues are published only in Chinese. Currently, according to the Chinese authorities, reserve-materials procurement is generally conducted through auctions; thus, the prices are the result of competitive bidding (WTO, 2014).

Products and services that are subject to price controls in China should be in compliance with Annex 4 of the Protocol of Accession. WTO commitments in the area of price controls were implemented by China into its legislative under the Price Law of 1997. Tab. 3 includes a list of products and services that are subject to government pricing and government-guided pricing. The difference between both types of

Tab. 2: List of export products subject to state-trading arrangements in 2002–2015

Product	2002–2005	2006–2008	2009–2011	2011–2013	2014–2015
Tea	t.a.	t.a.	t.a.	t.a.	t.a.
Rice	×	×	×	×	×
Corn/Maize	×	×	×	×	×
Soybeans	n.a.	n.a.	n.a.	n.a.	n.a.
Tungsten ore	×	×	×	×	×
Ammonium paratungst.					
Tungstate products	×	×	×	×	×
Coal	×	×	×	×	×
Crude oil	×	×	×	×	×
Processed oil	×	×	×	×	×
Silk	t.a.	t.a.	t.a.	t.a.	t.a.
Unbleached silk	n.a.	n.a.	n.a.	n.a.	n.a.
Cotton	×	×	×	×	×
Cotton yarn[a]	n.a.	n.a.	n.a.	n.a.	n.a.
Cotton yarn[b]	n.a.	n.a.	n.a.	n.a.	n.a.
Woven fabrics of cotton[a]	n.a.	n.a.	n.a.	n.a.	n.a.
Woven fabrics of cotton[b]	n.a.	n.a.	n.a.	n.a.	n.a.
Antimony ores	×	×	×	×	×
Antimony oxide					
Antimony products	×	×	×	×	×
Silver	×	×	×	t.a.	×
(Additional products)	Tobacco	Tobacco	Tobacco	Tobacco	Tobacco

Note: n.a. – China not applied state trading since it joined the WTO; t.a. – state-trading temporarily abolished since 2005. Empty place means that any information was published. Source: WTO (2006, 2010, 2012, 2014, 2016).

state prices is that the government prices (or government-determined prices) are fixed prices set by the authorities, while the government-guided prices are prices set within a range. When China entered into the WTO in December 2001, no fixed time frame for the adjustment of government prices or government guidance prices was set.

In the period 2002–2015, China's government carried out price controls in areas that were approved in China's Accession Protocol. State interventions were carried out with respect to achieving the national development objects and economic development. Specifically, government prices were applied to the State's key reserve materials (grain, cotton, sugar, silkworm cocoons, crude oil, processed oil, and chemical fertiliser), and items subject to state monopoly or oligopoly (e.g. tobacco leaf, salt, explosives for civilian use, drugs on medical insurance, teaching materials, certain types of refined oil products, natural gas, water supply by hydro projects directly under the administration of the Central Government and by inter-provincial hydro projects, military goods, some transportation services, basic postal services, and basic telecommunications services). Government guided prices were applied to products such as grain, vegetable oil, processed oil, silkworm cocoons and cotton, and services that are introduced in Tab. 3.

Although the list of goods and services subject to government prices and government-guided prices has not changed since 2001, there have been numerous adjustments to the rates and fees (WTO, 2014). During the monitored period, China gradually liberalised the prices of most agricultural products, several goods and services, such as the ex-factory price of explosive materials, and the charges for some

Tab. 3: Overview of products and services subject to price controls in China

Government set prices	**Government guided prices**
Products:	Products:
Tobacco, edible salt, natural gas, pharmaceuticals	Grain, vegetable oil, processed oil, fertilizer, silkworm cocoons, cotton
Services:	Services:
Postal and telecommunication services charges, entrance fees for tour sites, education services charges, public utilities (water, gas, electricity, etc.)	Transport services charges, professional services charges, charges for commission agents' services, charges for settlement, clearing and transmission services of banks, selling price and renting fees of residential apartments, health related services

Source: WTO (2001b).

Tab. 4: Indicators of state-holding industrial enterprises in 2000-2015

	2000	**2005**	**2010**	**2015**
Number of SOEs (in units)	53,489	27,477	20,253	19,273
Total assets (in 100 mill. RMB)	84,014.94	117,629.61	247,759.86	397,403.65
Total profits (in 100 mill. RMB)	2,408.33	6,519.75	14,737.65	11,416.72

Source: National Bureau of Statistics of China (2016).

construction projects. The prices of military goods and the price of tobacco leaves were also liberalised, although these products are a state monopoly all the time. Important central reserve materials, i.e. grain, cotton, sugar, filature silk, crude and processed oil, and chemicals were removed from the 2016 Catalogue (WTO, 2016). A minimum procurement price scheme remains in place for rice and wheat in the major production areas.

During the monitored period, the Chinese government also introduced some temporary measures in reaction to the inflation pressures in 2006 and 2008. These measures included a strict control of the prices of gasoline, natural gas, electricity and charges for gas, water, heating and public transport in cities. In addition, temporary interventions in setting the price of some important commodities and services, including grain, edible vegetable oil, meat, milk, and eggs, were also introduced. The Chinese government started to monitor the price changes of some basic necessities that did not have registration or notification requirements and stricter penalties were also adopted on illegal price activities (WTO, 2010).

However, besides the number areas (products and services) that are subject to price control in China, it is also important to follow the level and degree of these, by the WTO Members, "accepted", state interventions. While in 2001, 3.9% of the Government's total budgetary expenditure was on price subsidies, it declined to 2.9% in 2002 and 2.5% in 2003, while in 2004 the price subsidies slightly increased to 2.8% of China's total budgetary expenditures (WTO, 2008). However, since 2004, the Chinese authorities did not provide any information about it yet. Summing up, on the one hand, China liberalised some prices after its entrance into the WTO, but on the other hand, the Chinese authorities occasionally increased the subsidies for some products (for example a subsidy to cotton farmers) with respect to the economic and social needs. The existence of a state monopoly in the sensitive areas of the Chinese economy also remained unchanged.

4.3 State-owned Enterprises

A huge discussion is led about state-owned enterprises (SOEs) that have a destructive effect on the market as was confirmed by many authors (e.g., Lee et al., 2017; Lopez et al., 2017). They have a long history in China's economic development, but they have also been reformed for a long time. Although SOEs are not mentioned in the Protocol of Accession, in the Report of Working Party China's representatives stated that the state-owned enterprises basically operated in accordance with rules of market economy (Section 5.43 of the Report of Working Party) and the Chinese government would not influence, directly or indirectly, commercial decisions on the part of SOEs (Section 5.46 of the Report of Working Party). The general commitments of the WTO, such as non-discrimination and the national treatment rules, also obliged China to ensure equivalent conditions for all subjects (SOEs as well as private enterprises) on its domestic market, which is commonly referred to as "competitive neutrality" (see OECD, 2016, p. 125).

Currently, three types of SOEs occur in China, such as: (1) state-owned enterprises (pure SOEs) with 100% state ownership, (2) state-controlled enterprises with state controlled ownership and (3) state-invested enterprises, in which the state owns some of the shares of the company. The definition of SOEs and their organisation structure is introduced in Section 4 of China's Company Law, revised in 2013, Article 64-70 (FDI, 2013). The incorporation of SOEs under the Company Law contributed to the improvement of the corporate governance of the Chinese SOEs.

However, not only the management of SOEs underwent several changes; also the number and profitability of SOEs have changed during the monitored period. As only they occur in the different economic sectors and organisation structure, the data about their numbers published by China's and other bureaus are also different. According to the WTO, the number of SOEs in China declined from more than 173 thousand in 2001 to almost 138 thousand in 2004 (WTO, 2006). However, other data show the decline of the number of SOEs from more than 929 thousand in 2004 to 730 thousand in 2006 (WTO, 2008) to up to less than 458 thousand in 2010 (WTO, 2012). The number of SOEs in the industrial sector declined from about 53 thousand in 2000 to about 19 thousand in 2015 (see Tab. 4). In China, SOEs can be found on the central as well as local levels. Provincial SOEs operate in highly fragmented environments. The central government controls SOEs through the State-Owned Assets Supervision and Administration Commission of the ruling State Council (SASAC), but the supervision of provincial SOEs is spread across 36 provincial-level asset management commissions and 442 subbranches (OECD, 2016). Thus, they may be subject to less stringent supervision than central SOEs.

Regardless of the fact that the data about the number of SOEs are different, the declining trend of their number is evident. This trend is in compliance with China's economic strategy and the reform endeavours. This is also a better report for foreign countries, the WTO Members, which enter the Chinese market and compete with the Chinese firms on the world markets. The decline of the number of SOEs is also connected with lower transfers to loss-making SOEs. While in 2001, these transfers were about 30 billion RMB, i.e. 1.6% of the total budgetary expenditure, they declined to less than 22 billion RMB or 0.8% of the total budgetary expenditure in China in 2004 (WTO, 2006) and 18 billion RMB, i.e. 0.4% of the total budgetary expenditure, in 2006 (WTO, 2008). Other data about transfers to loss-making SOEs were not published (at least not in English) by the Chinese authorities. However, regardless of the decline of SOEs in China, the central/state SOEs are concentrated in sectors of strategic importance to the economy and their turnover was equivalent to 39–40% of China's GDP in 2014 (OECD, 2016; WTO 2016). When we consider that SOEs accounted for 35% of GDP, according to the data published by the WTO in 2008, the progress in the lowering of the influence of the Chinese state under SOEs is not so evident. SOEs have dominated in sectors of strategic importance such as energy, utilities, transport, financial, telecom, education, and health care services all the time. Specifically, the share of SOEs in strategic subsectors such as communication and aviation services is estimated at 80–90% (WTO, 2016). The largest SOEs can also be found on the Fortune Global 500 list. In 2016, a total of 110 Chinese

Tab. 5: Selected indicators of China's largest SOEs in 2016

	Revenues (mill. USD)	Profits (mill. USD)	Employees
State Grid	329,601	10,201	927,839
China National Petroleum	299,271	7,091	1,589,508
Sinopec Group	294,344	3,595	810,538

Source: Fortune, 2016

companies were on this list, rising from 106 in the previous year. Some basic indicators about China's three largest SOEs that were among the top 4 on the 2016 Fortune Global 500 list are introduced in Tab. 5.

Except for strategic sectors, the share of the output produced by China's SOEs in the industrial sector gradually declined from 26.6% in 1998 to 22.3% in 2014. So did the number of state-holding industrial enterprises in China decline from 53,489 in 2000 to 19,273 in 2015, although their assets and profits increased 4.7 times according to data published by the Chinese authorities (see Tab. 4). However, some authors state that the profitability of state companies has fallen, even as private firms have grown in strength. SOEs returns are now about half those of their non-state peers (The Economist, 2014). In reality, SOEs are divided into for-profit entities and public services entities. Their profitability appears to vary by region, size and sector. While the profits of SOEs in transportation, electronics, electric power and chemical industries have a tendency to growth, the profits of iron and steel, coal and non-ferrous metals industries continue to show losses (WTO, 2016).

During the monitored period, SOEs reforms in China, which began in the late 1970s, has continued. They included the reorganisation of SOEs through mergers and acquisitions, as well as closing down, and their corporatisation and privatisation. Corporatisation, i.e. transformation into joint-stock companies and their listing on stock exchanges contributed to the improvement of the corporate governance of China's SOEs. OECD (2015) recorded that at the end of 2011, there were 144,700 state-owned and state-holding enterprises in China, excluding financial enterprises with the total assets of RMB 85.4 trillion, an equity value of RMB 29.2 trillion, and profits of RMB 2.6 trillion. In May 2015, according to the WTO, state-owned holding enterprises listed on the Shangai and Shenzen Stock Exchanges were 1,012. This accounted for more than 68% of the total equity of all the companies listed in these two stock exchanges (WTO, 2016).

The Chinese authorities are aware of the inefficiency of SOEs, and thus, in order to make SOEs more profitable they announced the SOEs Reform Plan aimed at higher ownership diversification of SOEs in November 2013 (over the 13th FYP). The plan content defines the role of the state and market. The private sector should be a vehicle for achieving policy objectives, while SOEs should become more profit-oriented and shift to mixed ownership. In 2014, China's State Council listed 80 projects in state-dominated sectors to private investors by 2020, including transportation infrastructure, clean energy and energy projects. At the provincial level, by September 2014, over 20 provinces had announced concrete implementation programs involving the potential listing or selling off assets in up to 70% of the provincial SOEs by 2017 (Dusek et al., 2015).

However, despite all reforms, SOEs still tend to benefit from lower cost of and better access to capital than non-public-sector enterprises (WTO, 2010), i.e. domestic private enterprises (WTO, 2012). SOEs may also receive capital injections from the government if needed (WTO, 2016). Thus, the profit of SOEs is influenced more by their monopolistic market position accompanied by state support, easier access to loans and more favourable policies than their efficiency. For this reason, they are also called the "zombie corporations".

Thus, SOEs have anti-competitive effects and impede other WTO Members. As only the activities of China's SOEs are usually connected with unfair trade practices, such as subsidies or dumping, they are often the source of trade disputes in the WTO. Although China is committed to eliminate all subsidies that are defined in Article 3 of the Agreement on Subsidies and Countervailing Measures (see Section 10.3 of the Protocol of Accession), subsidising the loss-making SOEs is documented by statistics. In 2014, 2,473 companies listed in the Shanghai and the Shenzhen Stock Exchanges received government support amounting to RMB 89.421 billion. Of these companies, 154 received more than RMB 100 million in 2014; 105 of which were SOEs (WTO, 2016).

5 DISCUSSION AND CONCLUSIONS

In this paper, only three ways were explored how the Chinese central government and local governments disrupt the market environment, although many other state interventions occur in the area of tariff as well as non-tariff measures. They also occur in commercial services, including the financial system (Fojtíková and Kovářová, 2014). As only China has been the WTO Member since 2001, there is a question whether the role of the Chinese state in its mix economy (explored through state trading, price controls and state-owned enterprises) is in compliance with the WTO commitments.

The analyses that were carried out in the mentioned areas confirmed that the behaviour of the Chinese authorities after 15 years since its entrance into the WTO is in principle in compliance with the official documents, such as the Protocol of Accession and the Working Party, although some small discrepancies from the trade commitments were discovered. The exceptions from the multilateral trading rules concerning STEs and price controls, introduced in the Annexes of the Protocol of Accession, were accepted for China by all WTO Members. On the other hand, China committed to non-discrimination treatment, including national treatment (Section 3 of the Protocol of Accession). From this point of view, the activities of STEs and SOEs should have the same impact on the private domestic as well as foreign enterprises. In principle, a negative impact of the different forms of state monopoly on private entities is evident; it limits them in the export or import of products that are protected by the Chinese state.

The important fact is that SOEs also occur in other WTO states, including the most advanced ones, not only in China. However, Büge et al. (2013) analysed the share of SOEs in sales, assets and market value in selected countries and found out that the share of SOEs among the countries' top ten firms reached, for example, 11% in Germany, 48% in Norway, 59% in India, 81% in Russia, but the largest share was in China, i.e. 96%. As Lardy (2014) states, state firms do not dominate China's economy, but they are still a substantial drag on its growth. Although the Chinese government started the long-term reform of its SOEs, the main motivation for it is to improve the efficiency of SOEs rather than to open China to the world competition. The reform of SOEs, which was released by the Communist Party of China Central Committee and the State Council that prefer mixed-ownership of SOEs in China, confirms it. In addition, opening some sensitive sectors of economy to foreign investors can be forbidden or followed by other non-tariff obstacles, such as a licence system. The important point is the fact that SOEs adopt the government financial supports, although the Chinese authorities promised that all SOEs and state-invested enterprises would make purchases and sales based solely on commercial consideration and that the government would not influence, directly or indirectly, commercial decisions (Section 5.46 of the Report of Working Party). It is also the reason why China is a frequent participant of trade disputes in the WTO. Summing up, although some positive signals were recorded, such as the decline of the number of SOEs in China during the monitored period or the improvement of the corporate governance of SOEs, their influence on the economy/share in GDP is not obvious. On the contrary, SOEs are dominant in strategic sectors and their legal fixture is evident under the Anti-Monopoly Law, which allows SOEs to exercise exclusive activities in sectors considered vital for the Chinese economy.

The transparency of price controls is also debatable. Although information about state pricing is regularly published in the Pricing Catalogues by the Chinese authorities in compliance with China's commitments, the text is available only in Chinese. It can be a problem for many traders from the other WTO countries, who have to hire translators and to pay additional costs in order to get topical information about the Chinese state pricing. From this point of view, the transparency of the Chinese economy is lower. However, the contractual conditions in the WTO were not determined in a way in which China shall have to provide state pricing in one of the official languages of the WTO, i.e. English, French or Spanish. From this aspect, the persisting influence of the Chinese state on its economy or the less transparent environment in China would also be considered as the result of China's accession process to the WTO (accompanied by many approved exceptions), not only as the violation of China's trade commitments in the WTO.

The influence of the Chinese state on its economy remains evident also from state trading. The export or import of the key reserve materials, such as tobacco, chemical fertilisers and others is carried out solely by state enterprises, which is in compliance with China's Accession Protocol, but some progress in liberalisation is obvious. From the whole 20 products subject to state trading under the Accession Protocol, only eight were imported by STEs in 2015. Similarly, on the export side, in 2015, STEs exported only 12 products introduced on the list of products subject to state trading from the whole 21 products. However, while tobacco was not originally introduced in the list of products subject to state trading, the Chinese authorities consider this product as a "national interest". However, the issue should not be seen only in the number of products subject to STEs or the number of products subject to state pricing as well as the number of SOEs, but also the scale on which the Chinese state regulates its economy is important for the assessing the influence of the state on its economy. China's general problem is an unsufficiently transparent area of its activities with respect to the unwillingness of the Chinese authorities to publish data in English.

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