The National People’s Congress has adopted the country’s Tenth Five-Year Plan for National Economic and Social Development (2001-2005). The new Plan stresses that sustainable development will be the focus and that market rules will take center stage in the country’s economic activities.

Meanwhile, the negotiations for China’s accession to the WTO have reached the final stage, with the WTO Working Party on China’s Accession working on the final documents for China’s accession. WTO accession will bring about fundamental structure changes to China’s economy. These changes will lead to major economic, social and environmental impacts.

Accordingly, the Working Group on Trade and Environment this year has focused its efforts on the issue of WTO accession and the sustainability challenges which it will pose. The WGTE has undertaken two scoping studies related to WTO accession. One is on integrated environmental assessment of trade agreements and the other on trade liberalization and sustainable development in the forest and fishery sectors. These two studies aim to develop reliable information in preparation for a further full assessment of China’s WTO accession. In addition, the WGTE has continued its efforts to examine the possible role of the Clean Development Mechanism (CDM) under the Kyoto Protocol in promoting sustainable development in China’s western provinces.

The Working Group met in May 2001 in Baoquanling, Heilongjiang Province. The meeting reviewed and discussed the preliminary reports on these topics, and worked out the arrangements for recommendations to be submitted to the Council. The meeting also reviewed the draft Phase II report of the working group.
The Working Group convened its second training workshop on trade and environment in Harbin. The theme of the workshop was on China’s WTO accession: trade, agriculture and sustainable development. Topics covered by the workshop included trade and environmental issues in the WTO with the emphasis on market access and PPM, intellectual property rights and genetically modified organisms; current WTO negotiations on agriculture; structure changes in the agriculture sector from China’s WTO accession; green agriculture and green food in China; and local experience in ecological conservation in rural area of Heilongjiang.

To better define policy research priorities, the WGTE also organized a policy research design workshop for WTO accession. About 25 international and Chinese experts were invited to the meeting. The purpose of the meeting is to identify what can be said with confidence about the sustainable development implications of China’s accession to the WTO, priority policy research issues, and institutions that can undertake the research.

MAJOR ACHIEVEMENTS OF THE WGTE IN 2000-2001

The following is a brief description of major achievements of the Working Group in the 2000-2001 year:

1. **Integrated Assessment of Environmental Consequences of Trade Agreements: International Experience for China’s WTO Accession**

With world economic integration and globalization, it has been generally recognized that trade and related policies would bring about significant impacts on economy, society and the environment. Over the past few years, the technique of assessing environmental impacts of trade agreements or sustainability assessment of trade liberalization has gradually evolved, and there is a steady progression of theoretical debates and practical applications of integrated environmental assessment of trade agreements. Many countries including some developing countries and regions have undertaken such initiatives to identify the social and environmental impacts of trade liberalization. These include U.S. and Canadian assessments of the North American Free Trade Agreement, the European Community’s sustainability assessment of a new Round negotiations, an assessment of the US-Jordan free trade agreement by the U.S. Trade Representative, a UNEP draft manual on the environmental assessment of trade agreements, the Canadian framework for environmental assessment of trade agreements, a series of studies by UNEP on the environmental implications of trade liberalization in several countries, and a range of activities to explore the environmental implications of the potential Free Trade Agreement of the Americas.

Such assessments enable decision-makers to view the relationship between economy, society and the environmental from a perspective of sustainable development, and become useful tools to understand the relationship among these three, and to find out coordinated win-win-win solutions and opportunities based on the assessment.
WTO accession will bring about fundamental changes to all aspects of China’s economy, which will in turn lead to significant social and environmental impacts. It is important that China fully understands the economic impacts of WTO accession; identifies the environmental consequences of these economic changes; assesses these environmental impacts; and defines policies and measures to maximize the benefits and minimize the adverse impacts of joining the World Trade Organization.

The Working Group’s study concludes that there are several criteria for selecting priorities for assessment. These include issues directly relating to the environment, natural resources, vulnerable areas and poverty and social exclusion; issues that are significant from an environmental or social perspective; issues that contribute to an understanding of other issues of importance; and issues that are of important linkage to trade-related policies.

An integrated assessment of China’s WTO accession should focus on key areas, priority sectors or even products that closely link to the environment and are of importance to sustainable development. For example, agriculture, textile, energy, automobile, fisheries, forestry and environmental industries should be priorities areas for assessment.

Another important lesson learned from the experience in environmental and sustainability assessment of trade liberalization in developing countries is that trade liberalization is generally beneficial to the economy of developing countries. However, trade liberalization without proper environmental policy in place may indeed lead to environmental and ecological deterioration.

The study recommends:

1) An integrated environmental assessment of China's WTO accession should be undertaken. Emphasis should be placed on areas and sectors that have major environmental impacts and sustainability implications. The assessment should be jointly carried out by the department in charge of foreign trade and the department responsible for the environment. The process should have wide participation by stakeholders and the public.

2) In the long-term, environmental assessment of trade agreements and trade policies should be integrated into China's overall national legal and institutional system of strategic environmental assessment.

2. Clean Development Mechanism and the Promotion of Sustainable Development in China’s West Provinces

The WGTE undertook a study on the possible role of the Clean Development Mechanism (CDM) in promoting sustainable development in China last year. The study shows that there is considerable potential for the CDM to deliver emissions reductions in China, as well as providing an incentive for international companies to invest and transfer cleaner technologies to Chinese firms. However, China will encounter many implementation
issues and require new capacity to deal with the financial, technical, and regulatory issues related to CDM projects. The study recommends that China should start pilot CDM projects in its western areas.

The Working Group is continuing its efforts in this area. A follow-up study has been undertaken on the possible role of the CDM in promoting sustainable development in China’s west provinces. Field studies were undertaken in Sichun and Yunnan and interview were conducted with Chinese enterprises.

The study confirms that the CDM could play an important role in promoting sustainable development in implementing China’s western development strategy. As western provinces differ from each other in the level of economic development, energy consumption and other factors, the potential for applying the CDM in these provinces varies. It would be desirable to select a few priority provinces and sectors for the implementation of pilot CDM projects. The study also shows that there are two possible modes for implementing pilot CDM projects in the selected priority western provinces and sectors: the central government-led mode and the enterprise-led mode. Based on the analysis of advantages and disadvantages of these two modes, the study recommends that the central-government-led mode would be more appropriate for the implementation of pilot CDM projects at the initial stage, while the enterprise-led mode would eventually become the main mode of the CDM implementation in China in the long term.

The study emphasizes that the design of the implementation is very important to the success of CDM projects. There are five major players in the CDM implementation: foreign governments, foreign companies, the central Chinese government, local Chinese governments and Chinese firms. After carefully considering the different roles of each player and based on trip studies to Sichun and Yunnan and interviews with a number of Chinese enterprises, the study identifies several conditions for successful implementation of CDM projects. These include the baseline determination, incentive mechanisms and a sound monitoring system.

The study recommends that the central government of China should participate in the CDM earnestly and play a leading role in its implementation. Initial CDM implementation actions to be taken include: 1) setting up a center for CDM implementation; 2) identifying priority provinces and key sectors and enterprises for CDM projects; and 3) representing Chinese enterprises in negotiations with foreign governments or foreign firms for details of CDM projects. Other policy measures that should be taken include: 1) establishing a sound greenhouse gas emissions monitoring system by expanding current daily monitoring activities of conventional pollutants to include GHG emissions; 2) setting up a mechanism to identify technologies that are desirable for transfer to China through CDM projects, and priority technologies should be those related to clean energy and air pollution control; 3) creating some incentives for enterprises to participate in CDM projects; and 4) making use of the project-based baseline at the initial stage. Only after Chinese enterprises have developed the capacity to negotiate deals for technology transfer should the baseline based on a sector or multi-projects be applied.
3. **Forests and Fisheries: Trade Liberalization and Sustainable Development**

Forestry and fishery are vital sectors of the Chinese economy that have critical environmental implications. Both sectors are likely to be changed by China’s accession to the WTO. It is essential to obtain the most precise estimate of the scale and direction of these changes as a prerequisite for an integrated assessment of the likely environmental consequences that can be expected. This project seeks to develop the most reliable information possible on anticipated changes in these sectors in preparation for further evaluation, and to provide preliminary recommendations for action to be taken to minimize the negative environmental impacts of further trade liberalization.

Forestry plays a crucial role in the improvement of the environment, water and soil conservation, and biodiversity protection. Protection of China’s forest resources is critical to the sustainable development of China’s economy. Major floods occurred in the Yangtze and Yellow River in the last few years and resultant losses have made protection of forestry resources a matter of great urgency for China. China is undertaking a major program of reforestation both to ensure its future timber supply and to counteract environmental consequences of deforestation.

Since the logging ban imposed in the late1990s, China has lost access to much of the resource base that supports its traditional forest industry. The study indicates that China will be in short of timber by about 80 million to 100 million cubic meters by 2010. It is estimated that30 million cubic meters could be made up partly by wood substitutes and partly through development of plantation forests and increasing imports.

In the process of APEC trade liberalization and the negotiations of China’s WTO entry, China has committed itself to reduce trade tariff and non-tariff barriers. At present, the tariff for forest products including logs and sawn wood, etc. is very low or even 0. China’s accession to the WTO will make the system even more open to imports of forest imports. As such China’s WTO accession is conducive to attaining a balance between consumption and growth of forest resources, given the growth of forestland being a slow process. Increased imports of timber and wood products will facilitate China’s domestic efforts to protection and development of forest resources.

Meanwhile, China’s likely increased imports of timber and wood products (at least in a short-term before 2010) may raise the issue of environmental impacts on forests of countries that practice unsustainable forest logging. China needs to pay attention to environmental challenges in these exporting countries.

The study recommends that in the short-term, China should continue to improve its trade structure by importing some timber and processed wood products and exporting wood products that have competitive advantages. In the long-term, China should concentrate its efforts on the development of man-made forests and forest farms for its supply of industrial woodland on the improvement of forest quality to ensure more permanent...
domestic supplies to meet domestic demands. Meanwhile China should take the necessary measures to encourage the sustainable form of production and discourage unsustainable forms of production in exporting countries. These measures may include the support of the use of the Forest Stewardship label to encourage sustainable forest management systems.

Fisheries are also playing an increasingly important role in China’s economy. The industry has achieved marked growth in production and supply since China adopted reform and opening to the outside world in 1978. Since then, China has been the largest producer of aquatic products, accounting for 1/3 of the world’s total production. And its aquaculture industry yields 2/3 of the world’s fishery products each year, making China the only country worldwide with its annual aquacultural production exceeding its total amount of fishing. China has become the fourth largest exporter of aquatic products in the world. Its domestic per capita consumption of fishery products reaches 31.35 kilogram, much more than the world average of 20 kilogram.

Despite this remarkable success, the fishing industry faces several serious problems. Speedy growth in production and fundamental market change has turned previous shortage of supply into surplus supply. Price decrease of aquatic goods in both domestic and overseas markets as a result of oversupply has seriously affected local fisherman’s living standards and the economic situation of the industry as whole. Meanwhile, over-fishing and disorderly aquatic development have led to worsening environmental constraints, such as marine resource exhaustion due to over-fishing, heavy pollution in coastal waters, red tides, and the frequent breakout of epidemic diseases and resource degradation.

Based on the analysis of both market restraints and environmental constraints, the study concludes that China’s fishery industry should shift from its old development priority to new resources conservation and management priority. As WTO membership will provide more opportunities for export and further stimulate local fishing resources development, China needs to undertake a series of policies and measures to minimize threats to the environment while accelerating the growth of its fishing industry.

Recommendations proposed by the research team include:

1) Shifting development priority to resources conservation and management priority
   - Develop the industry plan for production (fishing and aquaculture), distribution and trade in line with the principle of sustainable development;
   - Place equal emphasis on ecological conservation as on ocean fishing development; cutting down fishing catch and frequency through quotas;
   - Strengthen water pollution control and control of epidemic diseases

2) Adopting new rules and regulations for sustainable development of the industry

3) Enhancing capacity and providing scientific support to the industry’s decision-making process

4) Strengthening infrastructures and establish a supporting system
5) Improving quality of aquatic products
6) Building up the social security network and strengthening human resources development

2001 RECOMMENDATIONS TO THE COUNCIL

**Recommendation 1:** Assess the environmental implications of China’s WTO accession. Based upon this assessment, coordinate trade and environmental policy to maximize trade benefits and minimize negative environmental impacts of trade liberalization

The development of foreign trade and its impacts on the environment in China shows that trade development is closely related to environmental protection and sustainable development. The integration and mutual reinforcement of trade policies and environmental policies require close and continuing attention by Chinese policy makers.

China’s WTO accession will bring about fundamental structure changes to all aspects of China’s economy and will in turn lead to significant economic, social and environmental consequences. It is important that an integrated assessment of environmental consequences of WTO accession be undertaken, which will help identify major environmental consequences of economic changes, and can be used by Chinese policymakers to define policies and measures to maximize benefits and minimize adverse impacts of joining the world trade system.

There is a strong need to integrate environmental concerns in relevant trade policies to address environmental challenges both at home and abroad. These include the formulation of national strategies for sustainable foreign trade and economic cooperation; the adjustment of China’s national investment policies, import and export policies for goods and services; strengthening of sanitary and phytosanitary measures and other technical standards and regulations; and the establishment of a transparent publication system for trade laws and regulations. This requires close cooperation among relevant departments responsible for trade, environmental, technical standards and others. It is desirable to establish an advisory committee, under the auspice of MOFTEC, comprised of representatives from all relevant departments. This committee should meet regularly to advise on appropriate policies for China to address issues related to trade and environment.

China needs to develop a forward and positive position and play an active role in the trade and environment debate in the WTO. China may wish to bring relevant governmental officials and academic professionals together to develop a set of principles to help address trade and environmental issues.

**Recommendation 2:** Make use of Clean Development Mechanism to promote sustainable development in China’s west provinces
The Clean Development Mechanism under the Kyoto Protocol could play an important role in promoting sustainable development in implementing China’s western development strategy. As the result of the negotiations at the resumed session of the Sixth Conference of the Parties to the UNFCCC in Bonn in July this year, the rules for the CDM have been largely set. The Kyoto Protocol will probably enter into force next year. China should act quickly to take advantage of the CDM in promoting its sustainable development.

Early participation in the CDM would secure substantial potential foreign investment and advanced technology transfer to China’s Western regions. In approving CDM projects, the government may wish to give priority to western provinces. Initial CDM implementation actions to be taken include: 1) setting up a center for CDM implementation; 2) identifying priority provinces and key sectors and enterprises for CDM projects; and 3) representing Chinese enterprises in the negotiations with foreign governments or foreign firms for details of CDM projects. Other policy measures that should be taken include: 1) establishing a sound greenhouse gas (GHG) emissions monitoring system by expanding current daily monitoring activities of conventional pollutants to include GHG emissions; 2) setting up a mechanism to identify technology that are desirable for transfer to China through CDM projects, and priority technologies should be those related to clean energy and air pollution control; 3) creating some incentives for enterprises to participate in CDM projects; and 4) making use of the project-based baseline at the initial stage. Only after Chinese enterprises have developed the capacity to negotiate deals for technology transfer should the baseline based on a sector or multi-projects be applied.

**Recommendation 3: Address trade and sustainability in the forest and fishery sectors**

Forestry plays a crucial role in the improvement of the environment, water and soil conservation, and biodiversity protection. Protection of China’s forest resources is critical to the sustainable development of China’s economy. China is undertaking a major program of reforestation both to ensure its future timber supply and to counteract environmental consequences of deforestation. China’s accession to the WTO will make its trade system more open to imports of forest products, be conducive to attaining a balance between consumption and growth of forest resources, and facilitate China’s domestic efforts to protection and development of forest resources. In the short-term, China should adopt an open trade strategy to substitute its export-oriented strategy by importing forest resources through multiple channels so as to restructure and optimize the forest industry and utilize the exiting production capacities. A desirable trade structure in the near future should be to encourage importing timber and certain processed wood products and exporting wood products that China has competitive advantage. In the long-term, China should concentrate its efforts on the development of man-made forests and forest farms for its supply of industrial wood and on the improvement of forest quality to ensure more permanent domestic supplies to meet domestic demands. Meanwhile, China
should take necessary measures to encourage the sustainable form of forest production and discourage the unsustainable form of forest production in exporting countries. These measures may include the support of the use of the Forest Stewardship label to encourage sustainable forest management systems.

Fisheries are also playing an increasingly important role in China’s economy. Speedy growth in production and fundamental market change in the fishery industry over the past two decades has turned previous shortage of supply into surplus supply. Meanwhile, over-fishing and disorderly aquatic development have led to worsening environmental constraints, such as marine resources exhaustion due to over-fishing, heavy pollution in coastal waters, red tides, and the frequent breakout of epidemic diseases and resources degradation. As WTO membership will provide more opportunities for export and further stimulate local fishing resources development, China needs to undertake a series policies and measures to minimize threats to the environment while accelerating the growth of its fishing industry. The government should shift its priority of fishery resources development to fishery resource conservation and management. Concrete policy measures to be taken include: developing the industry plan for production (fishing and aquaculture), distribution and trade in line with the principle of sustainable development; placing equal emphasis on ecological conservation as on marine fishing development by cutting down fishing catch and frequency through quotas; strengthening water pollution control and control of epidemic diseases; adopting new rules and regulations for sustainable development of the industry; enhancing capacity and providing scientific support to the industry’s decision-making process; and exploring opportunities for expanding exports of fishery and aquacultural products produced by the sustainable form of production.