China's Demand for Market Economy Status

Why in news?

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The United States recently submitted a document to the WTO, stating its opposition to granting China the market economy status.

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What is the market economy status?

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- A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the market.
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- The aggregate interactions of a country's individual citizens and businesses operate behind the key economic decisions.
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- This is the opposite of a centrally planned economy, in which government decisions drive most aspects of a country's economic activity.
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What does China aim for?

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- Central to China’s quest is the acknowledgement from trading partners of its market economy status.
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- In other words, a recognition that its domestic prices are determined by open competition rather than by the government.
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- This will help China counter the attacks by importer countries of its unfair dumping.
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- Conversely, as long as it is treated as a non-market economy, China has to ascertain the value of goods with reference to prices in a third country.

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- This is for the trading countries to ensure that the domestic firms did not gain an unfair trade advantage.
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Is China's demand valid?

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- **Supporting claims** - The provisions in China’s Protocol on the Accession to the WTO 2001 has been a subject of controversy.
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- China insists that as per the provisions in the Protocol, its upgrade as a market economy was automatic on the completion of 15 years of its WTO membership in 2016.
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- Several nations have endorsed China’s position in return for bilateral cooperation in trade and investments in infrastructure projects.
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- Even a WTO appellate body’s 2011 ruling highlights that as per the protocol, China cannot continue to be treated differently by other member states for an indefinite period.
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- **Opposing claims** - The alternative interpretation draws upon the sub-clauses of the protocol.
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- It specifies the conditions when importers may take recourse to a different methodology to impose anti-dumping tariffs.
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- Accordingly, onus is on Chinese firms to prove that they were operating under conditions of a competitive market economy.
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- If they fail to do so, the importing states would be entitled to invoke rules applicable to a non-market economy while probing firms for dumping.
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- Another clause allows for the status of market economy to be decided for specific industry sectors, rather than the entire economy.
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Why is the US opposing?

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- Excessive Chinese imports flooding domestic markets is the root cause for Western resistance to accord China the market economy status.
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- Countries that are opposing Chain's claims say that the use of state subsidies in China distorts market prices.
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- And is also consequently causing job losses in the manufacturing sector.
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- If China is granted the coveted status, it would be hard for the US to defend its anti-dumping rulings against Chinese firms at WTO.
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- There is also a concern that China’s economic liberalization seemed to have slowed or reversed, with the role of the state increasing.
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- Evidently, the following are being witnessed -
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i. backtracking on some aspects of the financial areas
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ii. clamping down capital outflows
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iii. monitoring investments of corporations
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iv. placing more party officials in the nominally private sector
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v. state-owned enterprises playing a leading role in the economy
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Source: The Hindu

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