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Maintain China's "Non-Market Economy" Status

China is aggressively lobbying for a grossly undeserved and dangerous trade concession from the United States, asking the Obama Administration to grant it "market economy status" (MES). Doing so would severely undermine America's trade remedy laws, which help to level the playing field for U.S. companies and workers harmed by unfairly traded Chinese goods. **The Obama administration, and the next administration, should continue to designate China a "non-market economy" (NME) until market forces, and not the Communist Party, direct the Chinese economy.**

Why is NME status applied to China?

China's 2001 entry into the World Trade Organization (WTO) eased access for its exports to global markets. However, because China's economy was (and is still) directed by the government, rather than by free market forces, China agreed that the U.S. and other nations could automatically designate them as an NME for the first 15 years as a condition of WTO membership. This was done to ensure there would be no challenges to existing U.S. laws that safeguard U.S. companies and workers from unfair trade.

Why does China's NME status matter?

An NME designation allows the United States to more effectively respond to unfair trade practices of a state-run economy (like China) by ensuring that its domestic trade remedy laws can be fully enforced. Specifically, the NME designation ensures that true market costs are used when U.S. antidumping law is applied to level the playing field against goods being imported below market prices that cause harm to U.S. companies and workers.

How does NME status work?

When applying U.S antidumping law, the Department of Commerce (DOC) must conduct an investigation to determine "margins" of dumping – or how far below a fair market price goods are being priced at when entering the U.S. But, because a "market price" does not exist in a state-run economy like China's, where input costs are skewed by subsidies and state support, the NME designation allows DOC to calculate dumping margins based on a comparison of costs of inputs in a market economy country at a similar level of economic development. By substituting such data from a third-party market, DOC can more-accurately determine the extent to which China is illegally dumping goods and thus provide more appropriate, and typically stronger, remedies.

What would be the effect of granting China "market economy status"?

Granting China MES would strip DOC of these tools and severely limit the U.S. response to trade violations that undermine our competitiveness and endanger American jobs. Rather than calculating margins based on a market economy, DOC would be required to use input costs in China, which are often dramatically masked by subsidies and unfair government support. This would affect any new or existing antidumping cases and would leave American workers immediately exposed to a flood of unfairly priced, dumped Chinese imports.

When is a decision being made?

China is arguing that a provision in its WTO accession agreement requires all WTO members to grant it MES starting in December 2016. This interpretation, however, is incorrect. In December of this year, a test of six very specific criteria in existing U.S. law will be applied to determine China's status. It is clear that the Chinese economy is still significantly influenced by non-market, i.e. government, forces and that China fails to meet the standards necessary for MES designation.

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Is China deserving of MES?

When China's entry into the WTO was negotiated, proponents of China's entry argued that increased exposure to American values and business practices would lead China to transition away from its state-run economy to a system that adopts the principles of our own free market economy. But, fast-forward to 2016, and there is little credible evidence that China has made any progress. In fact, many observers believe that China is sliding backwards on many of the reforms it has said it wants to institute.

- In 2011, there were over 144,000 state-controlled or owned entities (SOE). SOEs contribute 40% of China's GDP, and with indirectly controlled and local government-run entities included, this figure climbs to 50%. 77 of China's 84 Fortune Magazine's Global 500 companies are state-run.[1]
- China heavily subsidizes its industries to shield firms from market forces: the auto parts industry received \$28 billion from 2001-2011 with \$10.9 billion more expected by 2020, paper received \$33 billion from 2002-2009[2] and steel netted \$27.1 billion from 2000-2007.[3]
- Despite flagging steel demand, China's "market" did not adjust by lowering production, instead dumping steel in world markets as their steel exports surged 20% from 2014 to 2015. China is responsible for up to 425 million metric tons (mmt) of the 700 mmt of global overcapacity, likely due to heavy involvement of the Communist regime. 9 of the 10 largest Chinese steel producers are state controlled, accounting for over 300.9 mmt's of production.[4]
- China is responsible for half of all global IP theft from U.S. companies, totaling \$150 billion.
- The Chinese government regularly manipulates its currency, preventing its value from being determined by the market. As recently as April 2015, this policy led the U.S. Department of Treasury to determine the Renminbi was "significantly undervalued."[5]

The DOC must find that China meets six specific criteria under U.S. law to grant MES. They are:

1. Is China's currency convertible into the currency of other countries? ***No***.
2. Are wages of Chinese workers determined by free bargaining between labor and management? ***No***.
3. Are foreign companies or joint ventures free to make investments in the Chinese market? ***No***.
4. Is China's economy free of government ownership and/or control over the means of production? ***No***.
5. Is China's economy free of government control over the allocation of resources and price and output decisions of companies? ***No***.
6. Does China operate on the global trade stage in a transparent manner? ***No***.

What outcome is best for American workers and U.S. companies?

It is essential to domestic producers and American workers that China's NME status remain unchanged. If MES is granted, U.S. companies and workers would lose their ability to level the playing field against unfairly traded imports. The result will be more Chinese imports and potentially massive damage to large parts of the U.S. economy in manufacturing and other sectors. Our economic and national security would be severely damaged.

Maintaining China's NME status does not preclude the U.S. government from revisiting this issue should China decide to truly commit to market principles and international trade laws. Other countries may choose to grant MES because of political factors, but the substantive test of U.S. law is clear. Until the Chinese economy is guided by market forces, and not its own government, it is critical to U.S. competitiveness that our trade remedy laws used to level the playing field remain strong and strictly enforced. ■

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[1] U.S. Congressional Research Service, *China-U.S. Trade Issues*. (RL33536 - Dec. 15, 2015) by Wayne Morrison.
[2] Perverse Advantage. The Economist, April 27, 2013.
[3] Information Technology and Innovation Foundation, *False Promises: The Yawning Gap Between China's WTO Commitments and Practices*, Sept. 2015, by Stephen Ezell and Robert Atkinson
[4] Alliance for American Manufacturing, *Support America's Steel Industry*. Additional citations can be furnished upon request
[5] U.S. Congressional Research Service, *China-U.S. Trade Issues*. (RL33536 - Dec. 15, 2015) by Wayne Morrison