

The 15th year of accession into WTO

-- The Characteristics and Trend of China's Trade Friction after China Receive the Status of Market Economy

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Abstract

"Market economy status" is the last key issue left by China's accession to WTO. In the first 15 years of China's accession to WTO, the "non-Market economy" clause became the basis and excuse for the other WTO members, especially developed countries such as the United States and Europe, to impose unfair treatment on China's export enterprises and products. With the automatic termination of the "non-Market economy" clause at the end of 2016, the international trade frictions of China will inevitably present new characteristics and trends. Based on the present situation of China's foreign trade friction in recent years, this paper analyzes and predicts its existing characteristics and trends, then puts forward corresponding strategies.

Keywords

Market economy status; Trade friction; Characteristics; Trends; Strategies.

1. INTRODUCTION

Since December 11, 2001, China formally joined the World Trade Organization (WTO), marking that China's industry has entered a new stage of opening up to the outside world. As of 2016, during the fifteen years of China's accession to the WTO, China's international trade has developed rapidly and has made great contributions to China's economic development. However, the establishment of greatness will inevitably attract the wind. With the gradual deepening of reform and opening up, China's economy continues to develop at a high speed. The series of titles such as the world's second largest economic power and the world's largest foreign trade power have brought to China. It is not only the pride and glory of self-reliance and hard work, but also the ever-increasing foreign trade frictions. In the first 15 years of joining the WTO, developed countries such as Europe and the United States frequently used China's "non-market economy status" to take unfair trade remedies against China, which made Chinese companies often at a disadvantage in international trade. With the automatic termination of the "non-market economy" clause at the end of 2016, China's foreign trade frictions will inevitably show new characteristics and trends. How to treat and resolve the United States, the European Union and other developed countries' unrecognition of China's "market economy status" as always and the rise of trade protectionism in international trade has become an urgent issue to pay attention and in-depth research for the Chinese government, enterprises and academia.

2. THE CHARACTERISTICS AND TRENDS OF INTERNATIONAL TRADE FRICTIONS AFTER CHINA GAINED "MARKET ECONOMY STATUS"

It has not been long since China's "non-market economy status" clause in the WTO was automatically lifted, and the issue of the recognition of China's "market economy status" by

member states will continue to exist for a long time to come. However, looking at the trade frictions China has encountered in recent years, we can find that some new trade friction characteristics and development trends are forming and appearing.

2.1. The Number and Intensity of China's Foreign Trade Friction Remain High

In 2004, China's foreign trade volume exceeded US\$1 trillion, and in 2007 it exceeded US\$2 trillion. By 2017, China has been the world's largest exporter and second largest importer for many years [1]. At present, China's main trading partners are still the European Union, the United States and Southeast Asian countries. However, from the perspective of China's foreign trade development in recent years, China's bilateral trade with a large number of emerging developing countries is also growing significantly. It is not surprising that China's large foreign trade volume and its strong growth momentum will cause a lot of trade frictions. However, since China's accession to the WTO, the frequency of China's foreign trade frictions, the amount of money involved, and the speed of outbreaks were unexpected. Take the trade friction between China and the United States as an example. Since China's accession to the WTO, the economic and trade relations between China and the United States have developed rapidly. At the same time, the industries involved in the trade friction between the two countries are also expanding rapidly, and the number of disputes and the amount of money involved are constantly escalating. On the issue of whether to recognize China's market economy status, the United States has always adopted a tough attitude that refuses to recognize it. "Conditional market economy treatment" is a measure taken by the United States for export products of China in recent years. It requires that only if China meets the market economy status determination standards stipulated by the US domestic law, can China apply its domestic production costs to determine the dumping margin of its export products. In one word, the United States is unwilling to easily recognize China's market economy status out of consideration of its domestic political and economic interests. In recent years, as China's trade surplus with the United States has continued to increase, the United States has listed China as the main target of anti-dumping investigations. At the same time, the countervailing investigations conducted by the United States against China are increasing year by year, and the "dual anti-dumping" investigation has become the main measure that the United States has frequently attacked China's export enterprises and products in recent years. In addition, with the increase in the number of Chinese knowledge-intensive products exported to the United States, in order to protect their own intellectual property rights, American companies have begun to use Section 337 investigations as legal basis more and more frequently to launch unfair commercial competition with Chinese export companies. The 337 investigation is becoming another trade barrier between China and the United States [2].

From the status quo of trade frictions between China and the United States, we can know that even after the termination of China's "non-market economy status" clauses, trade frictions between China and its major trading partners will continue to erupt in large numbers. The number of frictions, the intensity of measures, and the amount of money involved will remain high. China's foreign trade will encounter an unprecedented severe situation.

2.2. China's Foreign Trade Frictions Are Dominated by Anti-Dumping and Countervailing, While Technical and Green Trade Barriers Have Increased

The current trade frictions China faces are still dominated by traditional trade remedy measures under WTO rules such as anti-dumping and anti-subsidy investigations. With the rapid development of China's economy, industrial upgrading and technological innovation have entered the fast lane, China's industrial structure has been significantly improved, and the competitiveness of commodity exports has been unprecedentedly strong. This has undoubtedly brought a great impact on the industrial development of the old economic powers such as

Europe and the United States, forcing them to increase tariffs or anti-dumping and countervailing investigations to curb the export competitiveness of Chinese goods for the benefit of their own enterprises. If American and European countries recognize China's market economy status, tariffs on Chinese exports will be greatly reduced, which will undoubtedly make Chinese products more competitive in the European and American markets. As a result, local European and American companies will be greatly at a disadvantage in the face of competition with similar products from China. This is also the main reason why Europe and the United States refuse to grant China "market economy status" at the expense of the WTO's principles of fair trade.

Since the United States and the European Union have consistently disapproved China's "market economy status" and explicitly refused to grant China market economy status at the end of 2017, even if China's "non-market economy status" clause in the WTO has automatically expired, the anti-dumping investigations China faces will continue to exist in large numbers. But on the other hand, China's market economy status will not cease to exist because of the refusal of other countries to recognize it. After all, the improvement of China's marketization is a fact. Therefore, anti-subsidy investigations will undoubtedly gradually occupy a greater position in China's future foreign trade frictions. At the same time, traditional trade barriers such as tariffs, quotas, and licenses will gradually weaken, and will be replaced by more covert technical trade barriers that are developing rapidly. These technical barriers cover almost every field and link of international trade, including primary products, intermediate products and finished products in industries such as agricultural products, food, mechanical and electrical products, textiles and garments, information industry, home appliances and chemical and pharmaceutical industries, running through all the links of processing, packaging, transportation and storage. In terms of green trade barriers, the world today is facing unprecedentedly severe environmental and climate issues. Countries around the world are paying more and more attention to environmental protection and climate change issues. While requiring Chinese companies to undertake mandatory emission reduction obligations, developed countries also set environmental protection standards for China's export products by imposing carbon tariffs and establishing "carbon labels" and many other trade restrictive measures [3].

In short, as the "non-market economy" clause is no longer directly applicable to China, other WTO member states no longer have the same great discretion as before in determining whether Chinese products constitute dumping. Therefore, China's trading partner countries will focus more on launching countervailing investigations against China, and more frequently use technical and green trade barriers to restrict China's export products.

2.3. China's Foreign Trade Frictions Are Dominated by Traditional Manufacturing, and It Has Begun to Touch Some Emerging Industries

After 2016, the trade disputes between China and its major trading countries are mainly concentrated on the industrial primary products in the manufacturing sector and the raw materials for the production of related products. The trade conflicts encountered by the steel manufacturing industry are more clearly reflect this feature. In 2010, China's manufacturing output value surpassed that of the United States for the first time, ranking first in the world's manufacturing industry [4]. However, it is mainly concentrated on the production of middle and low-end products. The primary processing capacity is surplus, the deep processing capacity is insufficient, the high value-added products are less, and the foreign trade exports win by volume are still the problems that urgently need to face and solve by Chinese manufacturing industries. Excessive dependence on the export of labor-intensive products will create a potential crisis in China's economic structure, and it is also one of the main reasons why China's export products encounter a lot of trade friction. The current global economy is still in a slow recovery stage after the financial crisis, growth momentum is insufficient, economic globalization has

encountered twists and turns, and trade protectionism prevails among countries. China's major trading partners such as the United States, the European Union, and India are bound to continue to put pressure on China's manufacturing industry to achieve the purpose of protecting and rejuvenating their own manufacturing industries. Although the reputation of "Made in China" is well-known, it cannot be the only magic weapon for China's foreign trade achievements. Only by adjusting and improving China's economic structure as soon as possible and changing "Made in China" to "Created in China" can the deep-seated problems in China's economic structure be reversed, and the number and breadth of China's foreign trade disputes can be substantially alleviated.

2.4. Trade Frictions Between China and Emerging Developing Countries Have Begun to Increase

On the one hand, the rise of a large number of emerging developing countries and the ensuing huge market demand have played a positive role in promoting the development of China's export trade, but on the other hand, these developing countries also have abundant and cheap labor resources and the production capacity of low-end products, so the homogeneity and competitiveness of its domestic products and Chinese products will inevitably bring a lot of obstacles to the export of Chinese products. In addition, these emerging countries are currently in a stage of rapid economic growth, while China's economic industry has basically taken shape. Compared with these emerging developing countries, China's production capacity, technological level, and technological innovation capabilities have considerable advantages [5]. The corresponding result is that China is mostly in a state of surplus in bilateral trade with these developing countries. Therefore, many emerging developing countries regard China as their strong competitor and frequently have bilateral trade conflicts with China.

3. ANALYSIS OF CHINA'S STRATEGIES TO DEAL WITH TRADE FRICTIONS AFTER OBTAINING "MARKET ECONOMY STATUS"

3.1. Actively Promote the Diversification of Trading Partners

At present, China's foreign trade frictions continue to erupt in large numbers. One of the main reasons for the high number of frictions, the intensity of measures, and the amount of money involved is that China's export trade markets are mainly concentrated in developed countries and regions. Export dependence often makes Chinese products difficult to obtain fully guarantee of export safety. Therefore, in order to reduce the number of frictions in China's foreign trade and the amount of money involved, so as to achieve the stable development of China's export trade, it is necessary to actively promote the diversification of China's trading partners and increase the penetration of China's export products into emerging markets. For example, the establishment and development of the Asia-Pacific Free Trade Area and the promotion of trade exchanges between China and ASEAN countries are all measures that can effectively diversify China's foreign trade risks, reduce foreign trade frictions, and promote the stable development of China's economy. In general, in order to realize the diversification of China's trading partners, we should deepen the traditional markets such as the United States, Europe, and Japan; expand the Russian and Eastern European markets; stabilize the Southeast Asian market; and strengthen economic and trade cooperation with emerging developing countries such as Africa and Latin America [6].

3.2. Avoid anti-dumping Through Foreign Direct Investment, and Rationally Regulate Domestic Subsidy Policies

Although China's "non-market economy status" clause in the WTO has been automatically abolished, for a long period in the future, the major trading countries will continue to have a large number of anti-dumping measures against China out of consideration of their own

development interests, and the number of anti-subsidy investigations against China will also undoubtedly increase year by year. In response to this trend, on the one hand, under the premise of comprehensive consideration of location selection, factor endowments and investment methods, China can circumvent anti-dumping barriers through foreign direct investment, investing in countries recognized as having market economy status by the United States and Europe. By setting up factories and exporting from these countries, we will be able to reduce the risk of random anti-dumping investigations by the importing country. This move is also conducive to the deepening of China's opening-up policy, expanding the international market for Chinese exports, and enhancing the international competitiveness of Chinese products. On the other hand, China needs to reasonably regulate its current domestic export subsidy policies for certain products in accordance with relevant WTO regulations. Over the years, most of the subsidies that China has provided to related enterprises and industries to encourage or increase the export of certain products are prohibited subsidies stipulated by the WTO. This is also a sufficient reason for foreign countries to initiate countervailing investigations on Chinese exports. Therefore, in the future export trade, China needs to gradually reduce the role of the government in subsidies, strive to limit or eliminate prohibitive subsidies, strictly control the number of appealable subsidies, and increase the use of non-appealable subsidies such as scientific research, poverty alleviation, environmental protection, etc [7]. In addition, various industry associations should give full play to their information advantages and cooperate with the government and enterprises to establish a countervailing early warning mechanism to help export companies respond more actively and effectively to foreign countervailing investigations.

3.3. Adjust and Improve China's Economic Structure As Soon As Possible

Traditional manufacturing is the main area where China's foreign trade frictions are currently occurring. For a long time, China has vigorously developed its manufacturing industry with its abundant resource endowments and cheap labor. The export of traditional manufacturing products has accounted for a major share of China's trade exports. However, as China's resource and labor cost advantages are no longer significant, global economic growth is insufficient, and trade protectionism prevails, adjusting and transforming the economic structure as soon as possible has become the only way for China to reduce trade frictions and promote the stable development of foreign trade. China must attach great importance to the benefits of scientific and technological progress and innovation to the adjustment of economic structure and the important impact on the development of international trade. At present, countries around the world are stepping up to seize the commanding heights of the economy and technology, and regard the R&D and manufacturing of technology-intensive products and industrial revitalization as important goals of their sustained economic development. In order to promote the comprehensive, coordinated and sustainable development of the Chinese economy for a longer period in the future, it is necessary to build an innovative country, strive to improve the level of science and technology, and rely on major technological breakthroughs and innovations to adjust and improve the economic structure, so as to provide a new engine for China's economic growth. Specifically, we must focus on the new energy industry, information network industry, new materials and intelligent green manufacturing systems, bio-medicine and other high-tech fields that have comparative advantages and room for development, accelerate the training of professional talents, and quickly occupy the commanding heights of international industry competition. So as to achieve the purpose of the transformation of China's export products from labor-intensive to technology-intensive [8]. At the same time, the transformation of China's economic structure will also help to improve the trade relations between China and emerging developing countries that also have abundant and cheap labor resources and the production capacity of low-end products. China can promote the steady development of foreign trade with a large number of emerging developing countries by

reducing trade frictions caused by the homogeneity and competitiveness of its export products and those of emerging developing countries.

3.4. Actively Strengthen Bilateral Negotiations and Consultations, and Lodge A Complaint with The WTO Dispute Settlement Body When Necessary

In a short period, out of consideration of their own domestic political and economic interests, some developed countries such as the United States, the European Union and so on will never easily recognize China's "market economy status". This behavior is also likely to hinder some other WTO member states' recognition of China's "Market Economy Status". In response to this issue, the Chinese government must conduct active negotiations and consultations with member states as soon as possible, and strive to obtain official recognition of China's market economy status from trading countries within the framework of the existing regional cooperation mechanism, so that they can publicly recognize China's market economy status, thus forming an international demonstration and mutual influence effect. At the same time, China can appropriately take the recognition China's market economy status as a prerequisite for bilateral cooperation, and try to reverse China's "non-market economy status" in some countries, and properly fill the loopholes in the rules.

In addition, the WTO, as the main platform for formulating global trade rules and resolving international trade disputes, provides for faster dispute settlement procedures and special legal assistance for developing countries. Therefore, if some member states still frequently apply the "non-market economy status" clause to China after the automatic termination of China's "non-market economy status" clause, the most direct and effective way for China to resolve this is to lodge a complaint with the WTO Dispute Settlement Body and adopt tough sanctions against the opposing country. At the same time, when Chinese export companies encounter foreign anti-dumping investigations, they need to actively defend themselves and prove that their production and operations meet the conditions of market economy [9-10].

4. CONCLUSION

The termination of China's "non-market economy status" clause in the WTO is a good start for Chinese enterprises and their foreign trade development. After that, Chinese export companies will be able to occupy a more advantageous position in foreign trade, especially in the process of settling trade disputes, they will be able to better grasp the initiative and respond more effectively to some anti-dumping investigations initiated by other countries against China. Of course, it will take some time to fully obtain the recognition of China's market economy status by WTO members, and it will also require the Chinese government to conduct more in-depth negotiations and consultations with WTO members. The improvement of the global trade environment is a very long and tortuous process. The reversal of China from a "non-market economy status" to a "market economy status" is not a "one day effort", but a comprehensive result of long-term market-oriented reforms. It requires the full cooperation and continuous efforts of Chinese government and enterprises.

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