



U.S. Mission to International
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Ambassador Shea: China's Trade-Disruptive Economic Model and Implications for the WTO

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"As Delivered"

VIEWS ON CHINA'S TRADE-DISRUPTIVE ECONOMIC MODEL AND IMPLICATIONS FOR THE WTO

- Before I deliver my prepared remarks, let me offer an introductory observation.
- Some have asked why we have placed this item on today's agenda. The answer is simple: this discussion is long overdue. Few issues are as critical to the future viability of this institution as the unique economic system embraced by China.
- I know my colleague, Ambassador Zhang, will have something to say in response to my remarks. I welcome his comments. But rest assured, our goal is not to upset or provoke but to shed light and perhaps even educate. We are confident that through constructive dialogue and analysis the truth will eventually reveal itself.

INTRODUCTION

- Chairman, one of the most critical issues facing the WTO membership is China's failure to fully embrace the open, market-oriented policies on which this institution is founded.
- Despite China's repeated portrayal of itself as a staunch defender of free trade and the global trading system, China is in fact the most protectionist, mercantilist economy in the world. Contrary to Members' expectations, China has not been moving toward a fuller embrace of market-based

policies and practices since it joined the WTO in 2001. In fact, the opposite is true. The state's role in China's economy has been increasing.

- If China's economy were small, the problems posed by China's state-led, mercantilist approach to trade and investment would not have as serious repercussions for China's trading partners and the WTO itself. But China's economy is not small. Over the past 17 years, China's economy, and China's role in the global trading system, have grown dramatically. China is now one of the WTO's largest traders.
- China's size magnifies the harm caused by its state-led, mercantilist approach to trade and investment, and this harm is growing every day and can no longer be tolerated.

CHINA'S TRADE-DISRUPTIVE ECONOMIC MODEL

- Chairman, in the paper that we submitted for today's meeting, we focus on China's economic model, which has proven to be particularly trade-disruptive.
- The Chinese government and the Chinese Communist Party have a constitutional mandate, echoed in China's broader legal framework, to develop a "socialist market economy." To this end, the government and the Communist Party continue to exercise control directly and indirectly over the allocation of resources through instruments such as government ownership and control of key economic actors and government directives. As a result, the means of production are not sufficiently allocated or priced according to market principles. Instead, the government and the Communist Party continue to control or otherwise influence the price of key factors of production, including land, labor, energy and capital.
- Just as when China acceded to the WTO in 2001, state-owned enterprises continue to play an outsized role in China's economy. Moreover, the government and the Communist Party have for decades exercised control over these enterprises through the appointment of key executives and the provision of preferential access to land, energy and capital and other important inputs.
- Recently, the Communist Party also has taken steps to increase the strength and presence of the Communist Party within all business organizations in China. These efforts are so pervasive that the Delegations of Germany Industry and Commerce released a public statement in November 2017 pushing back against attempts by the Communist Party "to strengthen their influence in wholly foreign-owned German companies in China."
- China's system also treats law as an instrument of the state, in the sense that it is used to facilitate the government's industrial policy goals and to secure discrete economic outcomes. In addition, key

legal institutions, such as the courts, are structured to respond to the Communist Party's direction. This type of system makes it very difficult for enterprises to act independently of approved industrial policies on a systemic or consistent basis.

- China's leading companies attest to the fundamental non-market nature of China's economy today. For example, the technology firm Alibaba has stated that "a substantial portion of productive assets in China is still owned by the government," "the PRC government continues to play a significant role in regulating industry development by imposing industrial policies" and "the PRC government also exercises significant control over China's economic growth by allocating resources."
- China is currently in its 13th five-year planning cycle, a hallmark of a planned economy that has become more, not less, salient since China joined the WTO. Various institutions participate in formulation and execution of industrial policy plans, including central government agencies with legislative and regulatory authority, thousands of local government authorities, various organs of the Communist Party and Chinese enterprises.
- A key focus of China's industrial policies is technology development, which China views as integral to its economic development. Currently, China is seeking to attain domestic market dominance and global leadership in a wide range of advanced technologies. In pursuit of this overarching objective, China has issued a large number of industrial policies, including, for example, the "Made in China 2025" industrial plan.
- Among other things, China's industrial policies deploy massive market-distorting subsidies and provide other forms of financial support for targeted domestic industries. All too often, severe and persistent excess capacity results. Excess capacity hurts the global economy not only through direct exports from China, but also because lower global prices and a glut of supply make it difficult for even the most competitive producers to remain viable, as we have seen in the steel, aluminum and solar sectors.
- Of course, subsidization is by no means the only tool that China uses to support its domestic industries. As an example, as Members likely are aware, the United States issued a detailed factual report in March of this year that illustrates how China has pursued a variety of unreasonable policies and practices that harm U.S. intellectual property rights, innovation and technology development. These types of policies and practices injure not only the United States, of course, but also other WTO Members.
- Meanwhile, China continues to benefit tremendously from its WTO membership. China now is the world's largest automotive market, the world's largest oil importer, the world's largest steel manufacturer and the world's largest meat consumer, and it has six megacities with over 10 million

manufacturer and the world's largest meat consumer, and it has six megacities with over 10 million residents. China also hosts the largest number of super-computers in the world. While China undoubtedly struggles with poverty-related challenges in some areas of its economy, the claim that it is a developing country on par with many others, and therefore should be exempt from contributing to progressive liberalization of global trade rules, is simply not sustainable when measured against numerous indicators of China's rapid development and accumulation of wealth.

- Since joining the WTO, China has repeatedly signaled that it is pursuing economic reform. Unfortunately, China's use of the term "reform" differs from the type of reform that a country would be pursuing if it were embracing market-oriented principles. For China, economic reform means perfecting the government's and the Communist Party's management of the economy and strengthening the state sector, particularly state-owned enterprises. As long as China remains on this path, the implications for this organization are decidedly negative.

CHINA'S RESPONSE

- Chairman, China's basic response to criticisms about its trade-disruptive economic model is to assert that China strictly adheres to its WTO obligations. That's the thrust of its recent white paper, "China and the World Trade Organization," which China has handed out for today's meeting. China holds itself out as a "model" for other WTO Members to emulate and asserts that it "firmly observes and upholds the WTO rules, and supports the multilateral trading system that is open, transparent, inclusive and non-discriminatory."
- China's portrayal of itself is not accurate, of course, as many of us know.
- China's white paper, which is 22 pages long, provides few details about the actual policies and practices that China pursues and does not discuss the many problems that other Members have identified.
- The United States, for example, has produced a 148-page report that catalogues in great detail the numerous problematic trade and investment policies and practices that China pursues. The United States submitted this report, the "2017 USTR Report to Congress on China's WTO Compliance," in connection with today's meeting. If Members want to truly understand the unique problem that China poses for this institution, I would recommend reading that report, along with our paper on China's economic model.
- What will become obvious is the unusually large number of serious concerns about China's trade and investment regime. In so many cases, these serious concerns arise because the Chinese government, or a Chinese government official, has intervened in the market. Unfortunately, that's

what can be expected when a WTO Member pursues a state-led, mercantilist approach to trade and investment.

- China often describes its approach as “win-win.” In fact, it uses the term “win-win” eight times in its 22-page white paper. But that’s not accurate. China pursues industrial policies that typically go well beyond traditional approaches to guiding and supporting domestic industries. As is catalogued in the USTR report, China seeks to support its domestic industries too often by enacting measures and taking actions that impede, disadvantage and harm the foreign competition. In other words, China’s approach seems to be based more on the view that trade is a “zero-sum game” rather than the view that free, fair and reciprocal trade is mutually beneficial.

CONCLUSION

- Chairman, our purpose in bringing this situation to the attention of the General Council is two-fold.
- First, we want to ensure that Members truly understand that change is necessary if the WTO is to remain relevant to the international trading system.
- Second, we want to make clear that the best solution from a WTO perspective is for China finally to take the initiative to fully and effectively embrace open, market-oriented policies like other WTO Members. As we explained during China’s recent trade policy review, the WTO itself does not currently provide the tools needed to bring about that change. Rather, if the necessary change is to take place, it’s up to China.

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