



## MINIMIZING EXPORT SUBSIDIES: ADHERING TO WTO RULES AND THE SCM AGREEMENT

**Amirbek Khujaniyazov**

LLM

Tashkent state university of law

khujaniyazovamirbek@gmail.com

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**Annotation:** This article discusses the importance of minimizing export subsidies to promote fair competition in international trade. It explores how reducing these subsidies can lead to a more level playing field, encourage innovation, and support sustainable economic growth. The article also highlights China's experience with state subsidies and their impact on global trade dynamics, particularly in the context of anti-dumping measures and market economy status.

**Key words:** WTO, subsidy, non-market economy, antidumping, countervailing measures, SCM.

When China joined the WTO in 2001, it was not granted market economy status because its industry was heavily subsidised by the state. Therefore, the accession protocol established special rules for anti-dumping investigations against China. In December 2016, 15 years after this event, the protocol expires as far as the methodology of anti-dumping investigations is concerned<sup>1</sup>. There have been serious political controversies surrounding this seemingly technical issue.

The rules of the multilateral trading system prohibit export subsidies. Violators are retaliated against with duties. In the event of a dispute between two market economies, domestic prices are compared with export prices. Prices in non-market economies are not comparable to those in market economies, in which case the WTO simplifies the mechanism for imposing anti-dumping measures. Between 2001 and 2016, China's trading partners used a very favourable methodology to prove dumping in an industry.

This gave them the right to increase degree of tariff protection. To establish the fact of dumping, countries could compare the price of goods exported by China not with the price in its domestic market, where it is considered distorted due to state support, but with the price in the market of third countries. In this way, it is easier to prove dumping and anti-dumping measures are more likely to be applied. However, if China were to become a market economy.

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<sup>1</sup>Anti-Dumping Investigations. Retrieved from <https://ec.europa.eu/trade/trade-policy-and-you/contacts/>



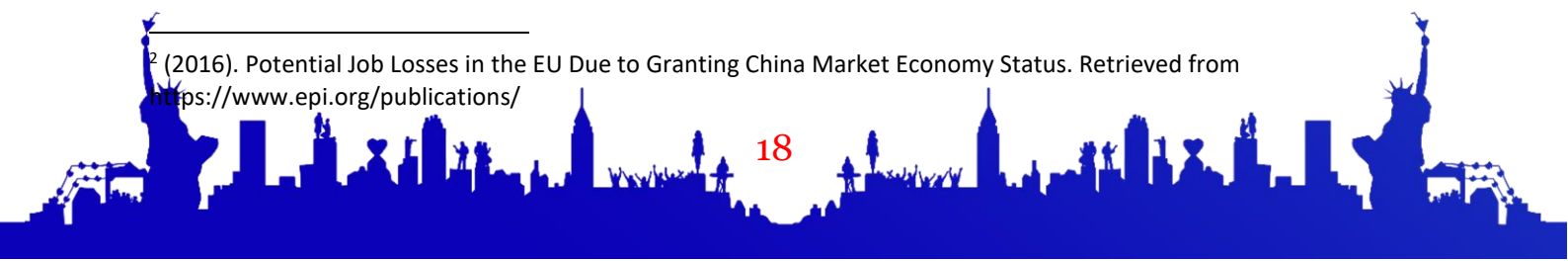


According to the European Commission, the EU has initiated at least 52 anti-dumping investigations against China for 1.38 per cent of China's total exports to Europe. The investigations mainly affected three industries employing 250,000 people - steel, chemicals and ceramics. Manufacturers' associations and trade unions have expressed concerns about the consequences of granting China market economy status and the subsequent use of WTO standard rules for anti-dumping investigations against China. They fear the disappearance of industries and the loss of hundreds of thousands of EU jobs. According to the Economic Policy Institute (Washington, DC), if China is granted market economy status, anti-dumping duties are cancelled and the influx of Chinese goods, Europe could lose 3.5 million jobs, including France - from 180,000 to 360,000 jobs. The European Commission gives less pessimistic estimates: job losses will range from 20,000 (in a favourable scenario, if most anti-dumping measures remain in place) to 200,000 (if the EU is forced to remove most of the existing trade barriers)<sup>2</sup>.

Brussels is primarily concerned about unfavourable conditions in China, where production capacity far exceeds demand, especially in the steel industry. Chinese Premier Li Keqiang has recognised that the country's steel industry is suffering from overcapacity and sluggish demand. If customs barriers in the industry were lifted, the EU market could be flooded with Chinese products. Leading politicians and economists oppose changing China's WTO status. E. Macron, French Minister of Economy, Industry and Digital Technology, said that Europe has every reason to protect its market for the sake of preserving its own production. China accounts for 50 per cent of the world's steelmaking industry. Most of the suppliers of these products from other countries have withdrawn from the European market because of China's actions, which constitute 'a real practice of dumping. According to French economist P. Arthus, China is not a market economy. To become one, the economy must be regulated by the invisible hand of the market, about which wrote A. Smith wrote about, prices should be determined by supply and demand, but in China nothing of the kind is observed. Of course, there has been some progress, China has taken advantage of falling oil prices to significantly reduce energy subsidies, but this does not prevent the state from controlling entire sectors of the economy. In the most important sectors (media, telecoms, transport, energy), foreign enterprises are excluded, and therefore competition is not allowed to develop. China is pushing for a

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<sup>2</sup> (2016). Potential Job Losses in the EU Due to Granting China Market Economy Status. Retrieved from <https://www.epi.org/publications/>





review of the country's WTO status at the end of the year. According to a spokesman for the Ministry of Foreign Affairs

China's foreign ministry spokesman said that no party can renege on its international commitments by invoking domestic law. Treaties must be honoured (*pacta sunt servanda*), he emphasises. The EU has nothing to object to China. According to article 15, paragraph D of the protocol on China's accession to the WTO<sup>3</sup>.

China's accession to the WTO requires it to obtain the status of a market economy no later than December 2016. However, the Council of Ministers and the European Parliament must adopt a regulation to formalise these changes. The authors of the articles consider several scenarios of events. For example, they question the EU's ability to violate the terms of China's accession protocol to the WTO in order to maintain its 52 anti-dumping measures<sup>4</sup>. the terms of China's accession protocol to the WTO in order to maintain its anti-dumping measures and leave the country in the status of a non-market economy, which Beijing considers humiliating. non-market economy status, which Beijing considers humiliating. According to the director of the Centre for European Studies at Fudan University in Shanghai, China fears a "marginalization" in trade relations with the US and Europe. Obtaining market economy status is also a matter of keeping a face in a political sense. The EU could, for example, offer China the desired status, but, in exchange, ensure that key existing anti-dumping duties remain in force. Each subsequent investigation of new industries would have to be conducted under rules more favourable to China. under rules more favourable to China. There is also a view that the matter could end up in a WTO dispute. A. Leparmentier considers the current situation tragic because it is obvious that China is acting unfairly. It continues to subsidise its industry by restricting land rents and income rates. However, the EU and the US do not want to resort to this argument as they are doing the same.

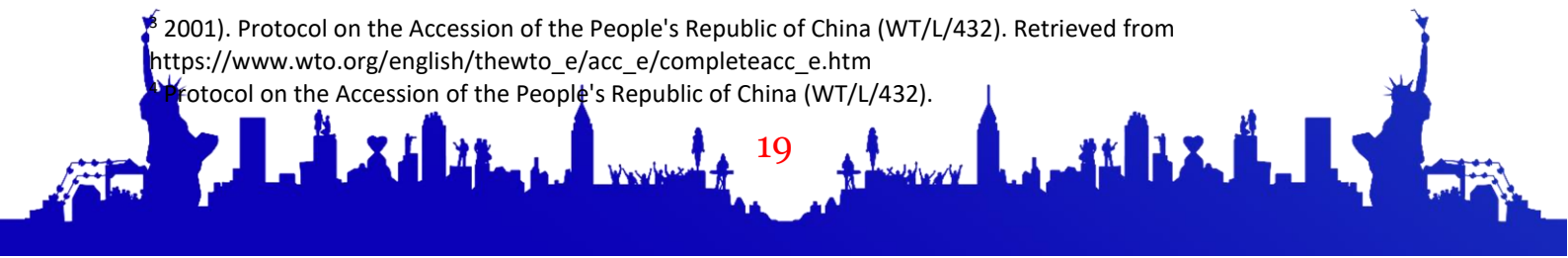
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<sup>3</sup> 2001). Protocol on the Accession of the People's Republic of China (WT/L/432). Retrieved from [https://www.wto.org/english/thewto\\_e/acc\\_e/completeacc\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm)

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