CAN RUSSIA AND CHINA BE CONSIDERED MARKET ECONOMIES?

In the last couple of days the Financial Times and the New York Times have published important articles on Russia and China. Both articles don't pull their punches. They raise issues for Commissioner Mogherini and the EU as a whole as to how handle our relationship with these two important trading and global partners.

The Financial Times reports that businessmen in Russia are reduced to the status of serfs with Vladimir Putin being the lord of the manor. This is the view of Sergei Pugachev, once President Putin's right hand man, now in exile in London. Like others before him he is now fighting for his Russian assets in the UK courts. His position is similar to that of another prominent businessman Vladimir Yevtushenkov, also fighting to regain his business despite being arrested last month. And there have been many before them. Business in Russia is not free of state control. It seems to be reverting to a form of state capitalism.

The New York Times article is an op-ed piece written by Wesley Clark, a former US Army general and NATO supreme commander in Europe. He writes that the West must give up the idea that rapid economic expansion in China would give rise to more democratisation and change in governance. He says we must recognise that it simple hasn't happened, he say. As China has become more confident it has become more closed. In essence Clark argues that China is using its economy as a weapon to promote its status in the world. And so the economy is, and will remain, a state run economy.

Both articles raise questions of the long term strategy that the EU (and the US) must take in relation to these two countries. But they also raise a more immediate question as to our trading relations with them. Can these countries be considered Market Economies?

Why do we need to ask ourselves this question? The answer is all about fair competition. Evaluating the quality or the nature of markets is a pre-requisite to determining if trade with those countries distorts the fairness in competition that we expect in the EU market and with other market economies like the US.

Economic operators in the EU are bound by competition rules which keeps the whole economy fair. The EU prohibits collusion between companies, collusion between companies and the state, it controls state subsidies and finally it prohibits the abuse of dominance. Economies that are not based on market principles and fair competition don't have enforcement of these principles. Economic operators working in these non open markets have advantage such as unlimited government subsidies, capital from state banks, exclusive rights, regulated prices and in general protection from external and internal competition. And the home advantages often spill over into market economies causing damage to economic operators working under true competitive forces.

So the nature of Russia and China's economies is important to all European manufacturers and to Europe as a whole. Europe's 2020 strategy for manufacturing, for innovation, for research and development are all undermined if attention is not given to the quality of the markets of our trading partners.

This is not only politically relevant. It's also technical. The EU has rules to determine the openness and the quality of markets. There are five criteria to determine if a market is open. They must all be met cumulatively. They are: 1) Does the government influence the operative decisions of firms or are they made in response to market signals? 2) Does the legacy of the command economy, in terms of public ownership, barter trade and so on, affect firms' operations? 3) Do firms have effective accounting standards? 4) Do firms operate under an effective framework of bankruptcy regulation and property rights protection? 5) Do firms convert currency at standard market rates?

The Financial Times and the New York Times as well as many other sources indicate that neither Russia or China meet these criteria. And yet in law, the EU considers that Russia is a market economy and China is not. Maybe it's time to re-look at Russia. Does it meet the first, second and fourth criteria? And in relation to China it's time to make clear that it does not fulfil any of these.

Europe has a great manufacturing heritage which has evolved on the basis of competitiveness and innovation. In other words European manufacturers are used to fair competition. That heritage must not be undermined by unfair competition from abroad.

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