

## Splits are emerging in the EU over China's push to gain market economy status

*China has argued that all World Trade Organisation members should grant it market economy status by 11 December 2016, under the terms of the agreement signed when the country joined the WTO in 2001. If China were to be granted market economy status then states would be prevented from imposing higher duties on imports from China in so called 'anti-dumping' cases. **Laurent Donceel** writes that the EU faces a difficult decision over the issue, with some research suggesting up to 3.5 million jobs could be at risk from granting China market economy status, while a rejection of China's request could harm flows of investment from China into the EU.*



China recently said it would contribute to the €315bn 'Juncker Plan', becoming the first non-EU country to join a public investment scheme criticised for lacking new sources of public funds. In what could otherwise be a welcome development for the EU, such a course of action portends a potentially bigger battle between the EU and China. That over China's desire to be re-classified as a 'market economy'.

For many years companies in the EU and U.S. have relied on China as the engine of growth. That a weakening of China's economy will impact the global economy is without doubt. But Europe's future economic fortunes depend more on Chinese investment than on Chinese imports of EU goods and services. While the [WTO has said](#) it expects a rebound in global trade in 2016, forecasting 3.9 per cent growth, concerns about the [decline in global trade volumes](#) and about whether globalisation has peaked are missing the point.

In the 1990s and 2000s, much of the growth in world trade rested on developing countries specialising in labour-intensive manufacturing. This was the case for China and for many Asian economies. As these countries have shot up the value-chain in the past decade, however, trade patterns have evolved, owing to the growing importance of trade in services and of the integration within one business of an entire global supply chain. Meanwhile, emerging technologies such as 3D printing are reducing the dependence of manufacturing on low-cost labour and bringing production closer to the end consumer in Europe.

The implications of this for policy-makers are multiple. At a time when trade growth is increasingly disconnected from GDP growth, attracting foreign direct investment (FDI) is becoming more important than penning trade deals. China's financial capacity is huge. The country's global spending is set to [top €90 billion this year](#). Facilitating FDIs from China and protecting investments there have become more essential than negotiating cross-border tariffs and subsidies.



Hence the EU's desire to sign a bilateral investment agreement with China, but also, more widely, to agree on an investor-state dispute settlement mechanism to be included in all of its future trade agreements. Yet, Europe's decision over whether or not to recognise China's market economy status (MES) by the end of 2016 could influence attempts to drum up financial flows of investment into the EU, while also possibly coming in the way of negotiations

aimed at a bilateral agreement.

## China's market economy status

When China joined the WTO in 2001, Article 15 of its Protocol of Accession generally allowed other members to disregard Chinese prices and costs in anti-dumping cases and instead base the calculation on dumping margins using external benchmarks. The use of external benchmark prices and costs have typically led to high dumping margins and much higher penalty duties against Chinese industries.

With certain provisions of Article 15 expiring in December 2016, the battle lines are being drawn over whether authorities in the U.S. and the EU, but also Canada and Japan, should accord China the status of market economy. Recognising such a status would prevent WTO members from using surrogate costs and prices in anti-dumping cases. It would also prompt a major backlash from industry and trade unions throughout the EU. A [recent study](#) claims the move could result in 1.7 to 3.5 million job losses. The steel, aluminium and ceramics sectors in Europe are closing ranks.

While legal analyses of the text differ as to whether WTO members will be left with a binary choice of recognising or refusing China's market economy status, the final decision is likely to depend more on politics than law. Among these considerations will be the general atmosphere of commercial relations with China this year and next, including the evolution of the yuan exchange rate. The devaluation on 11 August has emboldened those in Europe calling for a hard-line approach.

Other facts are likely to weigh on the issue. If there is progress in the negotiations toward a bilateral investment treaty this would help China's case. Similarly, a strategic rapprochement might be tempting for Brussels and Beijing if the US Congress ratifies the Trans-Pacific Partnership (TPP). Yet splits are already appearing. The UK is a strong supporter of conferring market economy status. Italy's Prime Minister Matteo Renzi has urged the EU not to "unilaterally disarm" against Chinese dumping. Berlin and Paris remain coy.

The European Commission is tight-lipped, signalling no decision will be taken until early 2016. Brussels is biding its time, assessing the economic and legal impacts the decision would have on the EU. Its decision, however, might depend less on the results of its own internal deliberations than on the political mood in the U.S. A unilateral EU decision to grant market economy status to China could expose a large number of manufacturing sectors in the EU to increased competition from China, but leave their counterparts across the pond unchallenged. Legislators on both sides will need to align their interests and priorities.

And in the U.S., indicators clearly point to a negative decision. The leading Republican candidate in the polls, Donald Trump, is surfing on the widespread belief that China does not play fair, while Democrats are increasingly challenging President Obama's trade agenda to protect domestic industries. Ahead of the elections next year, it is unlikely presidential candidates will stick their neck out in Beijing's direction. Following swiftly on the heels of the recent Volkswagen scandal, the FIFA corruption probes and the push to tackle banking secrecy, this seems to be yet another case where U.S. politicians are setting the political agenda in Brussels.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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