

Non-Market Economy Status of China

The Myth vs the Reality

1 | MES automaticity

MYTH: China will automatically gain Market Economy Status (MES) in December 2016, regardless of technical requirements, when one subparagraph in its World Trade Organization (WTO) Accession Protocol expires (Art. 15 (a) ii).

REALITY: WTO protocols do not grant MES, automatically or otherwise. In fact, the remaining text of China's Protocol makes it clear that China must meet specific criteria before MES can be granted. None of our major trading partners – neither the US nor Canada, Japan, Brazil or India – consider it automatic.

2 | Fulfilment of the MES technical criteria

MYTH: China meets the technical criteria to be a 'Market Economy' under WTO rules.

REALITY: WTO rules do not set out technical criteria for Market Economy Status but refer to national rules. EU practice prescribes five technical criteria which China has to meet before it can be considered a market economy. The European Commission's recent assessment specifies that China has met only one of these criteria.

3 | EU employment effects of the granting of MES to China

MYTH: MES will have a limited effect on jobs or growth in Europe because EU exports are strong enough to support the economy.

REALITY: Current anti-dumping measures safeguard up to 3,500,000 direct and indirect jobs in Europe. Without the anti-dumping instruments currently available, there will be no way to protect these jobs against unfair trading practices. Artificially low-priced imports will decimate EU producers, not to mention their capacities for innovation and investment. Europeans would face massive job losses at a time when EU economies are still fragile.

4 | Europe's legislative process to grant MES

MYTH: The EU has to decide before other major trading partners given its drawn-out legislative process. Granting MES to China requires a legislative change, thus the process should begin now to be ready by December 2016.

REALITY: The EU has no legal obligation to decide anything now. The EU can simply maintain the *status quo*, because the position of other trading partners will oblige China to submit the issue to the WTO Dispute Settlement Body. The EU should liaise with its major trading partners to take a uniform approach to MES as any pre-emptive EU decision could not be reversed in light of an eventual WTO decision.

5 | Europe at the top of the global value chain

MYTH: The global value chain is more important than the trade in intermediate or commodity products; with the granting of MES to China, Europe can focus on high value-added goods and services.

REALITY: Economic history shows that sacrificing the production of low-margin intermediate products can quickly put the high-margin end-product production chain at risk. In any case, China is moving up the value chain so quickly that the whole value chain is at risk.

6 | Trade Defence Instrument modernisation

MYTH: The Trade Defence Instruments can be modernised to offset any problems caused by granting MES to China.

REALITY: As experienced in Australia, there is no effective means to compensate for having to use the artificially low Chinese prices which the granting of MES would entail.

7 | Anti-subsidy measures

MYTH: Even if the granting of MES to China were to remove the anti-dumping remedy, the anti-subsidy instrument will continue to protect EU industry.

REALITY: The anti-subsidy instrument has never been effective in the face of the distortions of the Chinese economy: it only allows action against specific subsidies and not against the subsidies which are generally available in China. To make things worse, in addition to the opaqueness of Chinese subsidy regimes, the Chinese government has never complied with the WTO obligation to report subsidies, nor has it ever cooperated with the European Commission in anti-subsidy investigations. Accordingly, the average subsidy rate found in Chinese cases is negligible, entirely inadequate in redressing injuries to EU industry and easily absorbable by Chinese producers.

8 | EU fair trade objectives

MYTH: Granting MES will fulfil the EU's fair trade objectives and will encourage China to follow a rule-based system.

REALITY: If the EU grants MES to China, the EU will no longer be able to use trade defence instruments to address unfair trade practices. China could freely dump its products on the EU market. In any event, China has still not fulfilled its obligations under its WTO Accession Protocol and its conduct gives no basis for believing it will start now.

9 | Politics vs economics

MYTH: Granting MES to China is a purely political decision.

REALITY: Political decisions cannot ignore economic realities. A rigorous impact assessment must precede – and be factored into – any subsequent decision, political or otherwise.

10 | MES and future agreements with China

MYTH: Europe recognising MES is a precondition to pursuing other agreements with China.

REALITY: China, like any other nation, will enter into an agreement if doing so suits their interests. Besides, the premature granting of MES would remove the only leverage the EU has in its economic relations with China.

ABOUT AEGIS EUROPE

AEGIS Europe is a grouping of 30 industrial associations dedicated to ensuring that EU policymakers work towards free and fair international trade. AEGIS members are leaders in sustainable manufacturing and account for more than €500 billion in annual turnover and millions of jobs across the EU.