

PM+: Delaying China market economy status vital for EU's competitiveness

Written by Milan Nitzschke and Laurent Ruessmann on 5 November 2015 in Opinion Plus
Opinion Plus

If Europe wants to avoid becoming China's dumping ground, then it must postpone granting China market economy status, argue Milan Nitzschke and Laurent Ruessmann.



MEPs may soon have to offer their views on a European Commission proposal concerning the treatment of China in anti-dumping investigations and thereby its market economy status (MES).

We believe that China should not yet be granted MES. Not only does the country fail to fulfil the technical requirements of a 'market economy', the lowering of EU trade defences in the face of aggressive dumping would also severely damage the competitiveness of EU manufacturing industries, putting between 1.7 and 3.5 million EU jobs at risk.

Despite the evidence of the damage it would do, there have been voices arguing that the EU is legally obliged to grant MES to China in 2016 on the basis of its WTO accession protocol. But that's not a conclusion shared by other international trade experts.

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And regardless of the legal debate, the EU definitely does not need to grant MES to China now. No other major trading partner considers there is a legal obligation to do so, with Canada even revising its international trade legislation in 2013 to remove an automatic 2016 grant of MES to China.

Even if Beijing were to request a WTO dispute settlement, this would involve the EU and all its major trading partners, ensuring the same rules apply across the board. This is the only viable scenario.

Critics have also suggested that anti-subsidy investigations offer a valid alternative to the current anti-dumping focused approach.

We again contest this argument, which relies on the assumption that the anti-subsidy instrument will be strengthened by the removal of the EU's 'lesser duty rule'. Regardless, that Commission proposal has been blocked at Council level for over a year with no end in sight.

Even if the lesser duty rule were removed, the anti-subsidy instrument remains woefully inadequate. The results of EU anti-subsidy investigations of imports from China have been feeble so far, both because of the general inability of the anti-subsidy legislation to counteract systemic distortions and the lack of transparency and non-cooperation of the Chinese government in those investigations.

Anti-dumping measures provide more consistent and secure protection of fair competition and must not be undermined.

The third counter-argument from critics is that the EU's economic and foreign policy priorities warrant a cooperative and rule-based approach to integrating China into the world economy.

But the EU cannot make a decision of such importance based on the threat of Chinese retaliation. Legislators need to firstly recognise the negative impacts on EU producers from granting MES to China, and secondly, that China has yet to meet a number of MES-relevant WTO accession protocol obligations.

A truly rule-based approach would recognise that China does not yet fulfil the technical criteria for a market economy. Besides, withholding MES should act as an incentive for China to complete the market reforms it committed to in 2001.

Adding up all these facts, we can see that delaying China MES is not only logical, it's also imperative to ensure fair competition and maintain the competitiveness of Europe's manufacturing industry.

Our recommendation for EU legislators is simple. Postpone granting MES to China until it fulfils the criteria for a market economy. Instead of taking hasty unilateral action, align with other major trading partners and take a coordinated approach.

This will be critical to avoid Europe becoming the dumping ground of choice for China's subsidised manufacturing overcapacity.

About the author

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