An EU refusal to grant China market economy status may impose unforeseen political costs on the EU, argue Yan Shaohua, and Song Xin.

A number of provisions of China's WTO accession protocol will expire at the end of 2016. This has trapped the EU in an increasingly fraught debate over whether or not to grant China market economy status (MES).

The European Commission recently decided to delay any formal decision until later this year, as many important aspects need to be examined in detail. The divisions between EU member states and the fact that the co-decision procedure applies to the common commercial policy have increased uncertainties.

The focus has been on the legal and economic implications of Chinese MES for the European economy. However, few have considered the political costs should the EU chose to proceed. This is why it is important that these political costs are taken into account as part of the Commission's comprehensive impact assessment.
For China, the issue of MES is important politically and economically in equal measures. According to EU sources, currently there are 52 anti-dumping measures in force against China. These cover only 1.4 per cent of Chinese imports covering mainly steel, textiles, chemicals and ceramics. As China becomes less export-dependent, MES will become less economically important.

Fu Ying, National People's Congress's foreign affairs committee Chair, said in 2014 that the issue was no longer significant. However, MES remains symbolically important to Chinese national pride. The EU needs to consider the political costs of denying China MES.

Since joining the WTO 15 years ago, the issue of MES is now at the heart of China's view on the multilateral trading system. Despite the ongoing dominance of developed economies in the WTO, China has been a 'good student', integrating well into the global economy and supporting the multilateral trading system.

MES is not clearly defined in WTO rules, giving the EU legal discretion on the issue. However, it has to stand by its commitment of abandoning the non-market economy method vis-à-vis China by 11 December 2016.

Denying China MES and continuing a non-market economy method would run counter to WTO rules undermine the system's credibility and China's trust in the approach.

There are also implications for EU-China relations. MES and the arms embargo are seen by China as two obstacles restraining China-EU relations. Since 2003, China has expressed deep concern over the issue, maintaining that full MES would reflect healthy bilateral respect and equality.

China has demonstrated much patience in resolving the issue, reducing its diplomatic push on the EU in recent years. In part, this reflects the 'disputed' assumption that MES would arrive automatically after 2016.

Given this high expectation and sense of entitlement, there is a risk that a negative result could trigger a political backlash from China. It could endanger current bilateral investment negotiations and impair the momentum of cooperation established at the 40th anniversary of diplomatic relationships.

For the EU, the debate over MES reflects its ambivalence to trade relations with China. On one hand, the EU has encouraged China's deeper integration into the world economy, benefitting significantly from the economic relationship.

Simultaneously, the EU has growing concerns over the challenges posed by China's economic rise. MES may cause new waves of 'China threat' and European protectionism, further undermining EU-China relations.
History shows that trade and economy issues are inseparable from EU-China political relations. MES in 2016 is no exception. Currently, there is a clear gap between the EU and China. Bridging the gap needs both sides to demonstrate political wisdom in managing the MES issue in a spirit of sincere cooperation.

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