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Should EU grant Market Economy Status to China under WTO Law?

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In Europe, arguments are mounting on whether to grant Market Economy Status (MES) under WTO law to China. China became a member of WTO in 2001 on a temporary treatment as a Non-Market Economy (NME). This temporary treatment will expire in December 2016 and before that time other member countries of the WTO have to clarify their position whether or not they grant MES to China. The discussion was initiated in January 2016 by the European Commission and the European Parliament also has started their debates regarding Chinese status.

If the export country is recognized as a NME, the importing countries are easier to take anti-dumping measures, but once that country is granted MES, it will become difficult for them to take such measures and there is a strong opposition against the grant of MES to China from European firms which worry about possibility of rapid increases in imports from China¹.

China has urged that it should be automatically granted a MES after the temporary treatment as a NME expires in December. The US seems to have held a strong position against the recognition of MES for China on the ground that the Chinese economy has been subject to a substantial intervention by the state. Among the advanced countries Australia has already implemented the decision to grant MES to China.

Countries in the European Union (EU) are not monolithic. The UK, the Netherlands and Nordic countries are reported to be positive for granting MES to China with the objective of strengthening their relationship with China. Germany, while basically supporting the idea, is inclined to set a safeguard in specific industries. Italy is against it as it will impose a big impact on the domestic industries. The most aggressive opposition among the EU industries comes from steel and textile. The European Commission is positive for the grant from the standpoint of valuing the legal interpretation of the WTO Protocol, arguing that the real problem rather lies in

¹ The judgment on the dumping (sales by unfairly low prices) for the imports from market economies are to be based on the domestic prices or costs in the exporting countries. Since it is considered that the prices of imports from NMEs are set at unfairly low prices due to subsidiaries and other measures, the importing countries can use as the base for judgment the domestic prices or costs prevailing in the market economies.

how to treat China in their execution of EU anti-dumping legislations after the grant.

Amid the rising threats of refugee crisis and terrorism, the presence of parties that advocate anti-foreign, inward-looking policies is mounting in the European Union. With the harsh employment situation continuing in the EU with its average unemployment rate staying at 9.4% (2015), there is a deep concern that the flood of imports from China might cost many jobs from the European workers. If the EU is going to grant MES, it can in return request some concessions from China such as a strong commitment to market economy. If such negotiations between the EU and China end up in failure, the international presence of the EU as a rule setter of free trade will be weakened while the risks will rise that the anti-EU feeling will gain momentum among the EU members. Currently China has been facing with an economic slowdown with its external bargaining ability decreasing. At the same time there is a possibility that there might be increased trade conflicts between China and other countries as China has become more dependent on the external trade. In this context, together with the possibility of its cooperation with the US and Japan, the handling of the EU in its negotiations with China in the coming months will warrant a close attention.

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