3.5 million jobs at risk if EU grants Market Economy Status to China, finds new report

Brussels, 18 September 2015 - A landmark study by the Economic Policy Institute (EPI) released today reveals that if the EU grants Market Economy Status (MES) to China, the EU could lose 3.5 million jobs and 2% of GDP.

If the EU surrenders to Chinese pressure for Market Economy Status, Europe would permanently lose the ability to set proper anti-dumping measures on unfairly dumped Chinese imports. Such a capitulation would severely damage the competitiveness of EU manufacturing industries, undermining still fragile European economies.

Professor Robert E. Scott, author of the study and Director of Trade and Manufacturing Policy Research at EPI, commented on his findings saying, “Abandoning the possibility of obtaining relief from state-financed dumping would expose EU producers to a flood of cheap products from China, destroying employment and business investment in manufacturing.”

The EPI study calculated that MES for China would directly put at risk up to 1 million European jobs in affected industries, with knock-on losses of 1 million additional indirect jobs in related sectors. Subsequent negative income effects could lead to as many as 3.5 million job losses over the next three to five years, according to EPI. The hardest hit countries would be Germany, Italy, UK, France and Poland.

Professor Scott added, “If China continues its strategy of developing overcapacity and dumping, job losses – especially in import sensitive industries – could be even higher. Sectors such as steel, ceramics, aluminium, paper, glass, auto parts as well as chemicals and environmental technology industries, which already suffer from Chinese dumping, would be particularly affected. Market Economy Status could put an additional 2.7 Million jobs in these highly vulnerable industries at particular risk.”

The study was presented by AEGIS Europe in Brussels today. AEGIS Europe is an alliance of 30 manufacturing industry associations that advocate free and fair international trade. AEGIS Europe highlights that everyone accepts that China meets only one of the five EU criteria necessary to be considered as a market economy.

Reacting to the report, AEGIS spokesman Milan Nitzschke said, “China is not a market economy and cannot be recognised by EU policy makers as such. China has been lobbying for MES for many years, but in the last five years its leadership has doubled subsidies to Chinese industry, resulting in even greater overcapacity, overproduction and dumping.”

“Around 50 vital EU anti-dumping measures currently in force would be nullified by MES. China would be able to expand its strategic dumping across all sectors of European manufacturing. Other major trading partners, such as the US or Japan, are not expected to grant MES to China: there is no reason for the EU to do so either”, added Mr Nitzschke.

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Report: *http://www.epi.org/publication/eu-jobs-at-risk/*

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.

About the Economic Policy Institute (EPI)
The Economic Policy Institute (EPI) is a non-profit, nonpartisan think tank created in 1986 to include the needs of low- and middle-income workers in economic policy discussions. EPI believes every working person deserves a good job with fair pay, affordable health care, and retirement security. EPI changed the nature of public debates over international trade agreements by underscoring their effects on workers and the importance of putting enforceable labour standards in trade agreements. EPI's research is cutting-edge, original, and reliable, and it spans a broad range of economic issues. EPI analyses are a trusted resource for policy makers, those in the media, national progressive advocacy organizations and state research organizations. EPI is headquartered in Washington D.C.

About Professor Robert E. Scott
Robert E. Scott joined the Economic Policy Institute in 1996. His areas of research include international economics, trade and manufacturing policies and their impacts on working people in the United States and other countries, the economic impacts of foreign investment, and the macroeconomic effects of trade and capital flows. He has published widely in academic journals and the popular press, and has also provided economic commentary for a range of electronic media, including CNN, Bloomberg, and the BBC. He has a Ph.D. in Economics from the University of California at Berkeley.

About Market Economy Status (MES)
At the time China joined the WTO, the expectation – and commitment by China – was that China would move towards a full market economy. Of special relevance is the requirement in China's Protocol of Accession that, with certain very limited exceptions, China "allow prices for traded goods and services in every sector to be determined by market forces."

When China joined the World Trade Organization (WTO) in 2001, China agreed to provisions that allow countries to base dumping comparisons on something other than Chinese prices or costs. One

– but only one – of the relevant provisions is scheduled to expire on December 11, 2016. Legal analysis shows that WTO Member countries can continue to treat China as a non-market economy country after this date by basing dumping calculations in cases involving Chinese imports on something other than Chinese prices or costs.

In fact, still today many prices of such important factors as transport, energy, land and credit in China remain subject to government control or influence. In a 2013 report, the European Commission observed that China had fulfilled only one of the five criteria required under EU law for China to obtain market economy status in antidumping investigations. Recent events highlight China's lack of progress towards market economy status. The World Bank recently released its semi-annual China Economic Update, in which it noted that the Chinese government's "direct and extensive involvement in allocating resources has "no parallel in modern market economies.

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

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