

US warns Europe over granting market economy status to China

Christian Oliver in Brussels, Shawn Donnan in Washington and Tom Mitchell in Beijing



The US is keen to stop Chinese companies flooding markets with what it regards as unfairly cheap goods

Washington has warned Brussels against **granting China ‘market economy status’**, saying the long-sought trade concession could hamper efforts to prevent Chinese companies flooding US and European markets with unfairly cheap goods.

Achieving market economy status (MES) at the World Trade Organisation is one of China’s core strategic goals. Among other benefits, it would make it far more difficult for the US or EU to impose steep tariffs on Chinese companies for unfairly dumping low-cost goods on their markets.

US officials have warned EU counterparts that granting Beijing MES would amount to “unilaterally disarming” Europe’s trade defences against China. In private, they are scathing about the move, which they see as the latest example of Europeans seeking to curry favour with Beijing to gain billions of euros in investment.

But the European Commission, the EU’s executive arm, is growing increasingly sympathetic to China’s pleas. The commission is expected to make its decision as early as February.

German chancellor Angela Merkel is supportive of the idea while George Osborne, the UK chancellor who has spearheaded Britain's courtship of Beijing, is a firm advocate.

Other European governments, led by Italy, and a growing swell of European labour unions and traditional industries — including steel, ceramics and textiles — are strongly opposed. Partly at their prompting, senior US trade officials have repeatedly raised their concerns with their European counterparts in recent months.

The debate centres on a dispute over the terms of China's agreement of accession to the World Trade Organisation in 2001. Beijing has long interpreted the accord to mean that it would automatically be designated a market economy at the end of 2016.

But many trade lawyers disagree with this reading of the rules. Opponents argue that Beijing's hand in setting prices, providing subsidies to an array of industries and other statist policies should disqualify it from MES.

“China was accepted into the WTO almost 15 years ago on an expectation that it would now be a market economy. It is not and it would be wrong to treat it as such when it meets so few of the criteria,” said David Martin, a British Labour member of the European Parliament, which would have to support any commission proposal for MES.

The EU's deliberations come at a particularly sensitive moment for Europe's steel industry, which has lost a fifth of its workforce since 2009 and blames many of its woes on unfairly cheap Chinese imports.

At the same time, the commission is keen to repair trade relations with China after a string of acrimonious disputes in recent years. It is seeking big Chinese investments in a €300bn infrastructure fund designed to rekindle flagging growth in Europe.

The commission declined to comment on its decision, which officials say is still under consideration. However, diplomats and businessmen involved in the process say momentum is building for a positive decision on MES in the first quarter of 2016.

“Brussels' attitude towards China is better than Washington's,” said Tu Xinquan, a trade expert at the University of International Business and Economics in Beijing. “Of course, EU industries won't welcome market economy status for China. But I think it's quite likely to be granted.”

Under WTO rules, China's non-market economy status gives the US and EU far greater latitude in determining the fair cost of production for Chinese companies when conducting anti-dumping investigations. As a consequence, say trade lawyers, that has made it easier for complainants to prove their cases against China.

The Obama administration, which is being cheered on by US industry, is advocating a policy of inaction, which would force China to bring a challenge in the WTO and thus put the onus on Beijing to prove that its state-heavy economic model has met all the criteria for MES.