



*European Economic and Social Committee*

**CCMI/144**  
**Market economy status for**  
**China**

Brussels, 14 July 2016

**OPINION**

of the

European Economic and Social Committee

on

**The impact on key industrial sectors (and on jobs and growth) of the possible granting of market economy treatment to China (for the purpose of trade defence instruments)**

(own-initiative opinion)

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Rapporteur: **Mr Barceló Delgado**

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On 21 January 2016 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

*The impact on key industrial sectors (and on jobs and growth) of the possible granting of market economy treatment to China (for the purpose of trade defence instruments*

(own-initiative opinion).

The Consultative Commission on Industrial Change (CCMI), which was responsible for preparing the Committee's work on the subject, adopted its opinion on 22 June 2016.

At its 518th plenary session, held on 13 and 14 July 2016 (meeting of 14 July 2016), the European Economic and Social Committee adopted the following opinion by 194 votes to 4 with 3 abstentions.

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## 1. **Conclusions and recommendations**

- 1.1 It could hardly be accepted that China operates under market economy conditions, as it fails to fulfil four of the five criteria established by Commission practice and to mirror the Basic Regulation (Council Regulation 1225/2009).
- 1.2 The EESC acknowledges that, although sources yield different results, if we lose the tools to ensure free and fair trade with China, an unacceptable figure of hundreds of thousands of jobs will be lost.
- 1.3 Losses would be concentrated in particular sectors and regions which would be heavily affected, such as aluminium, bicycles, ceramics, electrodes, ferroalloys, glass, paper, solar panels, steel and tyres. Further sectorial and geographical studies are therefore recommended.
- 1.4 The sectors affected are mainly producers or consumers of intermediate goods and, as a result, private consumers are not likely to benefit from the reduction of anti-dumping measures.
- 1.5 Industrial sectors that consume dumped products would benefit from the import of subsidised imports in the short term. However, in the medium term they could also be at risk, since China is also promoting downstream, added-value sectors. The poor record of China in the area of industrial property rights in this sense also poses a threat.
- 1.6 Industrial jobs, once lost, rarely return. If the individuals affected manage to find a job, it is likely they will have lower wages in positions where their skills are not valued. The

replacement of quality jobs in industry by low-paid, insecure jobs also risks increasing the inequalities in our society.

- 1.7 The EESC therefore considers that granting China market economy status (MES) would seriously jeopardise the industrial base and manufacturing jobs in the EU. It would adversely affect prospects for relaunching European industry through high-quality, stable jobs and the introduction and dissemination of technological innovation, research and development – all key drivers for securing a dynamic and sustainable economic and social system in Europe.
- 1.8 Against this background, granting MES to China would represent a serious risk for industrial areas and SMEs' local production systems, with production threatened by China's unfair competition practices. This would run the risk of losing specialised SME production and the small-scale, highly specialised jobs that are the backbone of Europe's manufacturing structure.
- 1.9 The EESC calls on the EC, the EP and the Council to promote international fair competition, as a way to actively defend these jobs and European society values and to boost income and wealth in the European Union.
- 1.10 Defending these EU jobs and related investments not only makes economic sense but also fosters social and environmental sustainability. Relocating production from highly resource- and energy-efficient production sites in Europe to a coal-based Chinese economy would frustrate our ambitions regarding climate change and sustainable development. Respect for labour and human rights also remains problematic in China.
- 1.11 This defence must comply with European law and international treaties. It should also enforce the fulfilment of agreements by third parties and take into account the negotiations held with major trade partners such as the USA. Efficient trade defence instruments (TDIs) ensure fair competition. They are needed for the future of European industry and to support the target of increasing industry as a percentage of GDP to 20%.
- 1.12 As long as China does not meet the EU's five criteria required to qualify as a market economy, the Commission should use a non-standard methodology in anti-dumping and anti-subsidy investigations concerning Chinese imports, in accordance with what remains of Section 15 of the China WTO Accession Protocol.
- 1.13 Keeping industries in the EU is the basis for healthy R&D networks, which are crucial for future growth and for finding solutions to our "great societal challenges" (aging, energy, climate, healthcare and mobility).
- 1.14 SMEs do not have the resources to initiate anti-dumping actions or to collaborate fully with the EC in its investigations. The EESC calls for a simplified approach for sectors where SME participation is relevant.

- 1.15 Acknowledging the strategic importance of this issue, this opinion is the beginning and not the end of the EESC's engagement. The EESC intends to develop an ongoing engagement and recommends setting up an EESC project on market economy status (MES) for China in order to allow the Committee to monitor this issue on behalf of civil society. Adequate resources should be allocated to this task.

## 2. **Introduction**

- 2.1 Under WTO rules a country can impose anti-dumping duties, in addition to tariffs, on products from third countries if an investigation demonstrates that these products enter the country at prices lower than domestic ones, causing injury to local industry. When China joined the WTO in December 2001 a transitional arrangement for its accession allowed China to be treated as a non-market economy (NME) in anti-dumping proceedings if Chinese firms could not prove that they operated in accordance with free market principles. China's current NME status offers the option of using the prices of an analogue country rather than domestic prices (which in NMEs are artificially low due to state intervention) to calculate the dumping margin. The use of NME methodologies is described in Section 15 of the Chinese WTO Accession Protocol, but provision 15(a)(ii) will expire on December 2016. This expiry will oblige the EC to change the methodology that determines price comparability in AD files.
- 2.2 This EESC opinion focuses on the impact on EU industry and employment of the possible granting of market economy status (MES) to China and changing the trade defence instruments (TDI) methodology. This is independent of the legal discussion, as the EESC considers this topic extremely important for EU industry and the jobs linked to it.
- 2.3 The European Parliament has approved with a vast majority a resolution calling for a non-standard methodology that complies with China's Accession Protocol, while being able to effectively establish a free and fair trade framework.

## 3. **General comments**

- 3.1 Regarding the economy the EESC notes that:
- 3.2 China has experienced unprecedented growth in the last 15 years, which has changed the global industrial and trade landscape. The Chinese growth model has been based on investment, with this activity accounting for 46% of its GDP in 2015, according to the IMF. This figure exceeds the share of investment in other developed economies such as the EU (19%) and the USA (20%).
- 3.3 The size and speed of the changes have been largely state-driven. The EESC acknowledges that China is not a market economy as defined by the EU, and there is a general consensus on this issue outside the institution. As the World Bank reports, "the state has interfered

extensively and directly in allocating resources through administrative and price controls, guarantees, credit guidelines, pervasive ownership of financial institutions<sup>1</sup>, and regulatory policies".

- 3.4 There are numerous examples of excesses in Chinese development. The country consumed 6.6 billion tonnes of cement between 2011 and 2013, more than the USA in the whole of the 20th century (4.4 billion). This means that in three years China has used as much cement as was necessary to build the USA over a century. Aside from the inefficient use of resources, a huge industrial capacity has been built to produce such a quantity of materials in a very short period.
- 3.5 China has started to change its model towards more consumption and service-orientated growth. The economy faces a slowdown, which means that a significant part of Chinese heavy industry's output will not find customers in China.
- 3.6 The European Chamber of Commerce in China reports that significant overcapacity has already appeared in products such as crude steel, aluminium, cement, chemicals, shipbuilding, refining, flat glass, paper and paperboard. The Chinese government acknowledges this and has decided to cut crude steel capacity by 100 million to 150 million tonnes by 2020<sup>2</sup>, and coal production by 500 million tonnes over the same period<sup>3</sup>.
- 3.7 Regardless of these intentions, reducing total capacity will be a long-term task. Factories closed in the past ten years have been replaced by modern, more productive ones and the problem has only grown bigger. Household demand for intermediate goods will never take the place of industrial demand.
- 3.8 It took the EU a long and difficult process to fix this problem in the 1980s and 1990s, and there is no quick solution for China either.
- 3.9 Hence, a combination of overcapacity and weak domestic demand is leading to an excess of production, which then tries to find its way into international markets.
- 3.10 The EESC points to data concerning Chinese exports.
  - 3.10.1 According to the WTO, China is the largest exporter of manufactures around the world, with a share of 18%. This share has increased by 20% since 2010. During 2014 Chinese exports grew by 6%, while the rest of the world increased by 3.5%. If we analyse the period 2010-2014, the increase was 49% in China, twice the figure for the rest of the world.

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<sup>1</sup> World Bank, China Economic Update, June 2015.

<sup>2</sup> [Curb to be placed on metal overcapacity](#), English.gov.cn, Feb 2016.

<sup>3</sup> [Coal capacity guideline issued](#), English.gov.cn, Feb 2016.

- 3.10.2 Data from China's National Bureau of Statistics show that the products with the strongest growth in 2014 were zinc and zinc alloys (+2360%), cotton (+100%), coke (+82%), diodes and other semiconductors (+61%) and rolled steel (+50%). Since 2010, exports of cotton, rolled steel and diodes and other semiconductors have doubled, while sales of coke, zinc and zinc alloys have tripled in volume.
- 3.10.3 This upward trend in exports is expected to continue in the next few years as forecasts indicate a contraction in Chinese domestic demand. If European TDIs are significantly weaker than those of our trading partners, current exports from China to NAFTA or Japan could be diverted to the EU.
- 3.10.4 This export-driven growth model has created a large deficit of EUR 137 bn (EUR 48.8 bn in 2000) on the EU's balance of trade in goods, with EU imports from China twice as high as its exports to China.
- 3.10.5 This is the context in which China has launched the One Belt One Road (OBOR) initiative to create a transport infrastructure (rail-motorway and maritime) in the Eurasian area. The aim is primarily to provide Chinese firms with access, on anti-competitive terms, to the Eurasian markets involved in the initiative and to use them as new markets for sectors with a production surplus. Granting market economy status would represent a substantial risk for European firms in the EU Member States involved in the OBOR initiative.
- 3.11 Facts about dumping practices
- 3.11.1 This sharp increase in Chinese exports has been partly achieved through unfair practices, as shown by numerous dumping cases brought under WTO rules.
- 3.11.2 China is the country most affected by anti-dumping measures. It was the subject of 34% of trade investigations, with 667 measures imposed. In 2015 alone, 76 anti-dumping measures against China were in force or had been initiated.
- 3.11.3 67% of the anti-dumping measures adopted against China related to industries such as textiles and clothing articles, ceramics and glass, base metals, plastics, machinery and electrical equipment and petrochemicals. Last year, 79% of the measures imposed on China targeted these sectors.
- 3.11.4 The EU is one of the most active participants in world trade, accounting for 15.8% of the total, but only 133 anti-dumping measures have been adopted against the region. This is equivalent to 7% of worldwide cases. China, by contrast, is the target of 47% of these measures and in 2015 alone it was penalised in three cases.

## 4. Specific comments about job losses in Europe

### 4.1 Directly affected sectors

- 4.1.1 From a theoretical perspective, MES for China would have negative welfare effects on the EU. Trade liberalisation is of key importance to the EU. It has positive network effects, even though there are always sectors which are worse off as a result.
- 4.1.2 In this case, the EESC points out that this is not a negotiation process with barriers being dismantled on both sides. China would not give anything in return, while the EU would unilaterally reduce its ability to offset the distortion of competition caused by the unfair support given by Chinese central and local government.
- 4.1.3 The EESC has found that industrial jobs have already been transferred abroad. Between 2000-2014, European industries lost 6.7 million workers, 12% of the initial figure of 56.3 million. Over the same period the import volume index increased by 144%. Research in the USA, with a smaller industrial sector than the EU, shows that between 1999 and 2011 some 985 000 industrial jobs were lost due to increased Chinese import penetration<sup>4</sup>.
- 4.1.4 Job losses occurred not only in basic industries but also in innovative industries. Cutting-edge mobile telephone industry has disappeared. In an industry vital for our future such as photovoltaic panels, 34 manufacturers filed for insolvency between 2010 and 2012, two quit the solar business, five shut down production totally or partially and three were taken over by Chinese investors<sup>5</sup>.
- 4.1.5 Particularly at risk are sectors that are of strategic importance in China's 5-year plans: aluminium, bicycles, ceramics, glass, motor vehicle parts, paper and steel.
- 4.1.6 Impact assessments have been carried out by various institutions. The European Commission has commissioned a study but this has not been published, making it impossible for the EESC to analyse the Commission's position on this urgent issue.
- 4.1.7 The Economic Policy Institute estimates the damage at somewhere between 1.7 and 3.5 million EU jobs at risk. This estimate is based on an input-output model which takes into account direct losses (directly affected by an increase in imports), indirect losses (supplier and processing industries for those directly affected) and re-spending losses (derived from reduced household income and expenses). The main drawback of this study is that it considers the effects of every Chinese import, even those in sectors that are far from being affected.

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<sup>4</sup> [For balanced trade EU - China](#), Socialists and Democrats, March 2016.

<sup>5</sup> [Fair competition](#), EuProSun.

- 4.1.8 If only industries with anti-dumping measures are considered, direct and indirect job losses would lie between 0.5 and 0.9 million. According to the report, the total direct employment generated by industries vulnerable to surges of dumped imports is 2.7 million.
- 4.1.9 The study does not calculate the re-spending effect in these sectors alone. It shows that jobs at risk in anti-dumping-related industries amount to 60% of jobs in manufacturing industries. If this same proportion were applied to indirect and re-spending effects, job losses could lie between 1.1 and 2.1 million.
- 4.1.10 A second report reflects three studies commissioned by steel producers' associations from NAFTA regarding the probable economic effects on their countries of granting market economy status to China. The report concludes that, if all three NAFTA countries awarded market economy status to China, labour demand would decline by between \$15 billion and \$32 billion, most of which would occur in the USA. This translates into jobs declining by an estimated 0.4 to 0.6 million.
- 4.1.11 Both studies are based on macroeconomic general equilibrium models. However, if studies of this kind were run separately on economic areas such as the EU and NAFTA, the EESC believes that the unilateral granting of market economy status to China would almost certainly result in a direct loss of welfare to the tune of at least hundreds of thousands of job losses, and probably closer to one million people who would have to find a different way of making a living.
- 4.1.12 In order to assess the probability of these losses occurring, the EESC draws attention to several relevant consequences:
- The dumping of imports not only occurs in products currently subject to anti-dumping measures. Other measures are being studied, either by the EC or by producers. There is also a knock-on effect among products: once an anti-dumping measure is imposed, it is likely that the affected exporters will switch their export effort to non-covered products.
  - The effect of low prices due to dumped imports on other products from the same sector.
  - Manufacturing capabilities, once lost, will never return, as the whole ecosystem surrounding a given industry will also disappear.
- 4.1.13 Regarding geography, the EESC reiterates that the jobs likely to be lost are not evenly distributed geographically. The concentration of job losses in certain areas may cause critical situations in those locations, even though other regions in the Union might not suffer badly. The countries worst affected could lose up to 2.7% of their workforce.
- 4.1.14 In many cases these jobs are in major industrial installations with a strong relationship with the economic and industrial fabric. Recently we have seen significant losses in sectors such as

steel where several thousand jobs depend on one company and have produced a dramatic social impact on their communities.

- 4.1.15 The EESC also stresses the quality of industrial jobs: manufacturing jobs are more stable and better paid on average than jobs in other sectors of the economy. The EC pointed out in 2014<sup>6</sup> that monthly earnings for manufacturing workers are 5% higher than the general EU average. In the USA weekly wages in manufacturing are 8% higher than in non-manufacturing jobs. These higher earnings are the result of higher productivity.
- 4.1.16 Industry offers quality jobs to skilled and semi-skilled workers, for whom it would very difficult to find an alternative job with the same labour conditions. As such, the declining role of industry contributes to inequalities in our society.
- 4.1.17 According to the Eurofound Working Conditions Survey, part-time work is considerably less prevalent in manufacturing (12%) compared to the EU28 average (24%). Working hours in manufacturing also tend to be more regular and atypical hours considerably less prevalent than in the EU economy as a whole<sup>7</sup>.
- 4.1.18 The EESC would also like to avoid the risk of damage to the knowledge ecosystem: manufacturing is by far the sector with the biggest demand for R&D activities and there is a growing trend to source R&D from innovation-focused services companies<sup>8</sup>. According to an ECSIP Consortium study, the average service content of manufactured goods produced in the EU reaches close to 40% of the total value of final manufactured goods produced. The bulk of these services are distribution services (15%), transport and communication (8%) as well as business services which ranges from between less than 10% to as high as 20% and more across EU Member States. This latter category includes services such as R&D, advertising and market research, engineering activities and ICT services.
- 4.1.19 The EESC has already issued opinions on the relevance of promoting higher regulatory standards on intellectual property, due to the lack of compliance of certain countries. This should not be forgotten when designing the EU's trade policy.

#### 4.2 Sectors not directly affected by TDIs:

- 4.2.1 An assessment of the impact of unilaterally granting MES to China needs to consider potential benefits in other sectors, particularly for consumers of products for which China has – or plans to have – strong manufacturing activity.

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<sup>6</sup> [European Working Conditions Surveys](#).

<sup>7</sup> [ECSIP Consortium](#), 2014.

<sup>8</sup> [Directorate General for External Policies, EP](#), 2016.

- 4.2.2 Many of the industries affected so far are manufacturers of intermediate goods, i.e. goods that are transformed and combined into final products.
- 4.2.3 Global industrial production has not yet returned to its pre-financial crisis levels. Thus, there is plenty of surplus industrial capacity and customers of Chinese products subject to anti-dumping measures would be able to source their supplies in third countries without a significant loss of competitiveness.
- 4.2.4 If China is allowed to grow its market share unfairly and establish an oligopolistic advantage, it will undoubtedly use this later on to raise prices again, causing consumer industries in the EU to suffer. China is already acting in this way in order to boost local industries. The European Parliament<sup>9</sup> presents evidence of measures restricting trade in natural resources that may be in violation of WTO rules. In 2009, China introduced its Rare Earth Development Plan 2009-2015, imposing export quotas at 35 000 tonnes per annum. The following year, prices of Chinese rare earths tripled. Another example can be found in the electronics market, where China taxes the export of parts more heavily than finished products, in order to protect the local assembly of devices.
- 4.2.5 These examples show that Chinese policy promotes industries with higher added-value content. Without the ability to file anti-dumping cases, sectors such as equipment or automobile manufacturing would also end up being exposed to unfair competition. China also has a record of infringing intellectual property rights, therefore even patents would not prove to be of much use in maintaining innovative industries within the EU's borders.
- 4.2.6 In the long term, granting MES to China would also harm the entire industrial value chain because of the negative impact on innovation. There is a widely held belief in the EU that innovation is the only way for our societies to compete with purely cost-based competitors. However, innovation is no longer being developed in isolated laboratories. Instead, a KPMG survey found that 85 percent of respondents from the global metals industry believe that partnerships will form the future of innovation for their organisation. More than three quarters say they are already engaged in more collaborative business models with suppliers and customers. It is therefore impossible to imagine future innovative industries not belonging to knowledge networks.

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<sup>9</sup> Directorate General for External Policies, EP, Brussels 2015.

4.3 EU income

- 4.3.1 In the long term and regardless of the evolution of individual sectors, wealth in the EU will only grow in a sustained way through the solid development of disposable income. Current policies by the Commission that favour jobs and investment recognise this fact and should be taken into account when taking decisions to address this issue.

Brussels, 14 July 2016.

The President  
of the  
European Economic and Social Committee

Georges Dassis

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