

World Trade Organisation

# China's push for status as a market economy

*The EU and US should be prepared to honour a longstanding deal*



The World Trade Organisation in Geneva

Fifteen years ago on Sunday, China became a full-fledged participant in the global economy by acceding to the World Trade Organisation. As if to underline the often fractious experience since, an agreement made by the WTO's other members when China joined is coming back to bite them.

Beijing is marking the anniversary by [launching a WTO case](#) against the US and EU. It charges Brussels and Washington with failure to honour a pledge in China's 2001 WTO accession agreement that it would by now be regarded as a "market economy".

This is a finely balanced question, and it is easy to see the EU and US's point. China is not a free market on any reasonable definition. Cheap Chinese imports from heavily subsidised industries, notably steel, have aroused anger worldwide, and featured heavily in Donald Trump's election campaign. Mr Trump has [unequivocally said](#) China is not a market economy. Despite this, Beijing has a strong case at the WTO, so Brussels and Washington need to be prepared to accept defeat and find other ways to address distorted trade.

Giving a trading partner "market economy status" (MES) implies accepting that its domestic prices are largely set by open competition rather than the government. Crucially, in trade

law it is easier to impose antidumping and countervailing duties against imports from a non-market economy. The aggrieved importing nation can pick an “analogue country” with which to make price comparisons rather than having to use data from the trading partner.

China’s case will hinge not on the current facts about its economy but on a clause in its 2001 accession agreement that seems to grant automatic MES after a 15-year period. The weight of legal opinion holds that China’s case is valid. But as the deadline has approached, so some governments and lawyers have rehearsed a counter-argument that the deal continues to allow China’s trading partners the right to grant MES or not according to their own laws.

If the WTO rules China’s way, which in any case will take a year or two to happen, Brussels and Washington should rapidly comply. Otherwise they risk undermining the rules-based multilateral trading system.

Far better than pinning everything on a WTO case would have been for the EU or US to have used MES as a bargaining chip to strike a trade deal gaining better access to the Chinese market — as have, for example, Australia and South Africa. Other options involve reforming anti-dumping law to make it better fit reality. The EU has recently announced plans to remove the distinction between market and non-market economies in its trade law, but its current proposal will give it far too much leeway to pick what data it wants and slap on whatever duties it likes.

In any case, Brussels and Washington must not simply ignore the agreement and any WTO rulings arising from it. It must be highly irritating for European and US officials to have to deal with problems arising now from documents drafted 15 years ago, at a time when China was expected to have liberalised its domestic economy much more than it actually has. So be it.

The absorption of such a rising giant as China into the world economy has been eased by the operation of a functioning system of global trade law under the WTO. It would be a retrograde step for the US and EU, the organisation’s two largest members, to ignore a clear commitment. If the WTO rules that China’s accession agreement automatically accords it the status of a market economy, Brussels and Washington should accept without delay.