

Chinese market economy? – The EU needs to secure its future



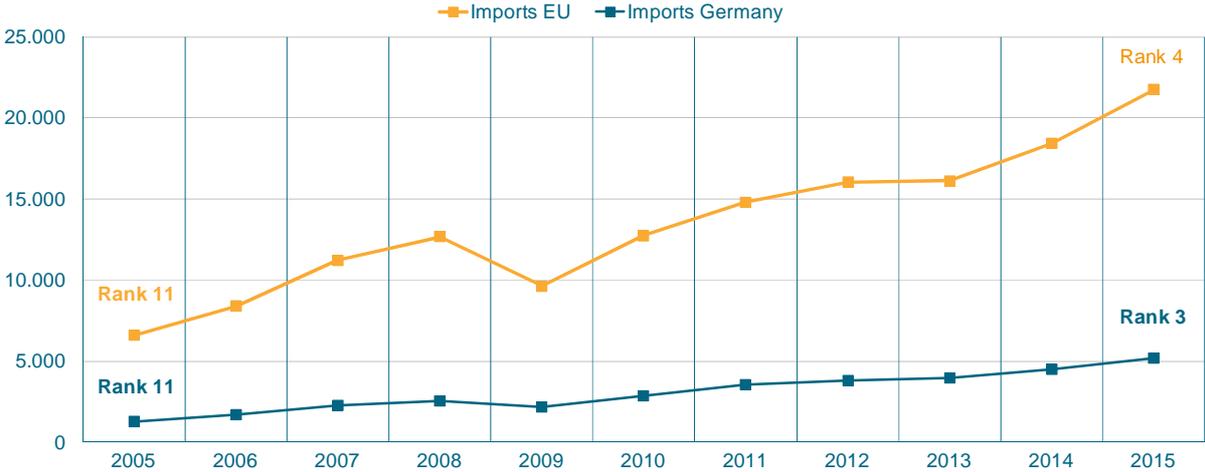
The German mechanical and plant engineering industry has been striving for free trade and fair competition on a global level for many years now. A free exchange of goods fosters innovation and technological development. Market distortions due to unfair practices are jeopardising these opportunities and are thus unacceptable. Until December 11, 2016 the European Union (EU) needs to make a decision as to whether China is to be granted market economy status and whether this involves changed conditions when analysing market-distorting activities by Chinese companies. Regardless of the results of the analysis, the European Union needs to make sure that it continues to have efficient trade defence instruments that take into account the actual market situation in China and in other countries as well.

Competitive pressure from China is increasing

Technological development in China has been remarkable in recent years. In 2005, China still ranked only 11th in the list of the most important supplier countries for Germany and the EU. In light of annual increases in exports in the two-digit range, this situation has changed considerably in the meantime. In 2015, China ranked 4th in imports to the EU and was even the third-most important supplier country for Germany (5.2 billion Euro) – and this trend is continuing in 2016 as well. Until March, exports from the Chinese mechanical engineering sector to Germany increased by about 13 percent to EUR 1.54 billion compared to the same period of the previous year. This development boosts China to be the number 1 supplier country. China is set to assume the technological lead in the medium-term with own innovations in numerous sectors under the umbrella of its “Made in China 2025” strategy. The future thus holds even stronger involvement of Chinese companies in European markets.

In anti-dumping proceedings, the mechanical engineering sector has only rarely acted as plaintiff, as it is still in a leading technological position in many sectors and is currently active in other market segments. However, in light of technological development in China and already existing excess capacities in some areas of mechanical engineering, this does not necessarily have to be the case in the future. For this reason, the EU needs to adopt a long-term perspective and align its strategy accordingly.

In Mio. EUR



Quelle: Federal Statistical Office, VDMA

Chinas market economy status – automatic granting by the EU?

The EU currently checks whether China needs to be granted market economy status automatically when the provisions of paragraph 15 a (ii) of China's Protocol of Accession to the WTO expire at the end of 2016. VDMA considers that the expiration of these provisions entails a change in the allocation of the burden of proof in anti-dumping proceedings.

Until now, the Chinese producers under investigation may demonstrate that market conditions prevail in their specific industry sector in China, in order to make sure that importing countries use Chinese domestic prices or costs in determining price comparability. In case Chinese producers cannot show that market economy conditions prevail in their industry sector, paragraph 15 a (ii) provides that another methodology - data from an appropriate third-country market economy - is used automatically in determining price comparability. Expiration of the provisions of paragraph 15 a (ii) could make it necessary for importing countries to demonstrate that in the industry sector Chinese producers do not operate according to market conditions, if they use data from a third-country market economy in determining price comparability. Already in 1998, the EU established five criteria to define a market economy. In the most recent review in 2011, it was found that China only meets one of the five criteria. Based on this, it should be possible in future investigations to show that Chinese producers do not operate according to market conditions.

The EU needs to retain effective defence instruments

The EU needs to make sure that effective trade defence instruments are in place in the future in order to take action against market-distorting activities and to protect the European industry. To make it easier to determine whether market economy conditions are prevailing in an anti-dumping proceeding, another option would be to create a new approach that would enable the European Commission to establish the market situation for individual economic sectors. In the case of China, the mechanical engineering sector is both exporting and importing. Anti-dumping proceedings should continue to focus on the actual damage incurred by the companies affected in order to create a fair balance of interests. This would mean retaining the existing lesser-duty rule.

Fostering international coordination

In answering the above question, the EU should work in close cooperation with important partner countries such as the USA, Canada, Japan and India. Unilateral granting of market economy status to China would harbour unpredictable risks and expose Europe to the danger of facing substantial shifts in trade flows. Many sectors in China are characterised by excess capacity, resulting in considerable market distortions in the area of raw materials in some regions of the world.

Conclusion

With an average export quota of 76 percent, open markets are of vital importance to the mechanical and plant engineering industry in Germany, which is facing international competition in the open European domestic market. An important objective of the EU is to establish fair international competitive conditions – and this also applies to China. With this in mind, the EU should determine in a factual and objective manner whether or not China meets the relevant requirements. If this is the case, China is to be granted market economy status. If not, VDMA cannot fathom why China should qualify for market economy status without any legal obligations.

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