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CHECK AGAINST DELIVERY

“China: strategic partner or strategic competitor”
Textiles, Clothing and Leather European Parliamentary Forum
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Intervention by Mr Piet Steel

Introduction

I am very pleased to participate in this conference. First, I would like to thank the Textiles, Clothing and Leather European Parliamentary Forum, and its President, Mrs Ferrer, for inviting UNICE to this meeting. China is, without any doubt, of great importance for European business as a key partner at international and bilateral levels. I think this could serve as a first answer to your question that gives the title to my intervention.

Speaking to you as Chairman of UNICE’s Asia-Pacific working group, let me briefly present UNICE position on EU-China relations and how to continue working towards strengthening mutual links on economic issues, bilaterally and in the WTO framework, particularly after the Cancún failure.

UNICE, the Union of Industrial and Employers' Confederations of Europe is the official voice of European business. It represents 16 million small, medium and large companies of all sectors through 35 business federations from 28 European countries, which means that it has already anticipated the EU enlargement.

One of UNICE's objectives is to actively promote a strengthening of the EU relationship with its main trading partners. However, UNICE is not involved in any kind of European export and investment promotion activities. In the field of external relations, UNICE's main objective is to improve European companies' access to third-country markets, to promote a level playing-field for European companies, defend European business interests actively when commitments are not respected and to facilitate business cooperation. UNICE strategy for China is no different.

In the framework of its external relations and trade initiatives, UNICE maintains close cooperation with the European textile and leather industry (Euratex, Eurocotton and COTANCE), mainly through regular contacts and their participation in UNICE working groups.

China as a strategic partner

Today, China is a commercial superpower, taking advantage of its integration in the WTO and the world economy. Its share of world exports has risen dramatically, more than five times over the last twenty years. With 6.9% of world exports, China is just ahead of Canada and behind Japan, the United States and the EU (19.5%). China has also recently passed the US as the main recipient of foreign direct investment in the world with inflows of around € 50 billion.

China is now overtaking Japan as the EU's third largest trade partner, and second trading partner outside Europe. China is the EU's second largest source of imports, and our fifth largest export destination. Total trade is worth € 115 billion, and is growing faster at around 18% a year.

But of course it is impossible to ignore the fact that the EU trade deficit with China is now an astounding 40% of the size of our total trade, which means roughly € 47 billion and increasing at a fairly rapid rate. This deficit is by far the largest the EU has with any trading partner and shows the great openness of the European economy.

Chinese accession to the WTO, which UNICE strongly supported, served to deepen market reforms, supporting further and faster integration in the world economy. Since its entry, China has made efforts to comply with its commitments. Clear results have been obtained in areas such as tariffs, which are reduced every year leading to concrete economic benefit in terms of market access.

Current issues for European business in the EU-China economic relationship

However, two years have passed since China joined the WTO and much still remains to be done. Special attention should be paid to transparency, elimination of burdensome regulations in some sectors and the dismantling of non-tariff obstacles to trade in goods and services which seriously limit the benefits of Chinese market opening.

Transparency and the rule of law are key elements for the successful modernisation of societies. Only when economic operators can work

within a stable set of rules administered in an impartial and predictable manner can they make the long-term commitments necessary for sustained rapid growth. In China too frequently imprecise legislation is combined with excessive discretion by authorities, especially at regional/local levels.

UNICE is also particularly concerned about the lack of effective enforcement of intellectual property rights in China, in part due to high thresholds required to prosecute IPR infringements, and the lack of enforcement at local level. The constant increase in circulation of counterfeit industrial products coming from China has a considerable negative impact on European companies.

Improved protection of intellectual property rights will particularly stimulate increased protection and marketing investments by high-tech companies and lead to a faster rise in the overall technological level. As China increases its research-based production, intellectual property rights will become an increasingly important issue also for Chinese companies.

Efforts should also be reinforced at all administrative levels, to ensure proper and uniform implementation of legislation by provincial and municipal authorities. Experience shows that discretion granted to the administration sometimes leads to inconsistencies in application of the law. Some clear examples might be the implementation of standards by different customs offices or the protection of intellectual property rights.

UNICE is also looking for more predictable customs procedures. Customs clearance in China is too often cumbersome and time-consuming. Businesses operating in China and with China should be closely involved in joint efforts to simplify customs procedures. Customs cooperation will be boosted with the rapid conclusion of the EU-China Customs Agreement.

The EU and China should continue cooperating closely to harmonise product standards and certification procedures to eliminate unnecessary duplication of tests and to streamline testing procedures.

Regarding request of China's for full "Market Economy Status" under the EC's anti-dumping instrument, UNICE considers that the conditions are far from being met, simply because China is not yet an open economy functioning in line with market rules.

Another important issue for European business is the lack of flexibility of the yuan/dollar exchange rate. China's peg to the dollar provides that country with an additional advantage and distorts competition. UNICE called on the EU before the last EU-China Summit, held in Beijing on 30 October, to encourage China to explore proposals that will help the yuan adjust to market forces while also maintaining financial stability.

Strengthening EU-China economic dialogue to overcome difficulties

Issues arising from market access problems in China, should be tackled urgently within the existing and future bilateral dialogue mechanisms. With this in view, UNICE welcomes the launch of the EU-China bilateral dialogue on industrial policy.

This dialogue, at government level, focuses on enhancing mutual understanding of policy approaches and legislation in the industrial sector, to facilitate EU business access in China, and a business-friendly level playing-field for industrial operators in China. Both horizontal and sectoral issues will be addressed. Business must be closely involved in this dialogue which is expected to produce concrete results for companies.

EU-China bilateral cooperation should also focus on tangible means of support for European companies to access the Chinese market, helping them in assessing market prospects and identify potential partners. This support remains the basic tool for economic sustainability of European SMEs going international in a global market.

Implementation of China's WTO commitments should be strongly accelerated. With that objective, the role of companies as actors on the ground which suffer from the lack of progress, is key to monitor and track Chinese implementation. UNICE supports the excellent work done by the EU Chamber of Commerce in China. Cooperation with representative Chinese business organisations should also be strengthened. Business needs to make its voice heard!

WTO DDA negotiations

The bilateral dimension is complementary to the WTO multilateral process. It is clear that multilateral and bilateral trade liberalisation should be pursued simultaneously.

UNICE is very disappointed with the Cancún outcome. This failure is a major setback for the WTO, for the Doha Development Agenda, and risks delaying negotiations well beyond the January 2005 deadline. Moreover, the breakdown in Cancún sends an overall negative message regarding international economic cooperation between states.

Those who will certainly be the most seriously hurt by the inevitable delays in the DDA negotiations which follow will be the smallest and the weakest countries and their respective populations. In addition these countries will suffer from the intensification and acceleration of bilateral and regional initiatives, which we are already witnessing

around the globe, and from which most of them are or will be excluded.

UNICE is continuing to work, as it did before and in Cancún, to build bridges with business from China and other parts of the world to improve mutual understanding and hence facilitate to get the DDA back on track as soon as possible, on the basis of a balanced agenda likely to produce concrete growth results within the shortest timeframe possible.

For UNICE, WTO activities should refocus on the primary objective of the organisation: trade liberalisation and facilitation. The negotiations should therefore concentrate on the pursuit of market liberalisation (industrial and agricultural products, services) in order to release new sources of economic growth for the benefit of all Members, and on the good functioning and consolidation/clarification of existing agreements.

Considering the new trade policy environment after Cancún, UNICE has as its main objectives better and further market access for European goods, services and investments in non-EU countries; non-discriminatory and national treatment and effective protection of EU investments abroad; similar competition conditions to those enjoyed by their non-EU competitors (level playing-field); and active defence of European business interests when EU trade partners do not respect their trade and investment obligations and commitments.

All WTO members, including China, should accept their responsibility and contribute to restoring confidence in the multilateral system and strengthening international economic governance. That would benefit all WTO members. In particular, developing countries need to foster trade between themselves in their own long-term economic interests.

Considering the significant role of China in the WTO and in the G-20, it is all the more important to strengthen the dialogue at all levels with that country to identify practical steps to overcome difficulties and move forward together at bilateral and multilateral levels in the interest of all us.

I thank you very much for your attention.
