



SPEECH

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ECONOMIC PARTNERSHIP WITH ASIA: A NEW CENTRE OF GROWTH FOR THE WORLD ECONOMY

Asia is becoming a key centre of economic growth for European business but this also underlines the need for greater sharing of responsibilities at a global level.

Positive aspects of Asia's economic growth:

- It has boosted trade and created a new Asian growth pole – in addition to North America and Europe. China and India, Asia's two most populated countries have growth rates of 10% per year
- It has lifted hundreds of millions of people out of poverty.
- It has created huge new markets for companies around the world.
- Sustained economic growth in Asia will change the global economic landscape. Asia could have the biggest GDP in the world by 2020.

Growing economic power = bigger role for Asian countries in international affairs. Three main areas for deeper cooperation and where the G8 can play a role to spur countries to action

1. international trade
2. macro-economic and monetary issues
3. enforcing market rules.

1. THE NEED FOR BALANCED AND OPEN TRADE

Asian countries are trade powerhouses:

- Japan exports about half as much as the European Union (around €500 every year for Japan and €1 trillion for the EU) although the EU has about 4 times Japan's population.
- Japan has benefited from growth in emerging Asia (China, ASEAN, India) by boosting its exports and restructuring its manufacturing industry.
- Japan remains the leading industrial player in the region and therefore has a key role to play in the G8 context.
- China became the biggest exporter to the EU in 2006 (trade surplus of close to €200 billion in 2007).
- Is this trading relationship sustainable over the long term? Many EU companies benefit from producing in China but some industries suffer.

- India is still a small player in international trade (around 2-3% of international trade) but high growth rates and rapid development will make it a major economic player in the future.

What policies are needed for emerging Asian economies?

- Japan, the EU and the US must cooperate to integrate emerging Asian economies successfully into the open multilateral trading system.
- To act as an "engine for growth", Asian economies cannot just export to the US and Europe, they must also take in imports from other major economies.
- Banking crisis and recession in the US underscore the need for Asia – and Europe – to do more to drive global economic growth.

Reject protectionism, Embrace ambition in the WTO

- The key to restoring a sustainable balance in trade and growth is not protectionism but multilateral trade negotiations in the WTO.
- But the WTO needs to level the playing field for trade by reducing industrial tariff and non-tariff barriers and opening markets for services much more in emerging Asia (China, India) than currently proposed in Geneva.
- The G8 should send a clear message on the need for real liberalisation in the WTO Doha Round.

Pursue open bilateralism

- The EU has launched free trade negotiations with Asian countries that still have high industrial tariffs – like Korea, ASEAN and especially India.
- To address the many challenges EU companies are facing when trying to access the Chinese market, the EU will set up a new Trade Dialogue with the Chinese government.
- The EU, the US and Japan, which all have special economic dialogues with China should work together to make the case for market based reforms. China and our economies will benefit from open markets.

- There is no clear EU strategy for Japan. But BUSINESSEUROPE is advocating for a new framework for binding regulatory cooperation to boost business development.
- Japan has virtually no industrial tariffs; there is a greater interest in dealing with regulatory problems in the future.
- Japan and the EU have much to offer one another to improve the business climate in terms of regulation. Japan has good policies to favour technological development and innovation. The EU has good policies in relation to standards and technical regulations. By working together, we can strengthen our competitiveness.
- Bilateral negotiations as substitutes for multilateral trade rules but rather as complementary routes to go beyond what is possible in the WTO.
- We must avoid bilateral economic deals that lead to major trade distortions or diversion.
- It would be important for G8 countries to send clearer messages on their commitment to multilateral over bilateral trade negotiations.

MOVE TO MARKET BASED EXCHANGE RATES

- We must not overlook the issue of exchange rate misalignments.
- The burden of the current dollar weakness on the market shares and profit margins of European companies is made stronger by the large number of countries which currencies remain tightly linked to the US dollar.
- The trade balance vis-à-vis major players of the “dollar area” has deteriorated significantly in recent years, particularly vis-à-vis China.
- BUSINESSEUROPE does not blame the lack of competitiveness and slow reform progress in certain EU Member States on the strong euro. Nevertheless concerns can no longer be ignored.

The monetary reform priorities are clear:

1. Europe must learn to live with a strong currency. It must put its own house in order and step up the necessary reforms to boost competitiveness.
2. Europe needs to organise its international voice and better coordinate positions on the exchange rate. This must be done both between countries sharing the single currency and between European G8 participants.
3. Europe must push for the G8 to better address the responsibility of its members in solving global imbalances. A stronger position must be developed on ways of alleviating the US dollar weakness while ensuring appropriate burden-sharing among major global economic players.
4. Closer integration of emerging economies in discussions on issues of global economic relevance is urgently needed.

At the bilateral level

- Steps are being taken to foster a deeper dialogue with China, but the issue of the appropriate representation of emerging economies in multilateral institutions will need to be addressed without taboo.
- Excess volatility and disorderly movements in bilateral exchange rates between the major global trading partners are a cause of concern and

should be addressed adequately in the G8 so that we can move toward purely market based exchange rates among major international trading economies.

The role of Asia as a centre of global economic growth entails more than macro-economic trade and monetary considerations. Business federations share a firm commitment to market-based solutions to global problems and that is why we need to work together to boost international cooperation on enforcing market rules.

ENFORCE MARKET RULES

The rise of new economic players in Asia like China or India is welcome but countries that take advantage of the global market to export or to attract investment also have a role to play in enforcing the rules of the global market in areas such as investment, intellectual property rights or access to raw materials.

1. Freedom of Investment

- We share a common commitment to freedom of investment because we defend the rights of our shareholders.
- Freedom of investment is at risk today in industrialised countries where governments are looking to transform foreign investors and especially Sovereign Wealth Funds into a national security “bogeyman”.
- In many emerging countries (and in some industrialised countries) there are considerable restrictions to foreign investment which increase risks for companies and reduce opportunities for cooperation between companies.
- The G8 countries strongly declare their commitment to defend freedom of investment in Hokkaido.
- Dialogues between industrialised countries and emerging countries on investment need to be invigorated to remove unwarranted investment restrictions.

2. Protection of Intellectual Property Rights

- Another key area linked to investment is the protection of intellectual property rights (IPRs) where increasingly the intangible value of companies is to be found.
- It is essential for business that IPRs are strictly enforced. China remains a country of particular concern.
- Close cooperation between EU, Japanese and US business in the Trilateral Committee on IPR is very positive.
- We must call on all G8 business colleagues to strongly support the Japanese government initiative for a new International Anti-counterfeiting Trade Agreement (ACTA).

3. Market rules for raw materials

- The rapid growth of emerging economies in Asia has strained global commodities markets and companies need to deal with much higher prices. If rises in raw materials and commodities prices are driven by market forces, business needs to adapt.

- There are growing concerns about heavy-handed government intervention distorting global markets for raw materials.
- Export restrictions or dual pricing of raw materials distort international prices and create trade tensions.
- The Chinese government's active role in setting raw materials prices in China and in expanding its control over raw materials in resource-holding countries is causing considerable concern for industry.
- Business has a clear interest in supporting open markets for the development and trade of raw materials and this should be actively supported by the G8 countries.

Conclusion

The G8 Business Summit provides a great opportunity for us to advocate in favour of open markets, closer economic cooperation and to address fundamental changes in the global economy. Clearly, we need to step up cooperation in all of these areas over the next few years to defend the open global trade and investment system which companies need to succeed in globalisation.
