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**EPC POLICY DIALOGUE:  
DOING BUSINESS IN CHINA AND THE EU: OPPORTUNITIES AND PITFALLS**

Speaking notes for Philippe de Buck, BUSINESSEUROPE Secretary General  
Wednesday, 22 October, 15h00–17h00  
Sofitel Brussels Europe, Place Jourdan, 1, 1040 Brussels

Ladies and Gentlemen,

We have gathered to discuss the situation of EU business in China. I think that everybody is well aware of the fact that China is a hugely important and rapidly growing trade partner for European business.

**1. Trade**

Just to give you some figures:

- Since 2006 the EU has been China's biggest trading partner and since 2007 China has been the EU's second largest trading partner.
- In 2007, bilateral trade continued to grow rapidly, amounting to 302 billion Euros, which meant an increase of almost 45 billion Euros compared to 2006. In detail, China's exports to the EU grew rapidly by 18.7% and were valued at 231 billions Euros. This is in sharp contrast to the EU's export to China, which also increased significantly by 12%, but otherwise only amount to 71.6 billion Euros.

These figures show that China's rapid integration in the world economy and its increasing interaction with the EU offers significant opportunities for European business. The EU and China should therefore work together to make sure that the trading relationship continues to grow.

However, the figures also show that the EU's trade deficit has increased rapidly and amounted to 159 billion Euros in 2007. But it is also true that despite the widening deficit, the share of EU imports from Asia has remained notably stable over the last ten years. Moreover, we have to consider that the sharp rise in the share of EU imports from China has been offset by a similar decline of imports from other Asian countries. This can be explained to a large extent by the relocation of supply chains to China as the final assembly point.

## **2. Exchange rate**

Otherwise, it should also be borne in mind that the increasing trade deficit is reinforced by the undervaluation of the Chinese Renminbi. China has to realize that an undervalued currency is not only damaging for the global economy, and in particular for Europe, but also for China's domestic interests. The sustainability of China's strong economic growth is impaired by inflation, excessive liquidity and asset price bubbles. A more flexible currency regime is essential for a rebalancing of the Chinese economy, allowing for a more rapid appreciation of the Chinese currency. In that perspective, the recent decline of the Euro against the Chinese Renminbi is a positive development for European trade and the Chinese economy.

The EU and China should place exchange rates, trade and investment at the core of their relations. A very good initiative had already been taken last November by the joint visit of Commissioner Almunia, Eurogroup President Juncker and ECB President, and we are happy that a further visit is planned before the end of this year.

This being said, I would like to turn now to another area of increasing concern for European companies. This relates to the growing trend of state intervention. Those harmful state practices distort free market access in China and equal market conditions for European companies.

## **3. Investment**

One example of a very distorting practice is the strong limitations put on investments, which still require 50%-50% joint ventures: for example, China's 11th 5-Year Program (2006-2010) for Utilizing Foreign Investment urges large multinationals to move their high-tech and high-value-added processing facilities and R&D capacities to China. This forced technology transfer interferes in the independent decision-making of companies and is not in line with WTO rules. Moreover, it bears a huge risk of counterfeiting for companies, due to the lack of intellectual property protection in China. I will get back to that issue.

### **3.1 Market Economy Status**

Another ongoing debate is about granting Market Economy Status (MES) to China. This would have strong implications for European companies. We know that the Chinese authorities are strongly pushing for getting this status. BUSINESSEUROPE therefore calls upon the Commission to ensure that the matter is dealt with according to its merits and avoid unwarranted politicization of the issue. China must fulfill the established criteria in the five areas, which are

- government influence over the allocation of resources and decisions of enterprises;
- absence of state-induced distortions in the operation of enterprises linked to privatization;
- existence of a transparent and non-discriminatory company law;

- existence of a coherent, efficient and transparent set of laws concerning bankruptcy, intellectual property and property laws;
- and existence of a genuine and independent financial sector.

Although China has made some substantial progress, we have not seen evidence that these criteria have been yet met.

### 3.2 Intellectual Property Rights

Another, if I may say, “hot issue”, has been for years now the inadequate protection of intellectual property rights. We acknowledge that China definitively made progress over the past years in streamlining its intellectual property legislation. One recent further encouraging step has been for example the promulgation of China’s National Intellectual Property Strategy last June. However, despite these important positive developments, the scale of the problem continues to grow. In particular the effective enforcement of IP rights remains highly problematic, notably at regional and local levels.

Also the scale of the production of counterfeit and pirated goods inside China remains at an alarmingly high level. In 2006, 79% of all counterfeit goods seized at EU borders came from China, compared with 54% in 2004.

In addition, technical barriers of a regulatory nature are also detrimental to access to the market for foreign industry. It is important to stress that the Chinese legal framework must be appropriate and in line with international standards. The EU-China Dialogue on Intellectual Property, established in 2003, has to deliver on its expectations and produce tangible results. Its main themes remain the strict enforcement of IPR, including reinforced customs controls and border management, as well as the promotion of public awareness of the dangers of IPR violations.

### 3.3 Access to raw materials

A further high priority for Europe’s diverse and interdependent industries is securing a level playing-field for access to raw materials. The EU imports as much as 80% of some industrial raw materials, so it is therefore crucial that the objective of a level playing-field for access to natural resources and unfettered trade is pursued. Unfortunately we have to state that China increasingly resorts to export restrictions on raw materials, providing a poor example for other nations to keep or adopt similar policy measures. These are for example licenses and taxes for coke, phosphor and copper exports. These practices need to be tackled with urgency. We call upon the EU to address this problem at multilateral level – this means during the Doha round negotiations – and also in its bilateral relations.

### 3.4 Climate change

I would also like to say a few words about a common approach to climate change. It is crucial that the EU works towards reaching a truly global agreement by 2009 in Copenhagen, which must include all major emitters on the principle of common but

differentiated responsibilities. We should bear in mind that China has already overtaken the USA as the country with the highest absolute CO<sub>2</sub> emissions. It is essential in that perspective that China accepts its responsibilities and takes up its global share in reducing emissions. The EU and China should increase cooperation on global approaches that involve all nations to ensure the sustainable use of natural resources and to combat the risks of climate change.

The Kyoto Protocol has created mechanisms which allow developed countries to finance emission reductions in developing countries and thus produce credits which can be used to meet their own reduction obligations. “Joint Implementation” (JI), and especially the “Clean Development Mechanism” (CDM) constitute very important vehicles for cost-efficient emission reductions and are the first step towards a global carbon market. This could eventually reduce global costs of emission reduction by 70%. However, the volume of emission reductions mobilised by CDM and JI so far does not match the scale of the challenge. Therefore, their long-term future must be guaranteed, as must be their scope must be enlarged (supporting e.g. forestation, nuclear energy, renewable and clean coal projects).

Ladies and Gentlemen, the EU and China share an interest in having an efficient, transparent and predictable trade relation. Some market access barriers in China have already been removed which allows us to take full advantage of the business opportunities over there. However, huge obstacles for EU firms still exist. A 2006 study, financed by the European Commission, showed that Chinese non-tariff barriers cost EU companies more than 21.4 billion Euros a year in lost business opportunities.

Moreover, further opening markets would not only benefit both the EU and China, but also increase benefits for Chinese consumers and longer-term prospects for the competitiveness of Chinese business. For example, if China was to adopt international standards and technical regulations, and apply its WTO commitments, Chinese companies would be able to compete more effectively with the latest technology on foreign markets where international standards are the norm. In that context I would also like to call upon the Chinese authorities to take up its responsibilities and to contribute fully to an ambitious and balanced outcome of the Doha round, with new market access on industrial goods and services.

Ladies and Gentlemen, European companies are very active in China and see a lot of market opportunities. However, as being said, they are also still facing a huge number of trade hurdles and market access barriers. Therefore companies need to have a clear China “strategy” which must reply to several questions – if to go, what to trade, what to invest, how to defend their investment interests?

BUSINESSEUROPE has high hopes and is following very closely the new EU-China High Level Economic and Trade Mechanism, launched in April by the European Commission and the Chinese government. We support this new structure and expect that it will not only give the new strategic impetus to EU-China trade relations but also deliver clear and tangible results in several areas.



Before concluding I would also like to pay tribute to the excellent work of our colleagues abroad, in particular the EU Chamber of Commerce in China. They are doing a great job and provide us with very substantial information about the latest state of play.

I also hope that the EU-China Summit on 1<sup>st</sup> December in Lyon will make some significant progress in improving EU-China trade relations. The European business community will also continue actively its involvement and debate these and other issues during the EU-China Business Summit, which will be held on the margins of the political summit.

I thank you for your attention and look forward to our interesting discussion.

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