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SPEECH

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BOOMING ASIA AND THE EU AFTER THE CRISIS: ECONOMIC OPPORTUNITY OR GEOPOLITICAL CHALLENGE?

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Ministry of Trade of the Czech Republic, Politických vězňů 20, Prague 1

Panel III: Towards a united EU strategy (in penetrating the Asian markets) in the context of Asian countries' economic instruments (designed to promote exports and growth of their economies)

Speaking notes for Carsten Dannöhl, Senior Adviser, International relations department

Ladies and Gentlemen,

- Thank you very much for having invited me today to address this conference. It's a great pleasure for me to be here.

- Before going into my presentation, I would like to say a few words about BUSINESSEUROPE, which is the Confederation of European Business. Through our 40 member federations in 34 countries across Europe, we represent more than 20 million small, medium and larger companies. We are very honoured that we can count SPCR, the Czech business federation, among our members. Together, we take an active part in promoting a European Union of common values and rules, offering companies a favourable and competitive environment which allows them to create growth and jobs, for the prosperity of all European citizens.

Introduction

- We are following EU policies in all fields of importance for the business community. The EU's trade relations are a very important aspect. We think that the EU's Common Commercial Policy must work to support EU competitiveness, and is therefore a crucial component of the EU's 2020 growth strategy!

- Trade policy must therefore deliver real market access for European companies, to enable them to growth and boost employment. There are several components to such a market access strategy:
    - Avoiding and fighting protectionism;
    - Advancing multilateral and bilateral negotiations;
    - Arranging regulatory cooperation;
    - Asserting EU interests when cooperating with strategic partners;
    - Addressing enforcement needs.

- I cannot go into details on all of these issues, so I will focus my presentation on two very important aspects: Advancing multilateral and bilateral negotiations. What are our priorities on the Doha Round, and in the EU's bilateral trade relations with Korea, ASEAN, China and Japan?

Multilateral trade negotiations: A successful Doha Round will boost global growth

- The Doha Round is our top trade priority! It is economically important as an insurance policy, a tool for companies to save money, and most importantly as a growth driver.

- The Doha Round is an important insurance policy because it will align WTO commitments with the applied tariff levels in most countries.

- The Doha Agreement will also reduce applied or real tariffs significantly. With the package currently on the table, the duties paid worldwide would be cut by around $ 90 billion annually or a 25% savings on customs duties worldwide for businesses. Tariff cuts along will boost global growth by at least 1%.

- But the Doha Round should do much more by looking at ways to drive new growth. Sectoral tariff liberalisation on key intermediate goods like chemicals or machinery would be a global boost. We have been supportive to the recent EU initiative on the sectoral negotiations.

- This being said, we are very much aware of the state of the Doha round negotiations. The Easter texts have been disappointing, they have confirmed that negotiations are stuck. Clear political will and courage is now necessary from all sides, by developed and developing countries! Key emerging countries, in particular Brazil, India and China, will also have to make contributions according to their economic and political weight.

- If our negotiators cannot advance the Doha Round in 2011, there is a serious risk that business leaders will lose interest in the deal. Quite simply, 10 years of negotiations is far too long to keep corporate leaders engaged. And it would be a shame if the natural allies of freer trade abandoned ship.

Bilateral trade relations

- While we are firmly committed to successfully concluding the WTO Doha Round, we also think that bilateral free-trade agreements are essential to increase market access for European companies.

- Commercial interests and economic factors must continue to be the determinants of new discussions. Ultimately companies will benefit most from liberalisation with Europe's biggest trading partners, and fast growing but highly protected economies. The choice of partners should be based on serious and comprehensive analysis.

- But trade negotiations will prove meaningless without a strong EU enforcement policy to ensure that trade partners live up to their commitments. Europe's market access strategy should take a firmer line against countries which do not respect their international trade commitments.

Some specific examples as different countries require different approaches – but the objective is clear: Deliver real market access!

a) Korea

- The EU-South Korea Free Trade Agreement will bring significant benefits to a majority of European firms. We have supported its ratification, accompanied by strong implementing measures.

- These must address the concerns of parts of the business community by using all avenues provided under the terms of the agreement. The measures must ensure that both parties abide fully by their commitments – especially in the removal of non-tariff barriers and regulatory cooperation – and that safeguard procedures are enforceable and duly applied where justified.

b) ASEAN

- In 2009, EU-ASEAN trade represented almost 1% of total world trade. The EU is ASEAN's 2nd largest trading partner after China accounting for around 11.2 % of ASEAN trade. ASEAN as an entity is the EU's 5th largest trading partner accounting for €118 billion (exports and imports).

- The EU main exports to ASEAN are chemical products, machinery and transport equipment. The main imports from ASEAN to the EU are machinery and transport equipments, agricultural products as well as textiles and clothing.

- South East Asia's current economic strengths and its great longer-term potential continue to make it an attractive region for investment by EU economic operators. On average, EU companies have invested €10.4 billion a year for the period 2006 to 2008. The EU is by far the largest investor in ASEAN countries.

- We have been in favour of opening up markets in the countries of the region, where many trade and investment barriers remain, notably equity caps and complex rules of origin and other non-tariffs barriers. We would have favoured a region to region FTA (= EU-ASEAN), but as this seems to be impossible, we support the conclusion of bilateral FTAs with the countries that are willing to do so.

- A comprehensive FTA must hereby cover not only tariffs cuts and removal of non-tariffs barriers in manufacturing and agriculture goods, but also services, IPR, Investments and public procurement.

c) China

- China is an opportunity and a challenge: its rise as a major economic power has and will continue to have a significant impact on European businesses. China is expected to be the largest contributor to global GDP over the next five years.

- The EU now has a €150 billion annual trade deficit with China. However, compared with trade in goods, services trade and foreign investment flows are still relatively small between the EU and China. This is because China has developed primarily as an industrial economy – often referred to as the "factory of the world".

- Although this deficit is compounded by China's pegged currency policy, which keeps prices for Chinese exports artificially low, we are not especially alarmed about this trade deficit in bilateral exchanges. A large share of this deficit is characterised by the fact that semi-final products and components are imported into China, assembled there and afterwards exported to third markets. This so-called 'processing trade' accounts for nearly 50% of total Chinese exports.

- China is a significant growth market for the near future. However, access to the Chinese market comes at an increasingly high technology price. Indeed, the biggest threat to EU businesses from China is the growing pressure to transfer key industrial technologies in exchange for market access. There is a huge range of tools through which the Chinese government enables transfer of technology from foreign investors on non-commercial terms.

- Over recent years, China has also continuously increased its share of world trade. This is a huge challenge for EU companies:
  - Chinese low-cost goods are very competitive in emerging and developing countries, which puts strong pressure on EU exporters in low-end markets.
  - As Chinese procurement projects are clearly subsidised through Chinese export credit schemes and development aid, EU procurement providers find it increasingly difficult to compete.

- For this reason the EU needs to redefine its strategy towards China:
  - the EU must pursue a much more coherent strategy on core issues like the protection of EU technology, fighting Chinese

subsidies, ensuring real market access on the Chinese market, and dealing with the threat of retaliation;
  - the EU will need to find ways to build leverage in its negotiations with China either by granting concessions or by imposing more reciprocity in access to the EU market. To achieve this, EU member states should provide the EU with a clear and concise mandate to negotiate a strategic economic partnership with China.

- In addition, major EU political summits with China should focus on advancing bilateral and multilateral negotiations on important economic issues. Key agreements for the business sector are:
  a) WTO Government Procurement Agreement,
  b) WTO Doha Round,
  c) UN Climate Negotiations,
  d) a potential bilateral investment agreement.

Japan

- The EU and Japan are trading and investing far below their potential. Compared to the US, the figures are amazingly low:

  Inward investments in the EU:
  - Stock of US investments in the EU (in 2009): €1,044.1 billion
  - Stock of Japanese investments in the EU (in 2009): €135,3 billion

  In other words, US companies have invested in the EU 8-times more than Japanese companies.

  The situation is even more striking when it comes to outward investments:
  - Stocks of EU investments in the US (in 2009): €1,134 billion
  - Stocks of EU investments in Japan (in 2009): €84 billion

  This means that European companies have invested 13,5-times more in the US than in Japan. This puts some serious doubts on the openness of the Japanese market.

- The EU-Japan Summit this weekend decided to launch straight away a so-called 'scoping exercise' for a possible launch of FTA negotiations. The 'scoping exercise' is kind of a roadmap where both sides agree which issues they will negotiate in the FTA. We expect that it will take around six months until it is finalised. In parallel, the

Commission will start preparations to obtain a negotiating mandate from EU member states.

- After the developments during the last weeks, and several public statements made by political leaders, we had widely anticipated that the Summit would agree to such a scenario. But an FTA with Japan will only change our trade relationship when effective and comparable market access is demonstrated for European companies in Japan.

- The major obstacles in the Japanese market encountered by our companies are complicated and convoluted non-tariff barriers and regulatory divergence. The Japanese government must now fully commit to open its market to competition from Europe. This must be done by giving concrete proof of its determination to eliminate sensitive obstacles to trade and investment.

- What we mean with this are concrete commitments:
  - to remove existing non-tariff barriers and make a commitment not to erect new ones in future;
  - to open up procurement and distribution markets to competition;
  - to eliminate investment restrictions, including the opening up of services markets;
  - to open up its market where it has peak tariffs (e.g. agriculture, processed foods, leather, footwear) on EU products.

- Before embarking on free-trade negotiations, the Japanese government will have to demonstrate its willingness to liberalise these sectors of its economy.

Conclusion

- By focussing on different countries and regions, I wanted to show that there is now ‘one size fits all’ solution. We have to identify our requests and adapt our approaches to the different trade partners.

- In all our trade relations, however, we expect that the full range of barriers is tackled that companies might face by in these markets: tariffs, additional duties on imports, export duties, non-tariff barriers including regulatory measures, restrictions on trade in services,

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investment barriers, public procurement, intellectual property rights, access to raw materials, dual pricing, coherent rules of origin, governance issues,…

- BUSINESSEUROPE wishes to see high quality results in all cases, but will not support long drawn-out discussions that have little hope of conclusion. If no progress is being made, negotiations should be re-evaluated in order to adapt them to deliver on their initial pledges.

- I thank you for your attention and look forward to our discussions.

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