



14 October 2011

### **RIISING TO THE CHINA CHALLENGE THE FUTURE OF EU-CHINA ECONOMIC RELATIONS**

**EPC POLICY DIALOGUE  
14 OCTOBER 2011-10-14**

**ADDRESS BY JÜRGEN R. THUMANN  
PRESIDENT, BUSINESSEUROPE**

Dear Commissioner De Gucht.  
Dear Mr Chong.  
Dear Mr Martens.  
Ladies and Gentlemen.

Thank you for joining us today at this event, organised by the European Policy Centre and BUSINESSEUROPE. It is a pleasure to work with the European Policy Centre to present our report and to engage in an open debate on EU-China relations.

I am also very grateful that such high-level panellists will comment today on our report. Especially thanks to you, Mr De Gucht.

We look very much forward to your views on the future of the EU-China relationship. I hope that you can give us some positive news on how some of our recommendations can be implemented in practice.

Last but not least, ladies and gentlemen, we thank you very much for your interest in our new report on the future of EU-China relations.

Ladies and gentlemen, China's market reforms and impressive economic growth have been historic in their proportions.

Over the past 15 years, China has tripled its global export market share from around 5 to over 16%.

This places China well ahead of Japan (9%) and the United States (12.5%) and just behind the EU (19%). China's exports have risen in more than five-fold during the last decade (from around €201 bn in 2001 to €1189 bn in 2010).



Chinese companies have also become formidable competitors in a large number of key industrial sectors.

But in spite of the competitive challenge, European companies have clearly benefited from China's industrial development. And we remain convinced that EU companies will continue to benefit when the conditions are right.

This being said, China continues to be a special case for foreign business.

Whether it is the allocation of resources, investments, or access to raw materials – the State, still controls the “commanding heights” of the economy in China.

Invariably, there are several challenges associated with this.

First, China implements a strong industrial policy that affords preferential treatment to Chinese companies. State-owned-enterprises in particular benefit from these policies.

We believe that Chinese industries are strong enough to compete on a level playing field.

The EU, which has experience in applying competition rules to state-owned-enterprises, is a good model for future Chinese reforms.

Second, we would like to see more openness in China's public procurement market.

When China joined the WTO in 2001, it committed to become a party of the Government Procurement Agreement. Ten years later we are still not there.

Third, conditional market access and foreign ownership restrictions. Both reduce the business potential for foreign companies. In strategic and key industries it is simply impossible for foreign companies to establish an independent foothold in the Chinese market.

In addition, access to the Chinese market is often conditional on the transfer of technology on non-commercial terms. The OECD still considers China one of the most restrictive countries for foreign investment in the world.

Fourth, China has made substantial progress in streamlining its intellectual property legislation and increased efforts to implement multilateral rules in this field. However, effective enforcement of IPR remains problematic.

The good news is, China is aware of this problem. It increasingly affects Chinese companies!

Finally, subsidies. Subsidies are widely distributed through the Chinese economy in the form of soft loans and others. Subsidies are a very serious issue for European industry.



We call on the EU to take every opportunity to pressure China to reduce subsidies. This includes support for trade defence action by the Commission including *ex-officio* anti-subsidy cases.

Now, ladies and gentlemen, let's have a look on China's presence in Europe.

Chinese companies are increasingly engaging in commerce with Europe. This is welcomed. It shows that Europe is an attractive and competitive investment destination.

However, we also cannot ignore that European companies do not receive the same level of openness in China. To address this situation, we advocate the negotiation of a bilateral investment treaty.

Another issue which needs to be discussed is procurement.

The European procurement market is open to international competition. However, the recent participation of Chinese companies in EU tenders at below market costs suggests that they are operating with subsidies.

We need a level playing field and urge the EU and China to foster this mutual openness in their public procurement markets.

Lastly, we are concerned about China pursuing an aggressive raw materials policy.

You have certainly heard about the recent case at the WTO, condemning China's policy of restricting exports of several key raw materials.

While we recognise China's efforts to reform its mining sector, this must not come at the expense of companies in Europe.

We call upon the EU to implement a strategic raw materials policy to address these concerns.

Ladies and gentlemen, looking at all these issues, the question is how best to overcome them.

We, BUSINESSEUROPE, call for a mature relationship between the EU and China.

What do we mean by that?

Despite the many common interests between the EU and China, there are a number of issues where positions differ.

Both sides have the right to defend their interests in a strong way. However, disagreements should be dealt with in a spirit of cooperation and transparency.



Threats, retaliation, or other unjustified measures will hamper possible common solution and the establishment of close and long-lasting ties.

We would also like the EU to cooperate with China as a coherent block. EU member states should not sacrifice common goals for individual interest.

For example, we would like to see the EU reacting systematically by applying the three musketeers rule:

If one EU member state or major interest is threatened, all EU member states should react as one.

In the system of the already established EU-China dialogues we would like to see

- the **High Level Economic Dialogue** to define a work programme for bilateral negotiations to remove trade barriers on both sides;
- The **EU-China Macro-economic dialogue** to cooperate to support global adjustments of macroeconomic imbalances and exchange rates;
- And the **Political Summits** should be used to advance negotiations on China's accession to the WTO Government Procurement Agreement or the negotiation of an EU-China bilateral investment agreement.

These dialogues will not solve each and every problem. But they can be used effectively to deepen our economic cooperation and to foster mutual understanding between the people of the EU and China.

Thank you very much for your attention.

I invite all of you to read the in depth analysis of our report which is available on our website.

\*\*\*\*\*