

8 May 2006

UNICE POSITION PAPER ON EU-CHINA RELATIONS

Summary

China represents a hugely important and rapidly growing market for European business. China's rapid integration in the world economy and its increasing interdependence with the EU offers significant opportunities for European business.

Although bilateral trade and investment relations have grown enormously in recent years, competition from Chinese companies is putting new pressure on EU business. The stakes are significant for Europe's global competitiveness and for the sustainability of China's economic growth.

In UNICE's opinion, the European Commission must adopt a more resolute and coordinated strategy vis-à-vis China ensuring a level -playing field for EU companies. A new EU strategy should, first and foremost, place the competitiveness of European companies as its core objective so that they can play their role in growth generation and job creation.

Considering this, UNICE expects the Commission to focus on problem-solving and to address the numerous challenges that business is facing in China by:

- Strengthening the EU's coordination and capabilities to negotiate with China on economic matters.
- Promoting access to the Chinese market for EU companies.
- Ensuring non-discriminatory treatment and effective protection for EU investment, taking into account Member States' competences.
- Encouraging China to implement its commitments and shoulder its responsibilities in the WTO.
- Increasing regulatory cooperation activities.
- Pushing for effective enforcement of intellectual property rights (IPR).
- Ensuring implementation of the necessary reform criteria for market economy status (MES).
- Supporting the adjustment of the Chinese currency (yuan) to market forces.
- Negotiating a new EU-China economic agreement based on reciprocity.
- Placing trade and investment issues at the core of the bilateral relationship and making a real commitment to solve the numerous challenges that business is facing in China.
- Further coordinating approaches on resources and energy issues at bilateral and global levels.

The future development of EU-China economic relations is a key factor for EU business. The attitude and strategy of the EU institutions vis-à-vis China may have a decisive impact on the capacity of EU companies and the European economy as a whole to really benefit from such relations.

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Introduction

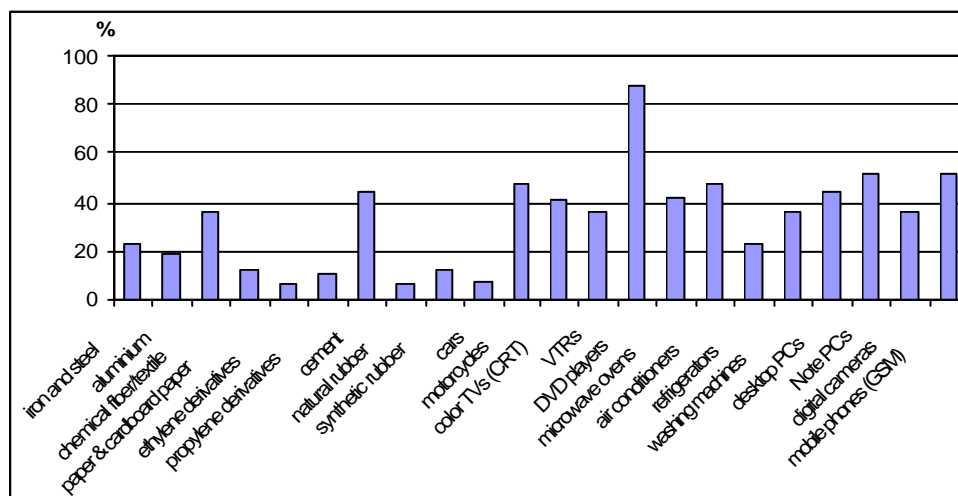
China represents a **hugely important and rapidly growing market for European business**. China's impressive record of economic reforms and economic growth has led to its emergence as a major economic power. China's rapid integration in the world economy and its increasing interdependence with the EU offers significant opportunities for European business.

In 2004, total EU-China bilateral trade in goods reached € 175 billion, making China the EU's second largest trading partner, while Europe is the main partner for China. Bilateral trade is, however, marked by a strong trade deficit in favour of China of around € 78 billion. The EU and China should work to make sure that the trading relationship continues to be economically sustainable for the two partners.

Although bilateral trade and investment relations have grown enormously in recent years, competition from Chinese companies is putting **new pressure on EU business**. This is raising concerns over China not implementing economic and trade rules, which unfairly puts in jeopardy the international competitiveness of European business.

Competition from low-wage countries is not new for EU business, but not at the trade volume coming from China. Moreover, China is also developing competitive industries in high technology products. It has specialised in a range of production activities which compete with a broad variety of companies in several industrial sectors.

China's share of global output in 2003 (by product)



Source: Japan External Trade Organisation (JETRO), 2004 JETRO White Paper on International Trade and foreign Direct Investment

Rapid changes in bilateral EU-China relations are also posing **important challenges**. The stakes are significant for Europe's global competitiveness and for the sustainability of China's economic growth.

1. The EU needs a more resolute strategy on China

The European Commission must adopt a **more resolute and coordinated strategy vis-à-vis China ensuring a level -playing field for EU companies**. The importance and size of the bilateral relationship and the magnitude of the implications for the EU demand a well-defined vision of the opportunities, objectives, challenges and means to address them for the next few years.

A new EU strategy should, first and foremost, place the **competitiveness of European companies as its core objective** so that they can play their role in growth generation and job creation.

Although China has made progress towards a comprehensive business regulatory framework, a lot remains to be done in respect of transparency, predictability and effective implementation of rules on trade and investment.

UNICE is strongly supportive of intense EU-China political dialogue/cooperation, but it believes, however, that the EU and China should **place trade and investment at the core of their relations**. Companies need to work in a predictable economic environment which is incompatible with the sporadic politicisation of issues over which companies have no influence.

Considering this, UNICE expects the Commission to focus on problem-solving and to address the numerous challenges that business is facing in this country by:

- **Strengthening the EU's coordination and capabilities to negotiate with China on economic matters.**
- **Promoting access to the Chinese market for EU companies.**
- **Ensuring non-discriminatory treatment and effective protection for EU investment, taking into account Member States' competences.**
- **Encouraging China to implement its commitments and shoulder its responsibilities in the WTO.**
- **Increasing regulatory cooperation activities.**
- **Pushing for effective enforcement of intellectual property rights (IPR).**
- **Ensuring implementation of the necessary reform criteria for market economy status (MES).**

- **Supporting the adjustment of the Chinese currency (yuan) to market forces.**
- **Negotiating a new EU-China economic agreement based on reciprocity.**
- **Placing trade and investment issues at the core of the bilateral relationship and making a real commitment to solve the numerous challenges that business is facing in China.**
- **Further coordinating approaches on resources and energy issues at bilateral and global levels.**

2. Strengthen EU coordination and capabilities

The European Commission should reinforce its resources to deal more effectively with China, ensure **consistency and coordination** among its services in the different economic policy initiatives and dialogues regarding China, and trigger better cooperation with EU Member States, as well as with EU business, in order to make its strategy towards China more effective and fruitful.

To assess progress, the Commission should regularly evaluate the relationship and the progress accomplished. This should be done in the form of a **China Action Plan**, to implement the objectives of the new strategy, register the progress achieved, set objectives and milestones to be reached with clear established deadlines.

The Action Plan could be agreed jointly by the two sides and evolution reviewed at the annual EU-China Summit. Moreover, the bilateral Summit could ensure better coordination between the bilateral dialogues and make sure they are part of a single strategic vision.

The Commission's Delegation in China should play a bigger role in supporting European business interests notably by strengthening its economic and commercial section and by reinforcing cooperation with EU Member States. EU-funded cooperation projects should also be part of the new strategy, by focusing more on economic reforms and on issues of interest to European companies.

3. Promote market access to China

China's growing market offers many opportunities for EU business. However, there are still many trade barriers and legal uncertainties for business which need to be fully addressed.

Improving the business climate

Central government regulations are often implemented differently at a local or provincial level, and local regulations often supplant or remain in contradiction with central rules. In addition, regulations are not always directly available to the companies concerned and it is equally difficult for the latter to keep track of any

regulatory changes. It is therefore very difficult for EU business to have a clear and comprehensive understanding of the legal context in which they have to operate.

- The EU should press the Chinese authorities to:
 - Increase their efforts to establish a **stable, predictable, reliable and transparent legal and administrative framework** which fosters investment and smooth business development;
 - **apply legislation consistently** at national and regional levels.
- All **EU-China policy dialogues** (trade, industrial, regulatory cooperation, energy, IPR, environment, etc) should aim at achieving concrete progress in removing regulatory obstacles and facilitating two-way trade and investment. EU business should be fully and adequately consulted and involved when appropriate in these processes.

Liberalising the services sector

The services sector, which now accounts for 40 % of GDP, is increasingly important for China. However, China's service markets are heavily regulated and trade in services restricted. Burdensome capital requirements and joint ventures with Chinese service providers are often required in order to enter the Chinese market. The Chinese market should be opened to EU service providers on a non-discriminatory basis.

Chinese state banks should operate under market conditions and the financial services field should be further opened to foreign companies. Their current poor performance is a great risk to Chinese economic development. Progress in services liberalisation will be beneficial for China as it will lead to gains in competitiveness and efficiency.

- The EU should persuade China to:
 - progressively revise its laws and regulations to **completely fulfil its final commitment to liberalisation**, based on transparency, improved market opening and a sound and non-discriminatory regulatory environment;
 - implement its WTO commitments to open **wholesale services, insurance, telecom and retail sectors** during 2006 and its **banking sector** by the end of the year.

4. Ensure non-discriminatory treatment and effective protection for EU investment

Investment

Although China has been successful in attracting FDI, there is still potential for more investment. However, Chinese legislation is opaque and inconsistently enforced, a rules-based legal environment is lacking and there are restrictions on equity ownership.

- To improve this situation, China should:
 - reinforce **legal protection of private property rights**, and the predictable and transparent implementation of laws and regulations affecting business;
 - continue its **privatisation process** – especially for companies working in the commercial sector;
 - **remove limits on foreign investment** in those sectors where investment is restricted such as *inter alia* automobile, banking or telecoms;
 - **eliminate requirements for local content** which undermine companies' strategies and violate China's WTO commitments;
 - **ease visa requirements and quotas** for the employment of foreigners, as they are an impediment for the movement of key business personnel. The EU should as well facilitate visa requirements for Chinese business personnel to the EU;
 - explore ways with the EU to **promote two-way flows of investment** through the appropriate national bodies and in cooperation with business.

Government procurement

Competitive government procurement is an important incentive for more efficient production and lower government expenditures. UNICE is concerned about the discrimination against European companies in bidding for Chinese government projects.

- To address these issues, China should:
 - **work towards the removal of discrimination against foreign companies** and ensure access to public procurement projects at all levels;
 - become a signatory to the WTO **Government Procurement Agreement (GPA)**.

5. Encourage China to implement its commitments and shoulder its responsibilities in the WTO

Chinese WTO membership has encouraged economic and social reforms and improved the business climate in China through greater predictability, stability and transparency.

However, China should take its WTO commitments much more seriously, in particular in respect of actual liberalisation of services and the elimination of limitations to the national treatment principle, which place foreign companies in an unfair situation.

- China should **fully implement its WTO accession commitments**. Implementation should be more closely monitored by the EU and action should be more effective to address systematic cases of non-implementation. Further cooperation with EU Member States, the EU's main trading partners and business is essential. The detailed list of trade and investment barriers by the EU Chamber of Commerce in China (EUCCC)¹ can be useful in this respect.

¹ www.eurochamber.com.cn

- Special attention should be paid to transparency, the elimination of burdensome regulations and the dismantling of non-tariff barriers to trade in goods and services which seriously undercut the benefits of Chinese market opening.
- Considering the key role of China in the world economy and its position in international trade, the Commission should encourage China to contribute to further strengthen the multilateral trading system by **engaging fully in the WTO negotiation** process and market liberalisation and setting the example for other emerging countries – notably by providing preferential trade access to Least Developed Countries (LDC) exports to its market.

6. Increase regulatory cooperation activities

Non-tariff barriers (NTBs) represent a major obstacle for EU companies, particularly for SMEs, in China. Chinese Compulsory Certification (CCC) is burdensome, lengthy, expensive and non-transparent. Chinese standards and requirements change rapidly and Chinese authorities are increasingly promoting local standards that are not compatible with international standards and approaches.

- The EU and China should:
 - work more closely in the **WTO negotiations to eliminate NTBs**;
 - increase cooperation in the framework of the Customs Cooperation Agreement to develop simplified, efficient and **consistent customs procedures** aiming at trade facilitation.
- The EU should:
 - encourage the Chinese Government to create a **more transparent framework** for technical regulations and standards, in conformity with international standards;
 - promote **EU rules in China** to facilitate convergence and, in the long term, help eliminate obstacles to trade and investment;
 - further involve EU business, where appropriate, on regulatory cooperation.

7. Push for effective enforcement of intellectual property rights (IPR)

China's progress in streamlining its Intellectual Property legislation must be acknowledged, but effective enforcement of IP rights remains highly problematic, notably at regional and local levels. The scale of the production of counterfeit and pirated goods inside China remains alarmingly high. Fifty-four per cent of all counterfeit goods seized at EU borders in 2004 came from China.

UNICE is working with business organisations from other parts of the world to improve collaboration in dealing with counterfeiting and piracy as a global problem. It supports a reinforced coordination between the different initiatives on this issue at the bilateral, regional or global level.

- UNICE calls on the EU, in the context of the EU-China Dialogue on Intellectual Property and/or other frameworks, to step up its action in this field and make every effort with China to ensure the effective protection of intellectual property

rights in accordance with international/WTO commitments. Work should be based on:

- **strict enforcement** of intellectual property rights in line with international standards,
- clarification of the interpretation of legal procedures on criminal intellectual property (IP) enforcement,
- promotion of **public awareness** of the dangers of IPR violations,
- reinforced **customs controls** and border management in the enforcement of IPR.

8. Ensure implementation of the necessary reform criteria for market economy status (MES)

If the EU is to retain its credibility and leading position in international trade negotiations, it must lead by example in the implementation of its trade policy. On technical issues such as market economy status (MES), the Commission must ensure that the matter is dealt with according to its merits and avoid unwarranted politicisation of the issue. China must properly fulfil the established criteria before being granted MES².

By their very nature, transitional economies are engaged in a process of evolution towards a fully functioning market economy. This requires time for legislation to be adopted and effectively enforced to ensure the necessary reforms are realised.

Ultimately, it is in the interests of both the EU and China that the Chinese economy is as efficient, transparent and predictable as possible. The attainment of MES by China therefore remains a major policy goal of both China and EU business.

In the meantime, the EU Anti-Dumping/Anti-Subsidy Basic Regulations already enable to take into account the progress made by individual companies during this process.

Considering the implications for EU companies, UNICE insists for the EU decision to grant MES to China to be respectful of the thorough and impartial assessment of the business environment in China and the fulfilment of the conditions set by the EC to grant MES. It is essential that the views of European business, represented by UNICE, are continuously reflected on this issue.

9. Support adjustment of the Chinese currency (yuan) to market forces

The pegging of the Chinese currency to the US dollar has helped promote Chinese exports and China as an investment destination but it has also contributed to global trade and account imbalances. The 21 July 2005 decision to let the yuan float marginally against a basket of currencies was a step in the right direction but more could be done in the future to allow the Chinese currency to trade at market value.

- The EU should encourage China to **pursue the yuan's gradual adjustment to market forces**, while ensuring that financial stability is preserved.

² See UNICE position on market economy status for China, 15 June 2004

- The EU and China should **develop cooperation on exchange rate policy** and on foreign exchange reserve management at bilateral, regional (ASEM) and international levels. On the bilateral front, an EU-China macroeconomic dialogue should allow the EU and China to improve mutual understanding and coordination on issues such as currency exchange.

10. Negotiate a new EU-China economic agreement based on full reciprocity

UNICE is interested in work being developed towards establishing a new EU-China economic framework agreement. However, it believes that such an agreement should deal first and foremost with the reality of the developing and complex trade and investment relations between the EU and China and be based on full reciprocity considering China's economic weight.

European business supports placing economic issues at the centre of the EU-China relations. UNICE calls for the new agreement to be distinct from political cooperation agreements. This agreement should be negotiated as an end in itself and not be agreed at the expense of other issues, such as the granting of the Market Economy Status (MES) to China.

Both EU and Chinese business need a predictable and transparent environment that truly enables them to operate in accordance with sound economic and commercial principles. This environment must be free of unwarranted political interference, unrelated to trade and investment.

A new agreement should provide solutions to the problems faced by European companies in China underlined throughout this paper and should in particular:

- **liberalise trade and facilitate investment flows;**
- **address trade facilitation and regulatory cooperation;**
- **contribute to the enforcement of IPR and a level playing field for domestic and EU companies.**

UNICE is ready to contribute with concrete proposals on the content of a future EU-China economic agreement

11. Further coordinate approaches on resources and energy issues at bilateral and global levels

China's enormous demand for energy and natural resources has an impact on global markets for commodities. While UNICE recognises that this is a natural consequence of the industrialisation in China, it cannot accept that the free operation of market forces in respect of supply and prices of raw materials and energy is distorted by Chinese governmental measures to the exclusive benefits of Chinese producers.

- To address this issue, the EU and China must **find appropriate solutions in close consultation with EU business** to ensure fair competitive conditions on international markets in accordance with the letter and spirit of WTO regulations.

In addition, in view of the size of its economy, China is a major player and partner in addressing sustainable development and, in particular, climate change global concerns.

- The EU and China should increase cooperation on global approaches that involve all nations to ensure the sustainable use of resources and to **combat the risks of climate change**.

Conclusion

The future development of EU-China economic relations is a key factor for EU business. The attitude and strategy of the EU institutions vis-à-vis China may have a decisive impact on the capacity of EU companies and the European economy as a whole, to really benefit from such relations. To that end, UNICE believes that the lines of action presented above should be pursued actively and urgently.
