# A View from EU Business in China

Vice-Minister Yu, Commissioner Mandelson, Excellencies, Distinguished guests, Ladies and Gentlemen,

I am very honored to have been asked to introduce this session about the European perspectives on doing business with China. Before giving you the views of our members let me introduce the European Union Chamber of Commerce in China.

## The European Chamber

The European Chamber is a young organization, founded in October 2000 by 51 founding members, at the initiative of the EU Delegation in Beijing. Today the European Chamber serves over 900 European businesses, from global companies to small and medium sized enterprises, in seven cities across China.

The original purpose was to monitor the implementation by China of its WTO commitments. Nowadays the Chamber provides a high level channel of communication with Chinese and European political and economic circles, we report on China's market access and we lobby on trade related issues.

The European Chamber is recognized as "The Voice of the European Business in China", not only by the EU but also by the Chinese authorities. The European Chamber has developed a close relationship with the EU Commission here in Brussels and the EU Delegation in Beijing.

The European Chamber is built around a core of 25 industry-specific Working Groups and 6 Working Groups on Horizontal Issues, such as Corporate Social Responsibility (CSR), Intellectual Property Rights (IPR) or Human Resources. These Working Groups meet regularly to discuss particular business issues which arise while doing business in China.

Each Working Group contributes to our annual Position Paper. This Position Paper details the key concerns and recommendations of each Working Group, with regard to WTO implementation issues, trade issues, regulatory issues and broader policy-related issues.

## The third European Business Confidence Survey

In addition to our recommendations of our Working Groups, we also conduct a yearly Business Confidence Survey. I would like to share with you some of the preliminary results from our third Business Confidence Survey which will be published together with the seventh edition of our Position Paper. We expect to launch our position paper in September on the occasion of the next EU-China summit in Helsinki.

This year's survey indicates that 92% of the respondents have an optimistic view on the business outlook in China, compared to 86% last year. The main reason for European companies doing business in China remains the same; "The production of goods in China for the Chinese market", while "Lower production costs" is no longer amongst the three main reasons.

There is a mixed view on China's attitude towards WTO implementation. Similar to last year, the majority of our members sees China as moving forward in implementing its WTO commitments. However this year the number of respondents who consider China's WTO implementation to be "on schedule" has declined slightly from 42% in 2005 to 38% in 2006.

"Transparency" and "Intellectual Property Rights" once again remain the main concerns of doing business in China. A large majority of the respondents consider the IPR law and regulations enforcement as ineffective.

## The EU Trade and Investment with China

Upon request from DG-Trade, the European Chamber has prepared its view on the future of EU-China relations which was recently communicated to the EU Commission in a paper with the title "A Balanced Partnership: the Future of EU-China Relations"

The European Chamber recommends the European Union to steer a course between applying firm pressure on China to implement its WTO commitments and constructing a stronger collaborative partnership. In addition, China should be encouraged and supported to adopt a market-driven economy based on the rule of law.

Therefore the European Union Chamber of Commerce in China would like to offer the following remarks for the future of EU-China relations.

## 1. WTO

The EU should firmly remind China that, as a responsible trading partner, it must implement its **commitments** both to the wording and the spirit of WTO. The majority of commitments have been met on, or ahead, of schedule but in a number of key areas China appears to be prevaricating:

- **Public Procurement**: Despite China's recent announcement that it will initiate negotiations to join the WTO GPA and the ongoing EU-China GP Dialogue, pressure needs to be maintained against discriminatory treatment and protectionist measures to ensure European companies' access to publicly funded projects.
- **Local Content** legislation has been implemented in the automotive, rail and wind energy sectors since China's WTO accession. Further legislation forcing local content is anticipated in a number of other sectors, in violation to China's WTO commitments.
- **Banking Sector**: while there is little doubt that commitments in the banking sector will be met to the letter by 11th December 2006, foreign market share looks set to remain low. In fact foreign banks are faced with numerous obstacles, like excessive capital requirements and foreign debt quota's, making it difficult to compete with domestic banks.

To support China, and at the same time European interests, the EU should assist China in working towards greater market access, as well as the creation of an open investment environment providing a level playing field for all.

## 2. Greater Market Access

Any country growing at the pace of China would find it difficult to make the institutional adjustments required to match the economic development.

Nevertheless, China also has a responsibility and must:

- Make a concerted effort to **increase coordination** at central and local level and increase cross-sectoral coordination.
- **Increase transparency** in the formulation, implementation and enforcement of laws and regulations at all levels of government.

- **Ensure** that regulations are sufficiently specific to create certainty in implementation.
- **Increase public consultations** with all relevant stakeholders, domestic as well as foreign, to foster a stronger regulatory environment.

However, some regulations appear to be designed as deliberate non-tariff barriers to trade, limiting foreign access to the Chinese market. It is essential that the EU acknowledges the nature of these obstacles and takes a firm position in negotiations.

These barriers include:

- **Setting of standards** where China appears to be modifying international standards to create its own domestic standards, such as the CCC and the 3G standards for mobile phones.

- **Registration requirements** are lengthy and overly-bureaucratic and also impose extra costs and time-delays on European companies. For example, in the case of cosmetic products, almost identical registration is required from both AQSIQ and the Ministry of Health.

- **Business License application** processes is slow and unpredictable and appears to be used as a tool to slow down the establishment and expansion of foreign companies in a number of sectors. This is for instance felt by the Insurance sector whose efforts to spread its services to all consumers in China, through the opening of local branches and sub-branches, are slowed down by unpredictable and undisclosed procedures.

## 3. Open Investment Environment

However, as China's development continues, further liberalization will be essential to maximize growth potential. Liberalizing the investment environment will involve Chinese concessions. Until investors are able to freely take business decisions with their capital, over-capacity and inefficiency in key sectors will remain a threat to sustained growth.

EU support must therefore be based on the understanding that China is fully committed to securing an open investment environment, where decisions are based on business needs, and government involvement/interference in the daily management of the economy will be significantly reduced.

Using the EU-China Dialogues, the EU will need to proceed in a constructive manner to ensure that discussion on these more strategic issues remains productive while at the same time voicing the reality of the situation for EU business on the ground in China.

Issues must include:

- **Limitations on investment**: limiting business to 50/50 joint ventures in petrochemical, pharmaceutical and automotive sectors and, in the telecoms sector even choosing the partner, reduces the ability of business to facilitate the consolidation of the industry and help promote efficient management structures.
- **IPR:** despite increased awareness and significant improvements in the legal framework, IPR remains a major cross-sector concern

- **FDI:** Linked to the previous is the changing perception of Foreign Direct Investment. Whilst it was previously welcomed, the 11$^{th}$ Five-year plan points to an increasing atmosphere of **economic nationalism and self-reliance** that re-castes FDI in negative terms. The need to develop a strong domestic market is understandable, but this should not be an excuse to introduce new protectionist measures that force European companies to source locally, transfer technology and IPR in order to do business in China. Only further opening of markets will ensure China's continued growth.

Granting Market Economy Status (**MES**) must not become a political issue that acts as a drag on progress and should be granted early under the appropriate conditions outlined by the European Commission.

**4. Strategic Collaboration**

The EU must deepen its engagement with China, allocating more resources to supporting China's integration into the world economy and becoming a true partner through **strategic collaboration.**

We would like to encourage the EU to:

- **Strengthen the EU-China Dialogues**, which are a key component of the EU-China partnership. They should be expanded into broader platforms that cover a greater number of areas and consistently include business as well as all relevant Chinese administrations.

- **Support each Dialogue with its own technical assistance program** that works with all stakeholders. Ideally this would involve directly linking the EU-China cooperation projects with the Dialogues and thus having more programs related to trade issues.
- **Publish Yearly Report on the state of EU-China trade**, similar to that produced by the United States Trade Representative. Such a report would complement the European Chamber's Position Papers and allow the EU to document its progress year by year.
- **Increase service support resources** (such as legal and tax) to European companies, especially SMEs, wanting to establish a presence in China.
- **Strengthening Commission resources in China**. A key priority should be to increase human resources at the Trade and Economic section of the Delegation in Beijing as well as establishing a greater regional presence, particularly in Shanghai.

## Conclusion

To be successful in China, European business has remained flexible and taken time to understand and adapt to the local environment. This strategy should also be a model for future EU engagement in China. Furthermore, it is essential that the EU pursue a balanced strategy for engagement with China, emphasizing both the priorities identified by China and areas highlighted by EU business.

Ultimately, the gains from trade have the potential to make both the European Union and China better off. However, to achieve this it is in China's and Europe's overall interest to allow for increased market access which means resisting protectionist and non-tariff barriers to trade.