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European Union opening statement

Trade Policy Review of China

Mr. John Clarke, EU Head of Delegation, Geneva

EU is pleased to participate in the third Trade Policy Review of China. We join others in welcoming Vice Minister YI, Ambassador Sun and the Chinese Delegation. Let me in particular pay tribute today to the outstanding work done by Ambassador Sun in representing his country in the WTO in a balanced and constructive way.

We thank the Secretariat and China for the reports that were prepared in time. Let me also thank Ambassador Swärd-Capra for getting us started today with her comprehensive analysis and interesting remarks regarding China's trade policies and practices.

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Let me start Chair, with a few general remarks. Over the last years we have observed China's impressive economic development and transformation, propelled by two-digit economic growth rates, using a model of export-led growth in an increasingly diversified range of sectors. China's integration into the global economy, anchored in its WTO membership, has driven this economic transformation and its rapidly growing role in international trade. Today, as the world's largest exporter, second largest importer, and a rising actor in foreign direct investment, China has moved from being an emerging economy to a global economic power, one with unquestionable economic and commercial clout in today's global environment. The corollary of this power is that China's domestic policies and measures increasingly affect economic and trading trends globally. Those policies therefore have to be the right ones, and they merit scrutiny. And that is why this week's Review is so significant.

China's economic development is of course reflected in EU-China bilateral relations. In 2009, bilateral trade in goods was €296 billion, and trade in services over €30 billion. China is the EU's number one importer and the third largest export destination for EU exporters. However the EU is still exporting more to Switzerland than to China – while only about 3% of the EU's outward FDI goes to China. That suggests clearly untapped potential to deepen our bilateral economic ties.

This is a key issue for our exporters as China has been the first major economy to rebound effectively from the crisis, and is set to overtake Japan as the world's second largest national economy in 2010. The substantial economic stimulus package - representing 13% of China's GDP in 2008 - has no doubt played a role in bringing the economy back on track. However, at the same time the crisis has showed China's structural weaknesses in terms of internal demand deficit, an underdeveloped capital market, and as we well know, an excess dependence on export-led growth – *inter alia*, boosted by a low value of its currency, various forms of state intervention, and focussing investment in export-oriented industries. To arrive at a more sustainable growth model, China needs to rebalance its external and internal demand, and encourage a capital market responsive to market signals - one which favours profitable domestic investment flows, at both household and corporate level.

As China indicates in its government report, and has reiterated today, it currently faces other important challenges, such as the slow development of the services sector, high consumption of resources and energy, serious environmental pollution, and wide disparity in development between urban and rural areas, and between regions. We recognise that these challenges are daunting, and can but encourage China to undertake all necessary structural reforms to mitigate them. In particular, we would like to put particular emphasis on the need for continued reform, as we have seen some worrying signals of stagnation in this process. Even though China reiterates its firm commitment to continued opening-up and reform – we find the word reform almost about 30 times in China's government report - we believe this does not duly characterize the current situation in China. In fact our companies have reported a worsening of the business climate. Continued reform is vital for instance in the services sector – reforms for example in financial services, insurance, or telecoms could certainly contribute to the recognized need for faster development of the services sector. Overall, we encourage China make further progress in its reform process.

This reform process also needs to continue addressing social disparities in the Chinese economy. In this respect, China has a commendable track record in developing strategies to fight poverty and inequality: over the past five years China has managed to increase its GDP per capita by almost 50 % and lifted millions of people out of poverty; this is a phenomenal achievement. However, it is still unclear how China uses its trade policy to this endeavour. Is China's trade policy contributing to more sustainable production patterns or does it lower standards? We need to know more from China as regards the steps it is taking to put trade at the service of development in a sustainable fashion while integrating social and labour aspects.

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Chair, I would like now to move to some specific trade concerns we have with China, concerns which at the same time highlight the need for trade reforms more generally.

Transparency first of all, which like charity begins at home. As already reported during last TPR, there remain important transparency deficiencies in China's trade regime. The Secretariat's report stresses that "some aspects of China's trade policy regime remain complex and opaque". While we acknowledge China's efforts to improve transparency and predictability of its regulatory environment, including its increased use of public consultations on some proposed legislative measures, more needs to be done. Public consultations should be systematically held for all new measures with an effect on trade. And these consultations should provide a reasonable period for comments by both foreign and domestic stakeholders, which does not always happen. An illustrative example was the draft notice on the Indigenous innovation scheme which was initially about to enter into force on 10th of May, the same date as the deadline for comments. This is neither good regulatory practice nor in line with the pro-transparency statement that the Chinese delegation has made today.

Similarly, in advance of today's meeting the EU has presented a long compilation of written questions reflecting concerns and information deficits in several areas of China's trade policy. China's disregard to some of our questions during the last TPR in 2008, and the submission of the related replies two years later – this is only two months ago - is certainly regrettable. This is a serious systemic concern. So we would like to urge China to fully respect and abide by the transparency requirements and disciplines set out by the TPRM, as any other WTO Member. China has openly argued on many occasions that it favours greater transparency in the WTO, and rightly demanded to be treated equally as every other Member. So we hope that, starting from today, China will showcase this commitment for transparency in this and every future Trade Policy Review.

We still see this lack of transparency in China's regulatory processes. China's Compulsory Certification Scheme (CCC) continues to be a major obstacle for foreign exporters due to the complexity, costs and length of the procedure. Instead of trying to reduce the administrative burdens and trade disruptions reported by many Members in the TBT Committee, China seems determined to expand the scope of the CCC to new items such as ICT products.

The EU therefore urges China to review comprehensively its CCC scheme, and move from the current 'one-size-fits-all' principle enshrined in the CCC towards a more risk-based approach to conformity assessment. The EU also urges China to do more to align Chinese standards to international standards, and to avoid putting in place diverging Chinese-specific national standards where international standards exist. There is still a long way to go: only 47% of Chinese standards are aligned with international standards, as mentioned in the Secretariat's report. For a major trade power, this is hard to comprehend.

The EU is also closely following recent developments in the government procurement area. The EU welcomes China's commitment to joining the GPA and the announcement of the submission of a revised GPA offer this July. The EU expects this offer will be ambitious and substantially cover procurement by central, provincial and local entities in China. The proposed outline for the "Indigenous innovation scheme" is creating uncertainty with regard to its ultimate objectives and integration within the existing government procurement law. The EU would like China to clearly set out the objectives pursued by this policy and its impact on the procurement market. While we welcome Chinese efforts in advancing strategies for scientific and technological innovation, these strategies should remain non-discriminatory, and should not limit the scope of innovation production. The aim ought to be to create the adequate conditions for building up a sustainable innovation capacity with open and fair competition without restrictions in terms of market access.

Chair, fostering innovation goes hand in hand with a solid protection of the related IP rights. EU acknowledges China's continued efforts and determination in building up its legislative framework and intensifying the enforcement of IPR protection, which is crucial in facilitating domestic innovation. Through its National Intellectual Property Strategy China has set itself a deadline to become by 2020 "a country with a comparatively high level in terms of creation, utilization, protection and administration of IP rights". We invite China to share its assessment about the success in implementation of this IP Strategy. We remain concerned that enforcement remains insufficient, notably in regional and local levels, and deficiencies and obstacles in solving complaints persist. EU urges China to step up its efforts in enforcing IPR protection, including effective customs control.

Another area that continues, unfortunately, to create concern is China's export barriers. The Secretariat's report has clearly articulated the real rationale behind this restrictive policy and the major problems it implies and has suggested more adequate policy alternatives. The EU considers it is high time for China, as a global economic power able to compete without these crutches, to free its exports from unreasonable restrictions, and review and reduce the use of export quotas, taxes and VAT rebates, which only protect downstream industries and, amongst other things, distort access to raw materials.

Similarly Chair, the WTO's report is also very clear in describing, even if briefly, the continued direct government intervention to guide resources into particular sectors, notably manufacturing. As the world's largest provider of manufactured goods, there is no possible explanation that could justify this direct intervention and guidance. The sector is clearly already mature enough to perform alone: On what grounds can China justify the protection – for instance through ownership caps - of its automobile sector which is nowadays the world's largest producer?

Trade finance is a very important element in global trade - but again it is of utmost importance that officially supported export credits are not creating new distortions. Exporters should compete with the prices and the quality of their products and not with the terms and conditions of official trade finance support. Regrettably we notice that EU exporters sometimes face Chinese competition of the latter kind. We believe that common disciplines and rules in the Export Credits field help reducing these forms of trade distortions and provide comfort for all exporters alike. We look forward to an intensified dialogue with our Chinese counterparts on these matters.

To conclude, Chair, despite various bold reforms undertaken in the run-up to, and during the first years after China's WTO accession, the level of state interference in the economy is still noticeable and less and less compatible with China's level of economic development. The Chinese trading regime remains unduly complex and characterised by a large number of non-tariff barriers and a burdensome regulatory process. And as I pointed out earlier, we see clear signs of reform stagnation in China: as illustrated by the fact that we are raising today very similar concerns to those already expressed during China's last TPR in 2008.

We welcome that China has shown in a number of past WTO disputes that it is ready to make necessary changes to be in conformity with WTO law, and we certainly hope China will pursue this policy in the future. In this spirit, the EU therefore encourages China to continue its efforts to embrace the key WTO principles of non-discrimination and national treatment, to fully institutionalize and enforce market mechanisms and overall, make its trade regime significantly more predictable and transparent.

Nine years after China's accession to WTO, China is a key player in the multilateral system. With that power come responsibility and the need to contribute. There is still a mismatch between the two. We should thus expect that China not only fully abides by WTO rules and observes all the commitments made in the run-up of its accession but also shoulders its responsibilities reflecting its weight as a leading trading nation. For this organisation to continue to function it is important that leading Members like China honour its membership in spirit and in letter. China has benefited enormously from the multilateral trading system, so we can only expect that China continues its reform process steadily, opens its markets to less developed countries, and contributes to the multilateral trading system by providing strong leadership in the DDA negotiations. We wish China a substantial and useful Trade Policy Review.

Thank you.