



## **China-EU Trade: Mutual Support for Growth & Jobs**

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Ladies and gentlemen,

We are told so often that persistence is the key to success:

- Albert Einstein said, "It's not that I'm so smart, it's just that I stay with problems longer."
- Samuel Johnson said, "Great works are performed not by strength, but perseverance."
- And Victor Hugo called perseverance, "the secret of all triumphs."

Well, if the 14th position paper of the EU Chamber of Commerce in China tells us anything, it's that European companies are persistent! And we in the European Commission are grateful for that persistence. The position paper – and the EUCCC more generally – is an essential resource for all of our work on China.

Perhaps this perseverance is why European companies have had so much success in this vast new market.

Europe's exports of goods and services to China more than trebled over the last decade. And Europe's investment stocks in China have almost doubled.

The result of your success in China, and the success of Chinese companies in the European Union is that the bilateral commercial relationship is now essential for both sides.

We know that the EU's direct exports to China support over 3 million jobs here.

And those direct export jobs are only part of the story. Because Chinese and European companies are closely connected by value chains. As a result, China's exports to the world support a further million jobs in Europe.

The figures for jobs in China are even greater, so it's a simple fact that our relationship has become symbiotic.

So how the Chinese economy is doing is not a question for abstract academic discussion. It has real impact here. And vice versa.

Today both Europe and China have plenty of reasons for optimism. China's growth rates, although lower than previous years, are still the envy of the world. And in the European Union we have overcome the worst of our crisis.

But we also have a great deal of work to do. In Europe, far too many people are unemployed and economic growth remains too slow. We need to continue our path of investment, economic reform and fiscal consolidation.

In China, the task is to move to the next phase of economic development. As the Chamber's position paper puts it, the goal is to move from a golden age of breath-taking growth fuelled by exports...

... to a silver age of more moderate gains driven by innovation and rising domestic consumption.

Under President Xi, the Chinese leadership has set out an ambitious programme of reform in order to make that change. The challenge now is to put that reform in to practice.

So as we look at the EU-China economic relationship today our goal is clear: To find ways to cooperate with each other to overcome our respective challenges.

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The good news is that we have many opportunities to do that, particularly through trade policy.

The most important is through our bilateral negotiations for an investment agreement.

A deep investment relationship would benefit both economies, in different ways. More European investment in China would bring more of the cutting edge technologies and business practices that are already helping China's economic modernisation.

Chinese investors in Europe have their own experience and knowledge. They are also dramatically increasing their activities abroad – albeit from a low base. China is - as of last week - a net outward foreign investor!

The European economy badly needs investment to drive our recovery from the crisis. That is why President Juncker has made its investment plan the flagship initiative of this European Commission.

So let me say very clearly, Europe is open to Chinese investment. Europe welcomes investment from China. Europe encourages Chinese investment here.

For all these reasons, it's unfortunate that investment is still lagging behind in our commercial relationship. Let me give you two examples that demonstrate that:

Despite the fact that Europe is China's largest trading partner and that China is Europe's second largest trading partner...

... China has invested 50% more in Sub-Saharan Africa than in the European Union...

... And the European Union has invested 20 times more in the United States than in China.

That is an anomaly that we need to address.

The investment agreement we are now negotiating would do that in three ways:

- First, it would bring new clarity for investors and simplify the rules that apply to their projects. An EU-China Investment Agreement would replace EU Member States' 26 existing bilateral investment treaties with China. Only one set of rules would apply.
- Second, an agreement would provide more legal certainty for investment in both directions. It would make sure that once a company invests, its assets are protected against expropriation or discrimination.
- Finally – and this is particularly important from our perspective in the European Union – an agreement would improve the ability for foreign investors to access China's market. The objective is to reduce or eliminate restrictions to foreign investment in China like:
  - joint venture requirements and equity caps,
  - sectoral investment prohibitions (through the so-called 'investment catalogue'),
  - technology transfer and
  - local content requirements

These rules are certainly one of the reasons that investment flows from Europe to China are so far below potential.

We welcome China's recent steps to address some of these barriers but much more needs to be done.

This deal therefore offers huge potential. Last week European and Chinese investment negotiators met in Brussels for the fourth time. The talks went well and built on the significant progress made already.

In 2015 we will need to step up our efforts. As always, what matters in the end is getting to a high quality deal. That is much more important than getting a quick outcome. But the European Union is ready to work hard on this negotiation this year. I hope China is ready to join us. It is certainly an effort that will be properly repaid.

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But investment is only part of the picture.

Europe and China can help each other out by deepening our cooperation in many other negotiations in which we are both involved.

- First, both sides are deeply engaged in the negotiations for an update of the World Trade Organisation's Information Technology Agreement. Last December we were close to a deal but didn't quite make it. This year we will continue our efforts. If we want a better outcome this time around, China will need to engage closely with Europe and other ITA members - and vice versa, of course.
- Second, the EU is also very pleased to be working with China in the WTO negotiations on green goods. Both sides have competitive industries in sectors like renewable energy, environmental equipment and resource-efficient technologies. An ambitious agreement that eliminates tariffs, as well as addressing non-tariff barriers and services, will create economic and environmental benefits for both our societies and for the world as a whole.
- Third, we also continue to work on China's accession to the WTO Government Procurement Agreement. Clearer, more open procurement rules would help modernise China's economy and improve governance overall. They would mean taxpayers get the best goods and services at the best prices and would help tackle corruption. These negotiations have gone on for many years. The EU is happy that China has now made a new offer, but we still have some way to go yet.
- Fourth, we are working together on export credits. Export finance is vital for the proper functioning of international trade. China and Europe are two of the world's most important providers. But while export credits are necessary, they need to be based on clear rules to make sure they don't distort competition and result in a race to the bottom. A group of economies – including the EU and China – has been working on new international guidelines for the past two years. The time has come to step up the pace of our work.
- Fifth, China and the EU could also work together in the negotiations for a Trade in Services Agreement (TiSA). Services liberalisation will be a key part of China's modernisation. It's also a part of the economy where European firms have much to offer China – if given the chance. The EU continues to support China's application to join the talks because we believe that China shares our ambitious goals for this agreement. The challenge now is for China to demonstrate that commitment to the other major players
- Finally, there is the Doha Development Agenda itself. This year we have our first real opportunity to make progress for many years. It is in Europe and China's interest to give a shot in the arm to the multilateral system that is so important to both our economies.

That will require an update of our approach. 13 years have passed since trade ministers gathered in Doha. And times have changed. China's position in the world economy today would be unrecognisable to the participants at that meeting. So would be the nature of Europe's agricultural policies, now deeply reformed.

I hope that these changes, and many others like them, will help us remove the blockages that have held back progress for so long – particularly the difference of opinion between emerging and developed countries on the right balance to strike.

But I am certain that we can only find our way through if Europe and China work closely together and aim for a realistic, simplified outcome.

Europe is ready to do so. Again, I hope China will join us.

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This broad agenda shows the depth of the EU-China relationship and the enormous potential of closer cooperation.

But of course there are many areas where Europe would like China to adopt different policies. The EUCCC position paper raises many of them:

- The way financial support has led to overcapacity in many sectors, and how that in turn stimulates exports at dumped prices;
- The way the standardisation and regulatory systems often treat outsiders;
- The subsidies and other advantages enjoyed by state-owned enterprises;
- And the longstanding question of the protection of intellectual property rights.

All of these issues are, of course, problems for European companies exporting to and investing in China. That means they are problems for European workers and consumers too. And this is why the EU remains ready to use its dispute settlement and trade defence tools when those are necessary.

But China needs to tackle these issues for domestic reasons too – if it is to achieve a genuine 'decisive role for the market' in the economy.

They would help the goal of assigning prices and resources in a more efficient way; and would introduce more space for Chinese start-ups and newcomers – as well as international firms – to compete with and challenge today's big players.

So more reform and opening up is good for both of us, which is why I strongly support China's plans.

Of course, implementing reform is always a challenge. But it is certainly a challenge worth meeting. As President Xi Jinping himself said in Bruges last year, "China's reform has entered a deep water zone, where the problems crying to be resolved are all difficult ones. What we need is the courage to move the reform forward".

A level playing field, more transparency and fighting corruption are essential to generate confidence for business. We have taken good note of the pledges made at the Third Plenum to promote independence of the judiciary and strengthen the rule of law and human rights protection. We expect now China to deliver on concrete actions.

Europe stands ready to support China as it does so.

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Ladies and gentlemen,

We are here today at the start of a new year – in Europe as well as in China.

We are also, in Europe at least, at the start of a new political cycle.

So now is the right time to deepen our economic relationship.

Europe and China are certainly very different. We will always be so. But that difference means we have much to gain from working closely together and much to learn from each other.

In doing so, we will have to remind ourselves that developing the EU-China relationship is not a project of a day but rather of a lifetime.

We will need to remember all those good words of advice about perseverance.

And perhaps add another, this time from a Chinese perspective. Confucius said “it does not matter how slowly you go as long as you do not stop.”

Well, the strength of the work that the Chamber produces...

... and the success of EU companies in China...

makes me certain we can be even more ambitious than that!

Thank you very much for your attention.