



EU and China - A Vital Relationship for our Prosperity

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Cecilia Malmström, *Commissioner for Trade*

Visit to UIBE Beijing

Dean of the University of International Business and Economics,
Dear students,
Ladies and gentlemen,
Ni Hao!

I'm delighted to be here in Beijing. This is not my first time here. I visited once in 1993. But the Beijing of today of course is a totally different city. So I'm really glad to be here.

The reason for my visit is of course to learn more about the changes in this country along with the formal meetings around the EU China Summit that will take place tomorrow.

I was thrilled to go to China in 1993 because I come from a city in Sweden, Gothenburg, a very small city in Chinese terms, which has been trading with China for hundreds of years. In Gothenburg we had established already in 1731 the Swedish East India Company which had the monopoly of trading with the Far East, especially China.

We have many beautiful porcelain collections, art collections and many stories of course from that time. And today there is a close friendship between China and Gothenburg as well.

We have of course, not only Sweden and China but also Europe and China, a lot of evidence of the great benefits of our relationship, economic, social, cultural and historical.

And if that was true in the past. It's even more true today.

The trade and investment relationship between the EU and China over the last three and half decades is a remarkable success story.

We've gone from economic flows that were almost literally zero, to exchanges that exceed 1.5 billion euros every day.

And those flows have been massively beneficial. Hundreds of millions of Chinese people have left poverty and improved the quality of their lives.

Access to the EU's single market – the world's largest consumer market – has been a fundamental driver of China's prosperity. The phenomenal success of China's export-led growth model would not have been possible without it.

China has also benefitted massively through imports and investment from Europe. They have helped position China at the heart of the global value chains that drive the whole world economy. And European companies have put their technology and innovative capacity to work to support China's development.

But of course Europe too has benefitted from this relationship. China's development has created a vast new economic frontier for European firms, as exporters and investors. Our exports here alone support over 3 million jobs in the EU.

And our imports from China help to keep our firms competitive and to reduce the price of goods for our consumers. The increase in Chinese investment flows to Europe in recent years is also helping to drive growth on both sides.

So the real question for the EU China economic relationship is not whether it's a success but rather what's the next chapter in this story?

It may be tempting for some to ask, "Why change"?

As humans we have a temptation to see history as linear, with the march of progress going in the same direction.

But we need only open any newspaper and study any headline today to see how things can move in unexpected directions, economically, socially, politically.

The truth is that there are challenges on the horizon on both sides that have an impact on our relationship and the benefits it brings.

- First, can we secure faster growth in Europe so we can provide for our all citizens at a time of uncertainty and continue to drive growth in other parts of the world including China?
- Second, can China's high growth continue to improve lives and reduce poverty and inequality here, while also contributing to growth in other parts of the world, including in Europe?
- And third, and maybe most importantly, can we maintain our course towards greater economic openness at a time when the value of open markets is under question all around the world?

These are not idle questions.

They require real answers if we want the EU-China relationship to deliver as many benefits as possible in the future.

And they require real action – from both China and the EU.

Let me start at home.

The European Union has made enormous progress in putting all of its members on track for sustainable growth after our economic crisis. It's meant taking very difficult reform decisions within Member States and by the EU itself. That work is still not finished. But we've also seen important results, especially in countries like Ireland, Portugal and Spain where trade has been an important part of the solution.

We face many challenges in the EU today and a new economic uncertainty, one example being the uncertainty after the referendum in the United Kingdom.

It is of course a decision by the British people that we respect. But I personally and I think many in the European Union regret it. We are sad to see our British friends leaving us. But it's a democratic decision, and we have to respect it.

And it gives the EU much to reflect upon. But that means that we have to work even harder to deliver what the citizens expect from us: prosperity, security and peace.

An open and active trade and investment policy is fundamental to continue to deliver jobs and prosperity.

So to those asking where the EU goes now on trade, I would say:

Expect more and better, not less!

We will be working with all our partners, including China, to reach agreements that create economic opportunity and raise standards.

Second challenge: Can China's growth continue and what's needed to sustain it?

Obviously you are the students of these matters and I'm sure you know a lot more about it than I do. But let me give you some thoughts.

Because China of course also faces serious challenges.

The model based on exports and investment that has brought China's development this far will not provide the same results in the future.

An abundance of labour and massive state-led investment will not on their own bring China to the cutting edge of innovation, where it needs to be. Furthermore, the need for growth in domestic consumption is vital.

What's needed?

Well, in a word, reform.

That's what history shows.

- In 1979 Deng Xiaoping chose the path of reform and launched China's economic miracle.
- At the turn of this century, more reforms took place with China's entry into the WTO, driving the unprecedented rise in living standards of the last 15 years. These reforms led the progress of China the years after.
- Now, as the Chinese leadership acknowledged at the Third Plenum of 2013, the time for reform has come again. The new reforms to come, when implemented, will lead China into a new path to prosperity.

The European Union fully agrees with the course China has set. A more market-oriented economy is essential.

What we have not seen yet however, is much progress towards putting that idea into practice.

The free trade zones have made relatively limited progress or been completely abandoned... There are still real concerns about enforcement of intellectual property rights... Discrimination against EU businesses remains a fact, one that we are worried could be reinforced in the Manufacturing 2025 plan... There are steps backward in the laws on national security reviews, and on non-governmental organisations and in some initiatives in the field of cybersecurity. And, overall, issues remain about predictability and transparency of the legal and regulatory systems - i.e. the rule of law.

And this goes beyond just rules that apply to companies.

Moving China to the next phase of development requires rule of law in a broader sense. Limitations on lawyers are worrying. They should be allowed to operate freely and independently, supporting the work of foreign business and citizens. Measures like these that impact human rights do have an effect on the business climate as they add an extra element of uncertainty.

The same goes for limits to online freedom, because it gets in the way of today's most dramatic innovations.

You have grown up in the digital era.

The power of the Internet is that it connects people in a single global network. Barriers to that, whether by banning certain platforms or by requiring storage of content locally, impede China's economic progress as much as freedom of expression. And it limits your access to other views and opinions, to the exchange of experiences with other people.

The EU stands ready to assist China in meeting addressing any of these questions.

Third challenge: How do we keep markets open so that both sides can benefit?

There is a paradox in global trade policy today. Open markets are ever more important to our prosperity. I've just come from the G20 meeting in Shanghai, where we discussed and expressed clearly, with countries from all over the world the need to fight protectionism and do more to increase open markets.

But people around the world are increasingly questioning them.

In Europe, those questions come from many perspectives. One of those is based on fairness. People look at Europe's level of openness to imports and foreign direct investment. This is something we are proud of and that has been a source of growth and wealth. And then they look at other countries' levels of openness – including China's - and they see that it's not the same.

- They ask why can Chinese firms make high profile purchases in Europe, including airports in Germany, the Port of Piraeus in Greece and Italy's Pirelli tyres, not to mention Volvo cars in my own home town of Gothenburg when European investors face major barriers, including equity caps, forced technology transfer or licensing restrictions in sectors like automotive, rail, construction and environmental services?
- Or why do European steelmakers have to lay off workers when they are competing with Chinese firms who benefit from huge subsidies?
- Or why do Chinese firms competing in Europe get impartial treatment from independent regulators when the same treatment is not available in China?

And it's not just a few isolated people raising these issues. This is a fundamental discussion we are having.

A recent survey by the European Chamber of Commerce in China showed that more than half of EU firms based here thought it was getting harder for EU firms to do business.

The Chamber also noted in their report published a few months ago that there was a "disconnect between reform commitments and actions taken."

Keeping the EU market open, to the great benefit of China and the EU, requires us to be able to address these questions of reciprocal openness.

How can we do that?

Well clearly, the reform agenda is the priority.

But we can also make real progress by working together.

Take our negotiations for a comprehensive agreement on investment, ongoing as we speak.

Its aim is to boost investment, which is good for both sides. It would do that by:

- levelling the playing field between foreign and domestic investors, and improving EU investors' access to the Chinese market;
- creating one single agreement covering all investment between the EU and China. Today we have 26 and this would be one single arrangement;
- adding legal certainty;
- and improving the balance between investment protection, sustainable development and the capacity of states to regulate in the public interest.

We've made huge progress. We now need to put all the necessary political capital behind finishing it.

We also have work to do together on the global stage.

It's been hugely encouraging to see China taking a leadership role, not just through its chairmanship of the G20 this year, but also at the Nairobi WTO Ministerial Conference and the Paris Climate Conference last year.

China and the EU now have a chance to show leadership again.

That goes for the plurilateral negotiations for an Environmental Goods Agreement, where we seek to abolish tariffs on products that are good for the environment. And that would show that trade can not only be good for the economy but that it can help us deliver on the environmental goals we have set together globally in the Paris meeting in December.

And we are also very much engaged in the steps to be taken in the World Trade Organisation in the future. There is more energy in the WTO system than there has been in years. As two of the world's largest economies, the EU and China have a collective interest and also a responsibility to seize that opportunity and to work together to set the agenda for the WTO in the future. And we are having those discussions as well.

Ladies and gentlemen,

The EU and China have such an intense economic relationship. It brings us benefits. And it also naturally brings challenges.

Our goal as governments is to address our challenges in a constructive way, in order to maximise the benefits.

By doing so we can contribute to benefitting our people on both sides.

So I'm looking forward to discuss these issues with all of you. Thank you again for giving me this possibility to meet with you. And thank you for your attention.