

Global Governance: How can we better manage China-EU cooperation in trade and investment?

Speech by Jianjun GUO, May 06, 2010

China, the EU and the Restructuring of Global Governance

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Dear Professor WOUTERS,
Ladies and Gentlemen,

Today British people are casting their votes. CHANGE is the buzzword of this election. In fact, it has become the mantra of all the political contenders. But to change is not as simple as casting your votes, it needs wisdom and courage when you are making a very important decision.

The same applies to our trade and investment relations. We need passion and devotion to further develop this relationship, but we also need wisdom and courage to command our cooperation in front of difficulties and challenges.

For quite some time, I have been thinking of a word or several words to properly describe China-EU trade and investment relations. The first word that comes to me is, DYNAMISM. Our cooperation in trade and investment is dynamic, it is vigorous, it is full of strength, and it is fast growing.

Compared to 1975, our trade volume was 176 times larger in 2008. It now takes only two days to exceed the whole-year trade volume of 1975. Between 2005 and 2009, exports from the EU to China grew by 60%. Even the devastating financial crisis failed to tame the dynamism in our bilateral trade. In 2009, among the European ten largest export markets, only exports to China were on the increase, by 4%, in sharp contrast to the 16% drastic fall of the EU overall exports.

The second word I think of to describe our relations is COMPLEMENTARITIES. In economic terms, China and the EU are complementary to each other. China is half way through industrialization. It will continue to rely on its labor-intensive industries to create job for tens of millions of people. The EU is full-fledged economy and its leading position in science and technology, good quality and international marketing will continue to give it an upper hand in global competition.

Massive foreign investments have successfully turned China into a world factory; exports from China save 300 euros for each European household each year. China is also a huge market for European business. EU Exports to

China have helped to create over 2 million jobs in Europe. According to a survey by the European Chamber of Commerce, the majority of European companies are making profit in China. CARRYFOUR supermarkets across China are always packed with people. In 2009, Mercedes' sale was up by 77%. Volkswagen will make additional investment worth 6 billion Euros in the Chinese market over the next three years.

In return, Europe is the largest export market for Chinese products; it is also the largest provider of technologies and the fourth largest source of FDIs to China. By the end of 2009, the EU companies invested nearly 70 billion USD in China; the contract value of technology transfers from the EU to China totaled 128 billion USD.

The third word for our relationship might be COMPLEXITIES. Over the years, our cooperation has expanded from trade in goods to trade in service, intellectual property rights, and foreign direct investment. Our cooperation has become far more complex than before. Expansion of our cooperation not only brings benefits, but also thorny issues such as trade imbalance, market access, trade disputes and even the exchange rate of RMB. Given the size and dimension of our cooperation, it is nothing but normal that we always have problems to solve. To some extent, complexity is an inevitable phenomenon or collaterals of our relations.

I am not worried about these problems as such, because we can easily draw different conclusions if we put them into a totally different context. Take trade imbalance as example. Looking at trade statistics alone is misleading. In fact, it is not China that makes trade surplus; it is foreign invested companies in China. Between 2006 and 2009, foreign companies invested over 320 billion USD in China, 56% of which went to the manufacturing sector. In 2009, foreign invested companies made surplus worth 127 billion USD, representing 65% of China's overall surplus of the year. If actions were taken to curb China's surplus, a lot of foreign companies will also be hurt. Or, if I put it this way, the most efficient way to curb China's trade surplus is to stop foreign investments to China and ban their exports from China.

It is true that the EU has trade deficit towards China, but we should not forget the domestic sales of European companies in China are two time higher than the EU's trade deficit. In 2006, turnover of the EU businesses in China reached 207 billion US Dollars, far higher than the EU's 92 billion trade deficit to China that very same year.

What really worries me is the manner in which the complexities of our relations are handled, because, if wrongly handled, these complexities will become complications. I am not afraid of the headlines in newspaper telling time and

again some horrible stories about China, because it is their business to attract people's attention. But misunderstanding, resentment or even anger towards our relations from ordinary and innocent people, often caused by the mishandling of our problems, really sends a chill down my spine. I always ask myself, why should this happen if our cooperation brings huge benefits to our people and opportunities to our business?

Our cooperation still has immense potentials and we need a stable and sound environment for our market forces to continue to play their relentless role and our companies do their business without unexpected disturbance. It is not funny at all to see our mutually beneficial cooperation be hijacked by emotions. If it is too hard to predict and control the eruption of Iceland volcano, we must at least be able to contain the eruption of people's emotions. We must be able to be wise and courageous enough to rescue our cooperation from people's emotions. Both Chinese and European governments have the responsibility to properly cope with the complexities of our relations.

The fourth word is OPPORTUNITIES. We already have a very good relationship, but we still have huge opportunities lying ahead. By 2020, China's exports in goods will reach 2.4 trillion USD; please don't worry because 55% of that huge export volume will still be done by foreign invested companies in China. Meanwhile, China's imports will exceed 1.9 trillion. What does this mean to Europe? In 2009, the share of Europe in China's total imports was 13%, slightly after Japan, China's biggest import partner. If this remains stable, in the year 2020, the EU will export 260 billion-worth goods to China.

This is not yet the end of it. Chinese economy will keep on growing and China's domestic market will continue to offer huge opportunities, calculated not in billions, but in trillions of euros, to the European business. China will need more airbus, nuclear centers and high-tech equipments; this year, 150 million Chinese people will enter the middle-income bracket and they won't hesitate to take Mercedes, BMW, Zegna suits and genuine Bordeaux wines. Joint research from the US Chamber of Commerce in China and the Pricewaterhouse Coopers shows that the market size of clean energy in China may soon increase to 1 trillion US Dollars every year, while high-end consumer goods demand would exceed 1 trillion Euros with a further annual growth rate of 12%, and the service market 500 billion Euros with a 14% growth rate.

Ladies and Gentlemen:

Even if we have a very promising future for our cooperation, I still find that some people are still obsessed by the empty half of the cup, and they always say that, according to a study in 2007, barriers to trade in China are estimated to cost EU businesses €21 billion in lost trade opportunities every year.

I don't want to argue about the figure. I recognize we do have problems, that why we continue our economic reform and we need European advices in this process. But we need to make difference between what is called protectionism and what means the need to further opening-up. If you go to Beijing or Shanghai, you will find cars bearing almost all the famous world brands. This can not happen if China is a protectionist country, nor is there such a thing as economic nationalism in China. Every 100 RMB foreign investment in Shanghai Area can yield 240 RMB profits, with 100 RMB higher than average. If we had adopted a policy of economic nationalism, foreign companies would have already been driven out of the country, not to mention their profits in China. We do need to further open-up, but protectionism or economic nationalism is a term too strong for China. It is unfair to blame China in such a way. In order to overcome such emotions, we need wisdom and courage.

Europe used to have wisdom and courage towards China. In 1985, when we signed the Agreement on Trade and Economic Cooperation, the EEC, by virtue of Article 3 of the said Agreement, accorded the most-favored-nation treatment to China in all matters regarding trade. This was a very courageous step because China was not yet a GATT member and US Congress used to hold annual debates on whether or not to prolong MFN treatment to China. Today, the EU is much larger and powerful and our cooperation is more mutually beneficial. But unfortunately, the EU does not have the wisdom and courage anymore to recognize the full market economy status of China. Nor does it have the courage to take measures to facilitate the visa applications by Chinese businessmen. This is pitiful, not only for China, but also for the EU and our bilateral cooperation.

Looking ahead, I am still confident about our future cooperation. At the multilateral level, the DOHA Round, even if with difficulties now, will bring long term benefits to the world trade and China-EU trade relations as well. At the pluri-lateral level, sooner or later, China will join the WTO Agreement of Government Procurement, and this will open another huge market. At the bilateral level, we are now upgrading the 1985 agreement on trade and economic cooperation; we are going to kick off the negotiations of bilateral agreement for Geographical indication. At the same time, a bilateral investment agreement is also looming ahead. We have a lot of things to be happy with and if we properly manage our cooperation, with wisdom and courage, our relationship will continue its rapid expansion.

Thank you for your attention.