EUROPEAN PARLIAMENT 2009 - 2014

Committee on International Trade

2010/2301(INI)

2.12.2011

DRAFT REPORT

on EU and China: Unbalanced Trade?
(2010/2301(INI))

Committee on International Trade

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CONTENTS

Page

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION 3

EXPLANATORY STATEMENT.. 9

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on EU and China: Unbalanced Trade?
(2010/2301(INI))

The European Parliament,

– having regard to Articles 2, 3, 6 and 21 of the Treaty on European Union,

– having regard to Articles 153, 191, 207 and 218 of the Treaty on the Functioning of the European Union,

– having regard to Articles 12, 21, 28, 29, 31 and 32 of the Charter of Fundamental Rights of the European Union,

– having regard to the Protocol on the Accession of the People's Republic of China to the World Trade Organization of 23 November 2001,

– having regard to its resolution of 5 February 2009 and the report by its External Policies Directorate-General of July 2011 on trade and economic relations with China[1],

– having regard to the joint statement on the occasion of the 13th EU-China Summit held in Brussels on 6 October 2010,

– having regard to the Commission Communication entitled 'Trade, Growth and World Affairs – Trade Policy as a core component of the EU's 2020 strategy' (COM(2010)0612) and the European Parliament resolution of 27 September 2011 on a new trade policy for Europe under the Europe 2020 strategy[2],

– having regard to its resolution of 19 February 2008 on the EU's strategy to deliver market access for European companies[3],

– having regard to Council Regulation (EC) No 1225/2009 of 30 November 2009 on protection against dumped imports from countries not members of the European Community and the Commission Communication of 6 December 2006 entitled 'Global Europe: Europe's trade defence instruments in a changing global economy'.

– having regard to the Commission Communication entitled 'A Single Market for Intellectual Property Rights' of 24 May 2011, the Commission report of 14 July 2011 on EU customs enforcement of intellectual property rights and the European Parliament resolution of 18 December 2008 on the impact of counterfeiting on international trade[3],

– having regard to the WTO report of 5 July 2011 on China's export measures on various raw materials and the European Parliament resolution of 13 September 2011 on an

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[1] OJ C 67E, 18.3.2010, p. 132.
[2] Texts adopted, P7_TA(2011)0412.
[3] OJ C 45E, 23.2.2010, p. 47.

effective raw materials strategy for Europe[1],

– having regard to its resolution of 6 April 2011 on the future European international investment policy[2],

– having regard to its resolutions of 25 November 2010 on corporate social responsibility in international trade agreements[2] and on human rights and social and environmental standards in international trade agreements[3],

– having regard to its resolution of 24 April 2008 on ‘Towards a reform of the World Trade Organization’[5],

– having regard to its resolution of 25 November 2010 on international trade policy in the context of climate change imperatives[6],

– having regard to its resolution of 5 February 2009 on enhancing the role of European SMEs in international trade[7],

– having regard to the European Council conclusions of 23 October 2011 and the final declaration of the G20 Summit in Cannes on 4 November 2001: ‘Building our common future: renewed collective action for the benefit of all’,

– having regard to Rule 48 of its Rules of Procedure,

– having regard to the report of the Committee on International Trade and the opinions of the Committee on Development, the Committee on Employment and Social Affairs, the Committee on Industry, Research and Energy and the Committee on the Internal market and consumer protection (A7-0000/2011),

A. whereas China’s accession to the WTO in 2001 played a large part in making it the world’s leading exporter of goods, accounting for 10.36 % of exports in 2010, and the world’s second largest economic power;

B. whereas the EU is the top destination for Chinese exports, which rose by 39.5% between 2009 and 2010, and whereas China is the EU’s second-largest trading partner;

C. whereas trade relations between the two regions have developed considerably since the signature of the EU-China cooperation agreement in 1985, and the agreement should therefore be renewed;

D. whereas the imbalance in bilateral trade between the EU and China has been in China’s favour since 1997, and whereas this trade deficit amounted to 168.8 billion euros in 2010 compared to 49 billion in 2000;

E. whereas economic growth in Europe is weak at an estimated 0.5% in 2012, but strong in China at around 9%;

[1] Texts adopted, P7_TA(2011)0364.
[2] Texts adopted, P7_TA(2010)0446.
[3] Texts adopted, P7_TA(2010)0434.

F. whereas China is obliged since 2001to respect WTO rules by liberalising its trade and opening its market;

G. whereas the undervaluation of the yuan creates artificial trade advantages for China and whereas G20 member countries have promised to facilitate greater exchange rate flexibility;

H. whereas in 2010 over 103 million products suspected of infringing intellectual property rights (IPR) of a value totalling 1.11 billion euros were seized at the EU's external borders and China is the country of origin for 85% of these goods;

I. whereas, under its 12th five-year plan, China is to develop the strategic sectors of energy, construction and transport and will have major needs in the field of service development, offering new investment opportunities for European businesses;

<u>Making reciprocity a principle of EU trade policy</u>

1. Calls on the Commission to apply the principle of reciprocity in the EU's common trade policy with developed and emerging countries such as China, in order to ensure a level playing field where all forms of protectionism are avoided;

2. Notes that the Chinese economy does not fulfil the criteria of a market economy as defined by the WTO; calls on the Commission to cooperate with the Chinese government in order to eliminate the obstacles standing in the way of market economy status; emphasises that this status should only be accorded once China has fulfilled these criteria; asks the EU to carry out regular assessments, in the form of an annual report, of China's compliance with the obligations included in its protocol on accession to the WTO;

3. Regrets the existence of numerous tariff and non-tariff barriers to the Chinese market, such as certain forms of discrimination against foreign operators, particularly in the banking, insurance and telecommunications sectors, the complexity of the tariff structure and technical barriers to trade such as the lack of transparency of technical rules and conformity assessment procedures or the Chinese Compulsory Certification System (CCC); notes that China, contrary to the provisions of the Agreement on Subsidies and Countervailing Measures (ASCM), does not systematically give notification of specific subsidies;

4. Is concerned about the problems foreign businesses encounter in accessing Chinese public procurement whereas access to European public procurement is guaranteed; regrets that China has not acceded to the plurilateral Agreement on Government Procurement (AGP) even though it committed to do so in its protocol on accession to the WTO; calls on the Commission to make haste in developing a European instrument to ensure better access for European businesses to foreign public procurement markets and to encourage the EU's trading partners, such as China, to open up their public procurement markets and eliminate protectionist measures;

5. Notes that the export credits granted by the Chinese authorities and banks promote trade distortions; calls therefore on China to comply with the OECD Arrangement on Guidelines for Officially Supported Export Credits; calls on the Commission to assist

OECD efforts to involve China in this Arrangement; encourages China to also become a signatory to the OECD Anti-Bribery Convention;

6. Points out that the main form in which foreign companies are allowed to set up in China is through joint ventures – a mechanism which is very restrictive and too often associated with strategic technology transfers that may favour the competitive development of China to the detriment of European industry in fields in which the EU is at the forefront;

7. Calls on the EU to make use, wherever necessary, of trade defence instruments that are consistent with WTO rules, such as anti-dumping, anti-subsidy and safeguard measures, in the event of illegal trade practices by China in order to ensure a level playing field for EU-China trade;

Defending the interests of European industry

8. Deplores the inadequate protection of IPR in China and regrets the lack of specific means available to European businesses, and particularly SMEs, to counter IPR infringements effectively; welcomes the Commission's decision to proposer a review of the directive on the enforcement of IPR; wants China to continue to transpose current international law on the protection of IPR into its national legislation, and more specifically to combat counterfeiting, and urges the Chinese authorities to apply it correctly; regrets that China is not taking part in the negotiations on the next international agreement to combat counterfeiting (ACTA); urges the Commission and the Member States to step up customs cooperation in the EU and with third countries, particularly on the seizure of counterfeit goods, and to simplify customs procedures;

9. Notes that China produces 97% of the rare earths used in the world and calls on it to guarantee the fair and sustainable supply of these rare earths to its trading partners; calls on the Commission to pay particular attention to any potential restrictions by China on the export of its raw materials; recalls in this context the WTO ruling of 5 July 2001 against China for having placed restrictions on the export of certain raw materials; calls on the Commission to develop a European strategy for the proper management of raw materials involving increased energy efficiency, recycling, lower use of resources and the development of industrial cooperation in the green economy growth sectors;

10. Urges the Commission to negotiate an ambitious EU-China investment agreement that seeks to create a better environment for EU investors in China whilst increasing the level of Chinese capital flows to the EU;

Alleviating currency competition

11. Points out that China holds sovereign debt of Member States in the eurozone; stresses that this fact has taken on a new political dimension as a result of the serious debt problems within the eurozone; calls on the Commission to start discussions with the ECB and Member States on the creation of a coordinated system to identify which parties hold sovereign debt; wonders about the EU's capabilities in trade negotiations with China in view of the latter's contribution to the financial stabilisation of the eurozone;

12. Emphasises that the chronic undervaluation and non-convertibility of the yuan give

Chinese exports an unfair competitive advantage when China holds one-third of the world's foreign exchange reserves; points out that economic stability and global trade is at risk unless there is a strengthening of international financial regulations and macroeconomic coordination between G20 countries; calls on China to allow the yuan to appreciate to reach an appropriate exchange rate; points out that it is laid down in the European Treaties that the EU can, in the case of unsustainable global monetary imbalances, adopt an exchange rate policy;

Reforming trade organisation

13. Calls on the Member States to demand that foreign enterprises respect European social and environmental standards and ensure the sustainability of employment when they purchase European businesses or set up subsidiaries in the EU; asks the Commission to set up a body entrusted with the *ex ante* evaluation of foreign strategic investment, along the lines of the Committee on Foreign Investment in the United States (CFIUS), in order to obtain a clear picture of businesses operating and investing in the territory of the EU;

14. Calls on the EU to propose a reform of the rules on the organisation of trade governed by the WTO, including binding social and health standards, drawn up in conjunction with the WTO, the ILO and the UN;

15. Asks the EU to develop a strategy to avoid compulsory technology transfers; seeks, in this respect, the rapid conclusion of the enhanced cooperation procedure for the Community Patent;

16. Demands strict compliance with European rules and standards by all goods in circulation on the internal market, and calls on the Commission promptly to propose a scenario in line with WTO rules for the gradual introduction of a trade conditionality mechanism and/or border adjustment measures for goods originating in third countries that do not comply with these standards;

Assessing China's global role

17. Emphasises China's growing influence in the theatre of international trade; calls on the EU therefore to remain vigilant concerning the economic, social and environmental impact of increasing Chinese investment in developing countries, particularly in Africa;

18. Draws attention to the fact that China is the world's largest emitter of greenhouse gases; calls on the EU to propose that the WTO include ecological and climate change imperatives when laying down effective environmental standards in its rules on the organisation of international trade;

19. Points out that China is no longer a traditional beneficiary of EU development aid and now enjoys a strategic partnership; asks the Commission, when reforming its Generalised System of Preferences (GSP), to bear in mind changes in the global economy and the emergence of certain more advanced developing countries, such as China, that have now become globally competitive;

Equipping the EU to cope with global competition

20. Calls on the EU to develop an ambitious common industrial policy based on research and innovation that benefits from innovative financing arrangements such as project bonds and supports the development of SMEs, particularly via access to public procurement, in order to maintain its competiveness vis-à-vis new major players in industry and research; calls on the EU to enhance the value of European production, particularly through improvements in 'made in' labelling;

21. Urges the EU to strengthen its economic, budgetary, fiscal and political governance to give it a credible and imposing voice on the international stage; calls on the Council and the Commission to speak with one voice in order to prevent partnerships and bilateral agreements weakening the EU position; urges the EU to implement a long-term strategy with regard to China;

22. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

Just before the start of the G20 Summit, the Chinese President, Hu Jintao, declared that *China, together with Europe, was seeking to build a partnership of equals on the foundations of mutual respect, friendship, and trust, a collaborative partnership in which the keynotes would be mutual advantages, win-win outcomes, and common development*. These words, at the height of the sovereign debt crisis, served to underline the fact that the Chinese economy cannot content itself for long with faltering growth in Europe.

Essentially, China maintains that it needs its trading partners to grow in order to fuel its own economic development and the internal changes which that entails, not least in terms of domestic consumption and higher living standards. This structural evolution is charted in the 12th Chinese five-year plan (2011-2015), in which the central idea is that China's growth is to be balanced out by an increase in domestic consumption and by sustainable development.

This is a paradigm shift that could open up new opportunities for the European economy, provided that its aims are backed up by clear-cut decisions by the Chinese authorities on market access, monitoring of foreign investment, the protection of intellectual property rights, and the removal of technical barriers to trade. If those obstacles were eliminated, trade could be brought back into balance, and the European economy could therefore return to growth. Europe needs China and China needs Europe.

It is this thinking which should usher in a new phase in EU-China trading relations, based on a partnership of equals with the emphasis on mutual advantages and common development. That is the reciprocity for which Europeans have long been calling.

Driven for the last 30 years by annual growth in the region of 10%, the Chinese economy, oriented primarily towards exports, has benefited from more open trading. By the middle of the century China will become the world's most powerful economy.

The EU – the largest trading power and the main destination for Chinese exports – has been affected by a deepening trade deficit, which increased from EUR 49 000 million in 2000 to EUR 168 900 million in 2010, coinciding with sluggish growth that has caused budget deficits to rise in most Member States.

There is thus plainly an imbalance whose causes need to be analysed, and ways and means of remedying it should be put forward within a revitalised partnership based on the principles of reciprocity and fair competition.

I. CAUSES OF IMBALANCES

European firms cannot at present invest in China on the same terms as the Chinese can invest in Europe.

Trade barriers to market access

Although China has to some extent lowered the trade barriers hampering access to its markets, there are still many obstacles, as can be seen from the latest report by the EU Chamber of Commerce in China: according to the findings for 2011, 43% of managers of companies established in China consider themselves to be discriminated against by measures taken by the Beijing authorities, compared with 33% in 2010. The report even makes the point that *the recent measures imposing still further restrictions on the opening of markets cast doubt on the determination to create lasting opportunities for all market players*.

Other trade barriers continue to exist, for example the subsidies and export credits granted in some sectors, national certification requirements, or unclear standards.

Limited access to Chinese public procurement

Participation in Chinese public procurement is beyond the capacity of European firms. In addition to the problems posed by complex regulations, the scale and scope of procurement is modest, and the lack of transparency and competition and the fact that the standards are not in accordance with international rules act as exclusion factors.

Technology transfers and protection of intellectual property rights (IPRs)

Most of the companies wishing to invest in China are high-tech businesses. However, the Chinese joint venture arrangement debars foreign investors from becoming majority shareholders in the motor or telecommunications industry.

Furthermore, the fact that intellectual property is poorly protected in China – which is not taking part in the ACTA negotiations – is increasingly deterring European investors. Chinese export growth goes hand in hand with improvement in the quality of counterfeit goods seized at the EU's external borders: out of all the goods infringing intellectual property rights seized by European customs officers in 2010, 85% came from China.

Commodities

The Chinese policy on commodities, and in particular rare earths, which are important to Europe's leading edge sectors, is increasingly causing tensions. China, which accounts for 97% of world production, has restricted its rare earth exports, the official explanation being that it wishes to give priority to domestic demand. Certain Chinese practices regarding other commodities have, moreover, been challenged before the WTO Dispute Settlement Body, which ruled against China in July 2011.

The currency issue

Whereas the United States and Europe, China's two main partners, have 'floating' currencies, the undervalued and non-convertible state of the yuan, bordering on monetary dumping on an unmatched scale, raises a serious question. Because the yuan has been undervalued, China has been able not only to accumulate almost USD 3 200 000 million in foreign exchange reserves and expand its investment in Europe with a view to acquiring advanced technologies, but also to purchase part of some European countries' sovereign debt; however, because there is no instrument to measure it, the size of its holdings – and the same goes for investment – is impossible to know.

But China also has a number of grievances against us, namely the complex system of agricultural tariffs and CAP subsidies, technical barriers to trade, restrictions on foreign investment imposed by EU Member States, and so. This report gives guidelines on the action that the EU should take regarding Chinese investment on its territory, without stepping outside the WTO framework. Its key point is that the EU needs to have a European economic and industrial policy to enable it to trade fairly with China, while ruling out all possibility of protectionism.

II. RECIPROCITY: THE HEART OF A NEW PARTNERSHIP

This necessary first stage of opening up our borders, after decades of cold war, has to be followed by a 'win-win' partnership, an entirely legitimate goal, given that China has greatly benefited from free trade. The balance to be sought is a necessity because, in the crisis that Europe is now going through, the public might be more inclined to believe accusations against China, viewed as the source of all our woes.

Closing itself off or throwing itself wide open is not Europe's way. Those two extremes are contrary to the Community spirit and to the interest of Europe and the Europeans, who advocate an orderly, balanced, multilateral approach to international relations. What Europe is attempting to do is to build partnerships founded on honesty and reciprocity, both of which help to calm tensions and promote shared growth.

Fair market access and international competition

European firms must have access to the Chinese market on the same terms as Chinese firms do to the European market. China should accede to the multilateral Agreement on Government Procurement (AGP) as a matter of urgency; and it is also vital to convert Chinese rules and standards into international standards, draw up common standards for up-and-coming sectors, and do away with the shields against access to the Chinese market such as the licensing system, direct aids, and public procurement barriers. In addition, the EU needs to devise a strategy for averting forced technology transfers. The closer cooperation procedure for the Community patent is another matter that should be dealt with without delay.

A further subject for discussion is reform of the WTO to encompass compliance with social, health, and environmental standards drawn up jointly with the ILO, the WHO, and the UN. Within this stringent future framework, the gradual introduction of trading conditionality is a matter that will have to be raised. Finally, there is the particularly sensitive issue of China's market economy status: the Commission should endeavour to support the Chinese Government in its efforts to remove the existing obstacles.

New tools for greater transparency

Unlike the United States, the EU does not know exactly how deeply China has penetrated the Member States' economies, be it in terms of investment or in terms of purchases of sovereign debt securities. This ignorance is, of course, damaging to the European interest and likely to encourage all manner of wild ideas. The EU should equip itself with measuring instruments modelled on the Committee on Foreign Investment in the United States (CFIUS) in order to shed light on the foreign holders of sovereign debt. It should also publish an annual report on China's compliance with the obligations laid down in its WTO accession protocol and make more effective use of the trade defence instruments available to it.

The fact that the yuan is undervalued and non-convertible detracts from open, honest trading. The EU must therefore exert pressure on the Chinese authorities and urge them to continue the efforts already begun. The European Treaties allow the EU, should global monetary imbalances become unsustainable, to adopt an exchange rate policy.

A new framework for EU-China relations

EU-China trading relations have greatly changed in the last 30 years as China's influence has grown on the international stage. The EU and China therefore need to update the terms of their 1985 cooperation agreement. Although China cannot yet be considered a market economy, more binding rules on imports and exports should nevertheless be incorporated into the agreement.

The new investment agreement should allow for the need to afford unrestricted access to Chinese public procurement, applying the conditions in force in Europe. The EU should, furthermore, keep a close watch on the economic, social, and environmental impact of China's increasing investment in developing countries, especially in Africa.

It is essential for the EU to implement a concerted reindustrialisation policy and a research and innovation policy commensurate with the new global challenges. From that point of view, it would be useful if, for example, the EU encouraged its citizens to buy European products.

It goes without saying that Member States have to work in closer coordination, so as to ensure that their bilateral relations with China do not weaken the EU's position in relation to that country.

The need for closer coordination is not confined to trading matters. What we are seeking to do is not just to defend the social market economy, a model that is open but adheres strictly to reciprocity and protects the European interest, but also to promote and advocate our view of development, democracy, and human rights. For we believe that social and economic progress is closely linked to the establishment of democratic institutions.