



“The Hamburg Summit: China meets Europe”

Keynote Speech
“Implementing Change: The EU-China Relationship
after the Third Plenum”

by

Karl De Gucht

European Commissioner for Trade

– Check Against Delivery –

Hamburg Chamber of Commerce

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Ladies and gentlemen,

When he visited Bruges earlier this year, President Xi noted that, “Only when we know where a country has come from, could we possibly understand why the country is what it is today, and only then could we realize in which direction it is heading.”

I firmly agree.

If Europe and China are to meet, as our hosts today invite us to do, mutual understanding – of our memories of the past, our challenges in the present and our ambitions for the future – is essential.

What does Europe understand about China?

We understand that the transformation of the Chinese economy has been one of the most positive developments of the last three decades – for China, Asia, Europe and the World.

It has lifted more people out of poverty more quickly than any other single phenomenon in world history.

In doing so it has restored China to the world's top table, the right place for a country of such unfathomable scale and deep cultural and economic wealth.

And it has created new economic opportunities for people all around the world – from Botswana to Belgium. That is why the continuing success of the Chinese economy is a fundamental goal of the European Union.

We also see the challenge before the Chinese economy today.

China's model of development has served it well over the last thirty-five years: an abundance of low-cost labour, state-led investment in infrastructure development, and a financial system geared to support state-owned enterprises.

But we agree with the analysis of the Chinese government that this model is now reaching its limits.

If China is to meet its ambitions for the future – and avoid the famous middle-income trap – internal rebalancing towards more domestic consumption, opening up its markets for foreign services and investment, and a different role for the state in the economy will all be essential.

For this reason, the European Union has felt very strongly that the path of reforms announced at the Third Plenary Session of the Central Committee of the Communist Party last year – are good news for China and good news for Europe.

- We applaud the government's intentions to bring more flexibility to the interest rate system as well as the renminbi exchange rate.
- We applaud the government's moves towards market-based pricing for water and energy.
- We applaud the government's intention to move to a more open regime for foreign direct investment, including in services sectors.

- And, above all, we applaud the overall orientation of the reform, which argues that the market should play decisive role in China's economy.

Europe also understands that the real challenge starts now – in moving from plans into practice.

Making real change is never easy. It involves persuading people that an uncertain, different future will be better than the present they know. It also involves taking on vested interests who believe they will lose out in the new order.

In Bruges, President Xi used a Chinese expression to describe the challenge. China must “get ready to go into the mountain, being fully aware that there may be tigers to encounter”.

We in the European Union fully support that spirit and urge China to continue its efforts.

We also identify with China's situation. And that is one of the things that I hope the Chinese people understand about Europe.

Because we in the European Union also have difficulties to overcome.

The crisis of the euro that was still raging the last time this summit was held has been tamed. The markets no longer clamor for higher and higher interest rates on government bonds.

And the country's worst hit by the difficulties are making the long journey back to economic health.

This improvement is thanks to the determination of many European leaders who were themselves willing to go into the mountain:

- At national level they did the difficult things that were necessary in fiscal and structural policy.
- And at European level we were able to put new structures in place to support the common currency, while the European Central Bank took radical steps to create a backstop for confidence.

Nonetheless, we have not reached the summit of the mountain just yet. Disappointing growth in some of our largest Member States shows that we have much more reform still to do.

We need to address the huge deficit in investment that is one of the most damaging legacies of the crisis.

And we need to restore consumer and business confidence to avoid falling into deflation.

To do this we will have to show resilience. At a time of reform fatigue, we will have to keep reforming. We need to reform our energy markets, services sectors and, in some cases, labor markets. And at a time when fiscal rigor is essential we will have to find ways for government to spur investment in the economy.

And most importantly for our meeting today...

...which takes place at a time when populism is a certain ticket to political advancement...

...we will have to keep our markets open so that international trade and investment can help us reach the sunlit uplands of a vibrant recovery.

We know that China has supported our reform efforts and our recovery, as a global partner whose economy is tightly integrated with our own.

The value chains that link China and the European Union support jobs on both sides. Thanks to the intermediate goods and services we sell to each other...

...China's exports to the world support over a million jobs right here in Europe...

...And Europe's world exports keep five and half million Chinese people at work.

I believe that the conclusion that both sides must draw from our understanding of one another, is that our relationship, given its close and complementary nature, must be cooperative. Zero-sum thinking will not work. That does not mean that either partner needs to abandon its principles. In many areas China and Europe are different, and will continue to take different approaches as a result.

However, it does mean that we both need to aim for an open approach to economic regulation that will benefit both sides.

There are three ways we can contribute towards that goal.

The first is by implementing change at home.

For our part, we in Europe know that slow growth here has had impacts around the world, including in China.

That is one of the reasons why our recovery policies focus not just on fiscal consolidation but on growth. The steady recoveries of Ireland and Spain show the potential of our approach. We now need to see EU Member States continue to deepen their implementation of structural reforms across Europe to widen the recovery.

In the same way, if China can fully implement the full range of economic reforms announced at last year's Third Plenum, that will help Europe.

Europe has certainly benefitted from China's development.

But there are many examples of European companies – and therefore workers – whose ability to operate in China has been limited by discriminatory legislation or practices.

There are problems in gaining access to the standardization process and there are forced joint ventures and technology transfers. Access to public procurement is restricted in many cases, as is market access in many services sectors.

This uneven situation – especially given the relative openness of the European market – has often been a source of unwanted tension in our relationship.

Moreover, I firmly believe it goes against China's own needs, since so many of these firms are cutting edge providers of goods and services, vital for the next phase of China's development.

Fully implementing reform is a vital opportunity to address many of these issues:

- If the Shanghai Free Trade Zone develops in a way that does not discriminate between foreign and domestic companies, and opens as many sectors as possible...
- If the decisive role of the market is applied also to the rules that apply to state-owned as well as privately owned companies...
- If fiscal reform and overcapacity issues can be effectively tackled...
- And if the planned reforms to the legal system result in an approach that is more accountable, transparent and predictable...

...We would be well on our way to resolving the main challenges in the EU-China economic relationship, to the benefit of both sides.

The second way we can work towards openness together is our project for a bilateral investment agreement.

Foreign investment brings know-how, expertise and the competition that will boost the productivity of China's companies. Investment abroad by Chinese companies, particularly in competitive markets like ours, also helps them become more efficient and effective.

The EU-China investment relationship is already strengthening. But there is considerable room for improvement. Europe's investments in China add up to less than roughly 2% of our total investments abroad. By comparison, 30% of our stocks are in the United States.

China's investments in Europe, while growing, still account for less than one per cent of total foreign direct investment here. In comparison, 20% is American.

The right kind of agreement would give a boost to investment in three ways:

- European investors would have better access to the Chinese market and their Chinese counterparts would be more encouraged to invest in Europe.
- Companies operating in both Europe and China would be able to operate on a more level playing field – no matter what their origin or ownership structure.
- Chinese investors will be protected under a single and modern state of the art agreement that will replace the existing 26 Bilateral Investment Agreements between China and 27 of the EU Member States. This will add to legal certainty and improve the balance between investment protection, sustainable development and the capacity of states to regulate in the public interest

That is the kind of agreement I believe we should both be aiming for.

The final way we can work together towards openness is in the multilateral context.

China and the European Union both gain immensely from the World Trade Organization. I am sure that many people in China are disappointed by the lack of progress on implementing last year's Bali agreement, and particularly the deal on trade facilitation.

The EU and China now need to work together – in cooperation with all of our partners and Director General Azevedo – to find a constructive solution to this issue.

We cannot afford to fail in that process and we will both have to evaluate our options. But for now we need to work towards the goal of solving the problem within the current framework.

Finding a solution to the current Trade Facilitation stalemate would allow us to move forward on the preparation of the post-Bali work-program, which could finally put us back on the path toward concluding the Doha Round.

Beyond this, we need to continue to move forward on the different plurilateral discussions we have ongoing. We are coming down to the wire on talks on expanding the Information Technology Agreement; we are making good headway on green goods; and we are looking forward to China's continued engagement in the process of joining the Government Procurement Agreement.

I also believe that China is right to want to join the negotiations on a Trade in Services Agreement. The Commission has publicly supported its incorporation in the talks. Once concluded, this agreement will have an impact on global markets and the way services are traded. China, with its growing services sector and its potential to become one of the major worldwide services traders cannot miss this important opportunity.

On all of these files, China has the opportunity to be a global leader. It is an opportunity not to be missed, in my view.

Ladies and gentlemen,

Europe and China can produce results that respect both sides' needs when we work together in cooperation.

We need to apply the same spirit as we implement change at home and abroad in the coming months and years.

The founding father of the European Union, Jean Monnet, knew the benefits of cooperation.

His aim for our cooperation was to "Make men work together. Show them that beyond their differences and geographical boundaries there lies a common interest."

I believe that what is true within Europe is also true between Europe and China.

Thank you very much for your attention.