

FTA Trade Perspectives

Conference Edition: EU-China Trade Agreement

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Editorial



Dear readers,

Welcome to a special issue of the Trade Perspectives sharing highlights of the FTA Trade Conference '[*EU-China Partnership: Is the Time Right for an Ambitious Free Trade Agreement?*](#)' held on 20 April in Brussels. During the conference, which drew the interest of more than 200 key players, we were pleased to launch and present the results of the anticipated study '[*Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement*](#)', conducted by the Centre for European Policy Studies (CEPS) and commissioned by FTA. Together, we debated the impact of a potential EU-China free trade agreement, and explored the economic and political benefits impacting both sides.

I would like to share with you some key observations raised during our discussions:

- **Strong business support** was raised for a potential EU-China free trade agreement
- Delegates believed that China should be more courageous in **pushing forward domestic reforms**
- The study highlights that **all member states would gain** from a possible EU-China free trade agreement
- The more ambitious the free trade agreement, the more both sides would gain
- According to the study, based on the ambitious scenario, the **combined GDP of China and the EU would grow by more than €170 billion by 2030**

Together with a conference summary report, I am pleased to welcome the views of Professor Jacques Pelkmans, Senior Research Fellow at CEPS, in an interview on the impact of a potential EU-China free trade agreement. We also share FTA's most recent activities, including our high-level meeting with the Commissioner Malmström's cabinet where FTA reiterated its support for the EU to grant Market Economy Status (MES) to China, as well as FTA's actions to improve transparency in the EU's anti-dumping system, among other high priority issues on our trade policy team's agenda.

For those wishing to further develop the topic of sustainability in trade, we welcome you to register now for the upcoming [FTA Sustainability Conference](#) which will be held on 2 June 2016 in Brussels.

Sincerely,

Christian Ewert
FTA Director General

FTA Trade Conference “EU-China Partnership: Is the Time Right for an Ambitious Free Trade Agreement”

The FTA Trade Conference “*EU-China Partnership: Is the Time Right for an Ambitious Free Trade Agreement*” attracted the interest of more than 200 key stakeholders to debate the impact of a potential free trade agreement with China. Together with key political and business representatives, the conference addressed sensitive issues concerning trade with China such as increased market access. High-level guests were invited to openly discuss the economic benefits of the EU-China economic relations and explore the potential to further develop relations benefitting both sides.

Watch the Conference Highlights Video



The conference was opened by Mr. Christian Ewert, FTA Director General, who highlighted that the trade relationship between EU and China is one of the largest in the world and is mutually beneficial. However, he acknowledged that today, trade policy with China is a sensitive issue, especially due to discussions around the granting of Market Economy Status to China at the WTO. For that reason, efforts need to be made in order not to lose sight of the positive aspects of the relationship.

He also added that the relationship with China goes further than trade; FTA itself is deeply involved in matters of social and environmental sustainability in China. Through the Business Social Compliance Initiative (BSCI), FTA conducted over 11,000 social compliance audits and 50 workshops in China throughout 2015, along with numerous other initiatives to promote sustainable business practices and corporate social responsibility.

The audience welcomed insight from keynote speaker Mr. Tino Zeiske, Senior Vice President, Corporate Responsibility at METRO Group, who encouraged delegates that trade with China **can only be seen as an opportunity** for European economies and consumers. In the era of global value chains, European companies benefit greatly from imports that feed into their production and allow for high value added products to be produced in Europe.



During his speech, he called on the EU and China to progress with the Investment Agreement negotiations, and to reach a deal which includes a strong market access chapter and efficient implementation tools, by the end of 2016.

Presenting for the first time, the results of the study “[Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement](#)”, Professor Jacques Pelkmans, Senior Research Fellow at the Centre for European Policy Studies (CEPS) highlighted that both **the EU and China would profit significantly** from such an agreement, as would all EU Member States. The study, conducted by CEPS together with the World Trade Institute and commissioned by FTA, explores the potential benefits of closer and open economic trade relations between the EU and China.



The state-of-the-art economic modelling on which the study is based, suggests that an ambitious free trade agreement between the EU and China could have an estimated GDP growth impact of 1.87% on China and 0.76% on the EU by 2030. In

today's terms, this means an **additional €89 billion for China and €83 billion for the EU**, equivalent to the GDP of the Czech Republic. Further details can be found in the interview conducted with Professor Pelkmans in this edition of the Trade Perspectives

The panel was composed of Mr. Christopher Fjellner, Member of the European Parliament, Mr. Frank Dassler, General Counsel, adidas Group, joined by Mr. Tino Zeiske and Professor Pelkmans, and moderated by Ms. Iana Dreyer, Founder of Borderlex. It explored '*How Can the EU-China Economic Relations Be Elevated to a Higher Level?*'



The panel agreed that there is a clear economic need to push forward an agreement between the EU and China while tackling certain obstacles. Mr Dassler stated that China has signalled its readiness to overcome challenges from its side, while Mr Fjellner highlighted the need for an agreement in the future, even though the current environment does not look favourable. Professor Pelkmans urged the EU to begin negotiations with China once the Investment Agreement is finalised, while Mr Zeiske concluded by stating that actors need to have an optimistic outlook in order to move forward.

Interview with Professor Jacques Pelkmans, Senior Research Fellow at the Centre for European Policy Studies

The spotlight of this edition is on the leader of the research study "*Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement*" Professor Jacques Pelkmans, Senior Research Fellow at CEPS. Following its launch, we interview Professor Pelkmans on his views of the potential economic and political reforms in China, as well as his vision on the future of EU-China trade relations.

Read the Study: [Exec. Summary](#) / [Full Study](#)

FTA: China is going through a difficult economic transition, while the EU has still not fully recovered after the financial crisis. Who is more in need for improved EU-CN trade relations?

Professor Pelkmans: As we show in the study, both economies would benefit considerably. The benefits we can quantify show this clearly, but there are a range of chapters on subjects within such a Free Trade Area where we provide extensive qualitative evidence as well. Taking these two together forcefully demonstrates that both economies would welcome the conclusion of such an FTA. However, concluding and implementing a Free Trade Area is not a short run affair: so, whether the economic climate is a little less bright, is hardly of relevance to an FTA which needs years of preparation, years of negotiation, (usually) 7 or 10 years of implementation, especially for certain sensitive tariffs and gradual regulatory cooperation, before the full economic effects are experienced in the economy.

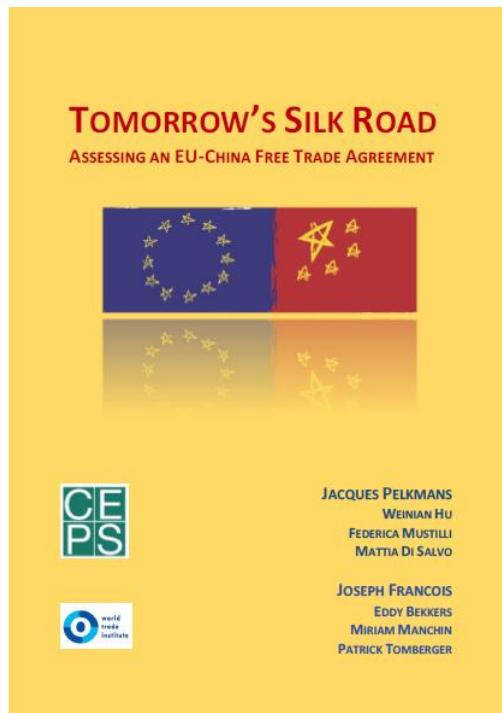
FTA: There is an emotional debate about free trade agreements these days (see TTIP). In addition, there is growing concern of Chinese overcapacities, notably on steel. Is it the right moment to discuss deeper market integration between EU and China?

Professor Pelkmans: There is never a truly “right” moment for initiating such free trade and investment initiatives. They must be taken with a longer run view in mind. This is true for the EU but far more still for China, that will have to combine an FTA with ‘deep and comprehensive reforms’. The reforms proposed by Chinese leadership in 2013 are yet to be implemented and their scope and pervasiveness render them extra sensitive. The excess capacity in steel (and in ceramics and aluminium) is an additional problem for China, and to some extent for Europe. The Chinese steel overcapacity has assumed proportions never witnessed before, making it a challenge to discuss FTA proposals. However, the only connection with the Free Trade Area is the apparent capacity of State-Owned Enterprises in China, together with state banks, the federal government in opaque ways, and provincial and local governments, to survive for years despite such huge loss-making overcapacities. The costs on China must be tremendous; perhaps as high as € 25 billion a year for steel alone. That issue is undoubtedly a major negotiation chapter in any FTA with China.

FTA: Where do you see EU-China trade relations in 2025?

Professor Pelkmans: The outlook for EU/China relations in the long-run, including a Free Trade Area, critically hinge on the reform willingness and capacity of China. At the moment, the direction and ‘words’ of reform are in the right direction but actions, so far, do not match. But China faces challenges, such as fast rising debt levels ; high growth rate but steadily slowing; exports are almost flat; costly environmental measures. Nevertheless, one cannot forget the enormous progress the country has made in a very short time. The Chinese have shown impressive capabilities. If they adjust to their new growth model (with more services, more domestic consumption, lower pollution, etc.), opening up the economy decisively further will be broadly to their benefit. Deep reforms and a FTA with the EU are two sides of the same coin, but indeed one that will take a decade or more.

Read the [Executive Summary \(36 pages\)](#) or the [Full Study \(326 pages\)](#)



For more information and updates about the conference, check the official website

trade2016.fta-intl.org



Conference summary, videos and photos are now available!

FTA Activities

January 2016: FTA Deepens Relations in Latin American

FTA's President and Director General conducted several high-level political and business meetings in Brazil, Chile and Peru including leading business associations in Brazil, the EU Mission and SOFOFA (the Producers Association) in Chile, and the ILO and ADEX (the Exporters Association) in Peru. The potential for further engagement by FTA and its sustainability initiatives in the region were successfully assessed.

February 2016: FTA Voices Views on MES and Transparency in Anti-Dumping with Cabinet of Trade Commissioner

Christian Ewert, Pierre Gröning, and Stuart Newman met with the cabinet of Trade Commissioner Malmström in February to discuss FTA's views on the controversial issue of China being treated as a market economy as from December. FTA highlighted the argument presented in its position paper from November; that MES should be granted but that anti-subsidy measures would be unaffected and the effects could be mitigated by using price adjustment.

The same month saw a follow-up meeting with the cabinet regarding FTA's proposal from June last year to improve the transparency in anti-dumping investigations – a proposal that appears to have the strong support of Commissioner Malmström.

February 2016: FTA Presents Stance on GSP at European Parliament

FTA was asked to speak at the European Parliament and give its views on the status of the implementation of the updated regulation covering the Generalised System of Preferences (GSP). Stefan Wengler, Senior Customs Advisor gave an overall positive opinion as the new regime, in place since 2014, allows for increased transparency and predictability.

February 2016: FTA Director General Strengthens Ties with Sri Lanka

Christian Ewert, FTA Director General met with Sri Lankan Ambassador Rodney Perera. In view of the significant progress made by Sri Lanka in recent years, FTA offered its support to the upcoming EU decision on Sri Lanka's GSP+ status (i.e. zero duties for nearly all imported products).

17 March 2016: FTA intervenes in EU Commission China MES event

A day-long event headed by Commissioner Malmström heard high level participants express their views as to whether WTO member states are obliged to treat China as a market economy when conducting anti-dumping investigations from 12 December 2016 onward. Senior Legal Advisor, Stuart Newman gave a brief intervention that emphasised the system used by the EU to calculate normal value was an exceptional one and that the EU should abide by the obligation under China's Protocol of accession to the WTO. He also noted that anti-subsidy investigations remain unaffected and that the effect of possible lower duties could be mitigated by price adjustments. He closed by noting that many EU member states would fail certain of the five "market economy criteria" used by the Commission.

17 March 2016: FTA intervenes at EP workshop on Turkey

FTA was asked to give a brief intervention from floor at the event organised by the International Trade Committee. Head of Trade Policy, Pierre Gröning stressed that Turkey should consider removing its trade barriers before negotiations on the enhanced EU-Turkey Customs Union proceed.

European Trade News

11-15 January 2016: Progress on EU-China Investment Treaty

EU and China negotiators met in Beijing and reached clear conclusions on upcoming EU-China investment agreement and moved into a phase of specific text-based negotiations. Both sides agreed that the agreement must improve market access opportunities by establishing a genuine right to invest and by guaranteeing that they will not discriminate against their respective companies. It was also agreed that issues relating to the transparency, licensing and authorisation procedures, would be addressed. Rules on environmental and labour-related dimensions of foreign investment will also be included in the agreement

22-26 February 2016: 12th TTIP Round completed

Negotiators discussed aspects of regulatory cooperation and rules. Progress was made on the former insofar that both sides tabled texts that facilitates cooperation in manufacturing in a number of sectors and in services such as mutual recognition of professional qualifications. The EU's proposal makes clear that although costs will be cut, existing high standards that protect people's health and safety, or the environment will remain. On standards, discussions were held concerning how to reduce unnecessary duplication or excessive costs of conformity assessment. The talks also covered competition, customs and trade facilitation, state to state dispute settlement, and SMEs. The Round was also the first time that discussions on investment protection were conducted. Finally, the proposals from both sides on sustainable development were considered.

29 February 2016: Progress on EU-Canada Agreement (ISDS)

The EU Commission and the Canadian government agreed to include a new approach on investment protection and investment dispute settlement in the EU-Canada Comprehensive Economic and Trade Agreement (CETA). The Agreement now includes all the elements outlined in the EU's ISDS proposal of November 2015 for the TTIP negotiations – this being a significant change to the ISDS system that was originally agreed with Canada in 2014.

8 April 2016: EU and Mercosur agree to advance trade talks

Commissioner Malmström and Rodolfo Nin Novoa, Foreign Minister of Uruguay, agreed to move ahead with talks to advance the long-running EU-Mercosur Agreement. They agreed to meet in May to exchange market access offers to open access to goods and services specifying ways to increase mutual openness to each other's goods and services, including access to public tenders. However, since then, certain EU Member States have expressed some opposition to the current mandate under negotiation since it dates from 1999/2000 and as a result progress may be stalled again.

18-21 April 2016: 1st Full Round of EU-Tunisia DCFTA

A week long discussion took place in Tunisia covering topics dealing with agriculture and fish products, sanitary and phytosanitary measures, intellectual property rights, facilitation on customs procedures, state aid, trade and sustainable development, services and investment, trade defence instruments (in particular safeguards), technical barriers to trade and transparency.

24-29 April 2016: 13th Round of TTIP Negotiations

At the time this issue of Trade Perspectives was published, the 13th Round of negotiations to the EU-US Transatlantic Trade and Investment Partnership was taking place in New York. Both side are hoping that during this round, and the 14th in July, with achieve progress on all but the most sensitive areas of negotiations.

Upcoming Events

- [BEPI and the HKPC Cleaner Production Partnership Programme](#), Online, 03/05/2016
 - [Business Tackling Modern Slavery and Forced Labour](#), London, UK 05/05/2016
 - [Better Work European Business Forum, Copenhagen](#), Denmark, 12/05/2016
 - [Improving Working Conditions in the Food Supply Chain](#), Bangkok 26/05/2016
 - [EU Roadmap to Business and Human Rights Conference](#), Amsterdam, The Netherlands, 31/05/2016
 - [OECD Forum 2016](#), Paris, France, 31/05/2016 - FTA members are exclusively invited – [click here to register](#)
 - [FTA Sustainability Conference, Brussels](#), 02/06/2016
 - [European Development Days](#), Brussels, Belgium, 15/06/2016
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- [The Global Summit](#), Cape Town, South Africa, 15 – 17/06/2016

Contact

To share your feedback, contact info@fta-intl.org

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