

Position paper

EU-China trade relations: towards a modern-day Silk Road

The trade relationship between the EU and China is crucial for the retail sector. If properly harnessed, it can drive even more prosperity for the benefit of consumers and trading companies. However, more effort is needed to remove many enduring trade obstacles. Closer alignment and cooperation between such important economic partners will provide a cornerstone for open trade that drives sustainable development globally.

1. Background

Trade between the EU and China is highly important for amfori, since most of our members are European importers, retailers and brand companies. For many of them, China is the most important country for their business, both in terms of sourcing and as a highly prospective market.

At the same time, China is continuously gaining importance as an export and investment destination due to its exponential economic growth and burgeoning middle class. For this reason, many amfori members are progressively growing their presence on the Chinese market.

Today, over 300 amfori members hold regional or global sourcing offices in the Greater China region, while around 75% of our members are present in China and source from more than 30,000 factories and farms in the country.



Top manufactured goods imports from China (2016)

Product	Value (€ billion)
Electric goods	€55.8
Clothing	€30.0
Textiles	€9.2
Footwear	€8.7
Furniture	€6.8
Household goods & accessories	€6.3
Toys	€6.1
Leather goods & accessories	€4.9
Sports equipment	€3.8
DIY goods	€2.0
White goods	€0.9

Source: Eurostat

Apart from being the EU's second most important trading partner, China is by far the most important supplier for European importers, retailers and brand manufacturers: 46% of imported fast-moving consumer goods in the EU come from China, according to our statistics.

2. Our priorities

The EU and China understand the importance of their trading relationship and have taken many steps in the right direction in recent years to facilitate trade and improve the business climate for companies on both sides. Unfortunately, certain barriers still exist that significantly prevent companies from unlocking the full potential of the trade relationship. That is why amfori urges both sides to tackle these trade frictions in a sincere and timely manner.

The major challenges that our members have highlighted in China concern:

- a. **Unharmonized customs procedures:** Practices may vary substantially from one part of the country to another as procedures are not properly harmonised. The lack of clear implementation guidelines is leaving broad discretionary power to local seaport and airport authorities.¹
- b. **High peak tariffs:** The Chinese government has lowered or even cut some import duties on an increasing number of consumer products in the past few years, especially in the latest reduction which took effect on 1 July 2018. However, China still has certain (applied) tariff peaks² with over 1,400 8-digit peak tariffs as compared to 45 in the EU.
- c. **Non-trade barriers:** There is still a considerable amount of non-trade barriers to doing business in China, which range from joint venture requirements, market entry restrictions, divergent standards on products, obligations for technology transfers, rigid technical regulations and product safety requirements, and burdensome bureaucratic procedures.
- d. **Intellectual Property Rights (IPR):** Although the Chinese government has taken special actions to tackle the problem of IPR infringement, much more still needs to be done. China continues to be the main source of counterfeit and pirate products accounting for more than 80% of EU seizures.³ Online counterfeiting and piracy have substantially aggravated the scope and dimension of China's enforcement problem. European single-brand companies and retailers with own-brands are strongly affected and become frequent and common targets of counterfeiting.

Similarly, on the EU side, our members are also faced with certain issues that can negatively affect their business:

- a. **Union Customs Code issues:** With the entry into force of the new Union Customs Code, our members have faced a number of challenges where the customs procedures in different EU member states have not been harmonised yet. The slow roll out of

the required IT infrastructure is also negatively affecting the whole import sector.

- b. **Potential for politically motivated protectionist measures:** The use of trade defence instruments is legitimate to defend European producers against unfairly subsidised or traded imports. However, the use of such instruments must be clearly framed and should not be dictated by narrow or short-term goals or by calls to protect uncompetitive European industries. Hence, calls to have an increased recourse to such measures should be rejected.

3. Policy recommendations

Bilateral trade agreement

amfori believes that the best way to tackle the above challenges would be to negotiate a **Free Trade Agreement (FTA)** between the EU and China that would cover goods, services and investment. We believe that the time is ripe for the EU and China to take a bold step and, in an era of rising protectionism, put into practice their commitments for developing global trade.

However, we are aware that a full trade agreement between the two sides cannot be done quickly, therefore we urge the EU and China to **first complete the Investment Agreement** that they are currently negotiating. The timely and proper implementation of the deal, once it is finalised, will show that the two sides are committed to deepening their trade links and will open the path to a trade agreement that covers goods and services.

According to a study commissioned by amfori and delivered by the Centre for European Policy Studies (CEPS) on a potential EU-China FTA, if a highly ambitious agreement were to be concluded by 2030, it would positively affect the GDP of both parties: potentially leading to an increase of 1.87% for China and 0.76% for the EU; all 28 EU member states would benefit from such a deal.

The New Silk Road

The Belt and Road Initiative (BRI) provides a new opportunity for collaboration and can add great value to what is already a significant economic relationship between China and the EU. Much can be achieved through it, and if it is accompanied by deep and comprehensive Investment and Free Trade

¹ "Trade Policy Review – China", World Trade Organisation, 2016

² A peak tariff is defined by the WTO as higher than 15%.

³ "Report on EU Customs Enforcement of Intellectual Property Rights – Results at the EU Border 2016", European Commission, 2017

Agreements between the countries on the route, everyone would stand to profit. The BRI can support growth on both sides and their neighbourhoods due to the improved railway and maritime infrastructure that would lead to a reduction in transport costs.

However, the BRI can only develop its full potential and serve as a successful business platform if its management is transparent and inclusive. To this end, the Belt and Road Industrial & Commerce Alliance (BRICA) organised by the China Federation of Industrial Economies (CFIE), can provide a perfect multi-stakeholder framework to drive the issues of sustainable development along the BRI. At amfori, we are proud to have participated in BRICA since its early days, and in turn to have contributed to the development of the BRI. Moreover, we look forward to continuing our active participation in BRICA and ensuring that the BRI drives sustainable development.

Sustainable development is key

To ensure that the benefits of trade are long term, beneficial for people and do not adversely impact the environment, all agreements that the EU and China conclude must aim at improving their bilateral cooperation and dialogue on sustainability issues, in line with internationally agreed standards such as at the level of the UN and G20.

Therefore, the EU and China, should lead the implementation of the Paris agreement and the global transition to clean energy and a low-carbon economy, as well as the overall implementation of the United Nation's Agenda 2030 and its Sustainable Development Goals (SDGs).

Concluding the plurilateral Environmental Goods Agreement (EGA) should be another priority of both sides to demonstrate joint leadership. Finally, sustainability considerations should be at the core of the planning and rolling out of projects under the BRI.

The EU and China must protect the multilateral system

Following the US Government's decision to withdraw from the Paris Agreement in June 2017 and increasing rhetoric against the global trading system established by the World Trade Organisation, it is now up to Brussels and Beijing to protect

the multilateral system. This must include closer cooperation on protecting and implementing the Paris agreement, as well as coordinating efforts to meet the SDGs.

The EU and China, as the leading voices of support for protecting the multilateral system, must work together and synchronise their efforts. Only a collaborative approach can truly lead to upholding global rules and values.

4. Power of collaboration

amfori believes that economic development which is durable and beneficial to all can only be created through strong networks and cooperation between all actors, ranging from governments, to international organisations, businesses and civil society.

To support our work of bringing Europe and China closer and fostering mutual growth, we established strategic partnerships with key industry associations in China to drive sustainable supply chains. Our partners include the China National Textile & Apparel Council (CNTAC), China Chain Store & Franchise Association (CCFA), China Electronics Standardization Association (CESA), European Chamber of Commerce in China (EUCCC), Hong Kong Productivity Council (HKPC), Zero Discharge of Hazardous Chemicals (ZDHC), Zhejiang Province Corporate Social Responsibility Promotion Association (Zhejiang CSRPA), and China Council for the Promotion of International Trade (CCPIT) Zhejiang CSRPA, and as already mentioned, the Belt and Road Industrial & Commerce Alliance (BRICA) and China Federation of Industrial Economics (CFIE). We also aim to form more partnerships in the near future to promote open trade and sustainable development.

5. Conclusion

amfori will spare no effort in carrying out our mission to enable enterprises in both the EU and China to grow their businesses sustainably while supporting sustainable development throughout their supply chains.

We are confident that, together with our partners and stakeholders, we can thrive in the world of today, and that of tomorrow, by maintaining the important balance between the three 'Ps': people, planet and prosperity, and we look forward to working with our Chinese and European partners to make this happen. ■

About amfori

amfori is the leading global business association that promotes open and sustainable trade. We number over 2,300 importers, retailers and brand manufacturers, from over 40 countries and with a combined turnover of more than €1.7 trillion. Our membership includes large retailers, brands, importers and supermarket chains.

amfori supports our members' international business by providing information and solutions towards open and sustainable global value chains with 40 years of experience, amfori believes in "trade with purpose" and endeavours to facilitate the development of trade which is sustainable and leads to prosperity for all.

Our services

We provide our members with a practical framework and tools to manage the social and environmental performance of their supply chains through our two sustainability initiatives: amfori BSCI and amfori BEPI. amfori BSCI helps them and their producers to improve the social performance in their supply chains, while amfori BEPI aims to ameliorate the environmental footprint in their production, by looking at the energy and water consumption, chemical use, waste management and greenhouse gas emissions.

We also continuously advocate for progressive policies and collaborate with international partners to achieve social, environmental and economic progress globally.

In China, amfori BSCI has conducted over 11,000 social compliance audits during 2017. We also hold over 60 workshops per year, including e-learning and face-to-face professional training for our members, and their buyers and producers.

Under amfori BEPI, in less than two years we have engaged more than 1,400 Chinese producers that supply amfori members.

For more information please visit our website or contact us:

E-mail: info@amfori.org

Phone: +32 (0)2 762 05 51

www.amfori.org (Chinese: cn.amfori.org)
