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Committee on International Trade (INTA)

China is currently the second biggest trading partner of the EU. However, intellectual property theft, government intervention and lack of transparency in China remain obstacles to free trade. Which measures should the EU take to achieve fair trade partnership with China? How should the EU deal with the growing economic influence of China on the development of individual Member States?

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1. Key terms – General Overview

China is the EU's second largest trading partner with the first one being the United States of America. In 2017, China was the EU's largest partner for imports (20% of total extra-EU imports) and second largest for the EU exports (11% of total extra-EU exports) following the US which had a 20% share of extra EU exports.

The EU-China trade in services amounts to more than 10% of total trade in goods and the EU's exports of services make up 19% of the EU's total exports of goods. The Union's main imports from China are industrial and consumer goods, machinery and equipment and footwear and clothing while the main exports to China are machinery and equipment, motor vehicles and aircrafts and chemicals.

However, trading between the EU and China has faced a number of obstacles: Intellectual property theft, government intervention and lack of transparency are the three main factors that, alongside secondary issues such as unfair trade practices (subsidizing and dumping), have created difficulties between the EU and China when it comes to trade.

Trade

Involves the transfer of goods or services from one person or entity to another often in exchange for money. A system or network that allows trade is called a market.

Intellectual Property

A category of property that includes intangible creations of the human intellect and primarily encompasses copyrights, patterns, and trademarks.^[1] It also includes other types of rights, such as trade secrets, publicity rights, moral rights, and rights against unfair competition. Intellectual Property Theft occurs when someone uses your intellectual property for any reason without your permission.

Government Intervention

Regulatory actions taken by a government in order to affect or interfere with decisions made by individuals, groups, or organisations regarding social and economic matters.

Transparency

Transparency, as used in science, engineering, business, the humanities and in other social contexts, is operating in such a way that it is easy for others to see what actions are performed. It has been defined simply as ‘the perceived quality of intentionally shared information from a sender’. Transparency implies openness, communication, and accountability. Transparency is practised in companies, organisations, administrations and communities. It guides an organisation's decisions and policies on the disclosure of information to its employees and the public or simply the intended recipient of the information.

Dumping

Dumping, in economics, is a kind of predatory pricing especially in the context of international trade. It occurs when manufacturers export a product to another country at a price below the normal price. The objective of dumping is to increase market share in a foreign market by driving out competition and thereby create a monopoly situation where the exporter will be able to unilaterally dictate price and quality of the product. Under the World Trade Organisation (WTO) Antidumping Agreement, dumping is not prohibited unless it causes or threatens to cause material injury to a domestic industry in the importing country.

Subsidy

A subsidy is a financial contribution made by (or on behalf of) a government or a public body that gives the recipient a benefit. Some subsidies are used to pursue domestic or social policies; for example, supporting industries that help create new jobs. However, unfair subsidies can distort the EU market, create unfair competition and therefore, damage European industry. The EU can impose duties to counteract a subsidy, but only if it is limited to a specific firm, industry or group of firms or industries. Export subsidies and subsidies based on using domestic goods over imported ones are specific.

2. Main Stakeholders

The European Union (EU)

The EU is the world's biggest trader, accounting for 16.5% of the world's imports and exports. Free trade among its members was one of the EU's founding principles and it is committed to liberalising world trade as well. EU trade policy is made exclusively at EU level. The Commission negotiates agreements on behalf of the EU within WTO rules and works closely with national governments and the European Parliament to maintain the global system and enable it to adapt to worldwide changes. The EU negotiates agreements through its world-wide network of trade relations. It engages with a huge range of partners, mostly through free trade agreements. These partnerships seek to create growth and jobs for Europeans by opening new markets with the rest of the world. Transatlantic markets, for example, represent transactions worth around 2 billion euros every day. EU trade policy also aims to reduce child and forced labour, environmental destruction and price volatility. Schemes which ensure transparency and traceability in supply chains are one example.

China

China is the largest export economy in the world. In 2016, China exported \$2.06T and imported \$1.32T resulting in a positive trade balance of \$736B. In 2016, the GDP of China was \$11.2T and its GDP per capita was \$15.5k. China is now the EU's second-biggest trading partner behind the United States and the EU is China's biggest trading partner. The EU is committed to opening trading relations with China. However, the EU wants to ensure that China trades fairly, respects intellectual property rights and meets its obligations as a member of the World Trade Organisation (WTO).

World Trade Organisation (WTO)

The WTO has many roles: it operates a global system of trade rules, it acts as a forum for negotiating trade agreements, it settles trade disputes between its members and it supports the needs of developing countries. The organisation's primary purpose, though, is to open trade for the benefit of all. All major decisions are made by the WTO's member governments: either by ministers who usually meet at least every two years or by their ambassadors or delegates who meet regularly in Geneva.

3. Measures in Place

The EU's trade policy¹ aims to help the EU to compete better on international markets. Unwarranted trade defence measures² unfairly block EU exporters' free access to the world's markets and their negative impact should be minimised whenever possible. The EU has imposed trade defence instruments in accordance with EU and WTO law. The European Commission monitors the application of these instruments, follows up the enforcement of measures and negotiates future rules with international partners. The EU uses trade defence instruments to re-establish a competitive environment for the EU industry when harmed by dumped or subsidised imports.

When China joined the WTO in 2001, it agreed to reform and liberalise important parts of its economy.

While China has made progress, some problems remain:

- lack of transparency
- industrial policies and non-tariff measures that discriminate against foreign companies
- strong government intervention in the economy resulting in a dominant position of state-owned firms, unequal access to subsidies and cheap financing
- poor protection and enforcement of intellectual property rights

¹European Commission. Trade Policy. 2018. Last accessed 05/28/2018. Retrieved from <http://ec.europa.eu/trade/policy/>

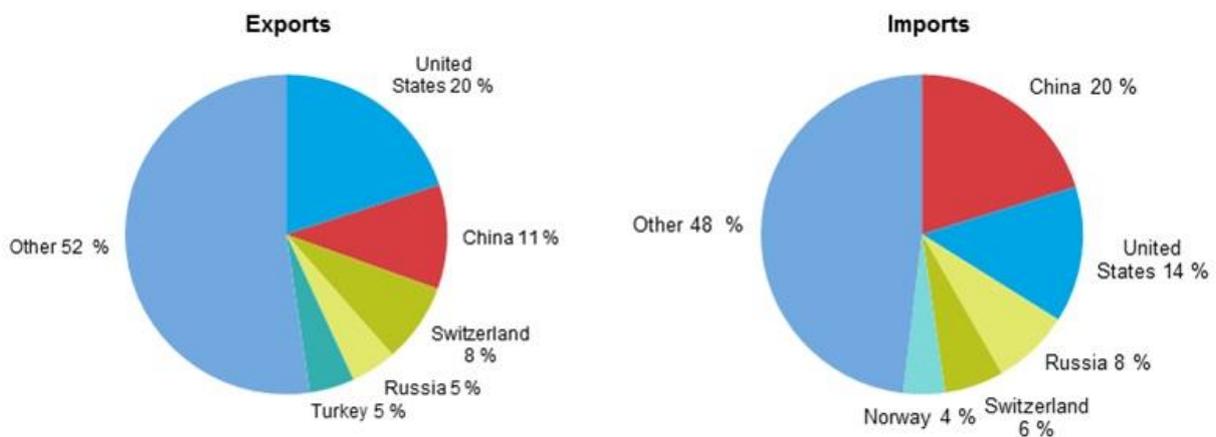
²European Commission. Trade Defense. 2015. Last Accessed 05/28/2018. Retrieved from <http://ec.europa.eu/trade/policy/accessing-markets/trade-defence/>

European Commission. Types of Trade Defense Measures. Last accessed 05/28/2018. Retrieved from http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151017.pdf

In 2016, the EU adopted a new strategy for China³ mapping out the European Union's relationship with China for the next five years. The Strategy promotes reciprocity, a level playing field and fair competition across all areas of co-operation. The strategy also includes a trade agenda with a strong focus on improving market access opportunities – including negotiations on a Comprehensive Agreement on Investment. It also deals with overcapacity and calling on China to engage with ambition at multilateral level.

4. Statistics/Graphs/Tables

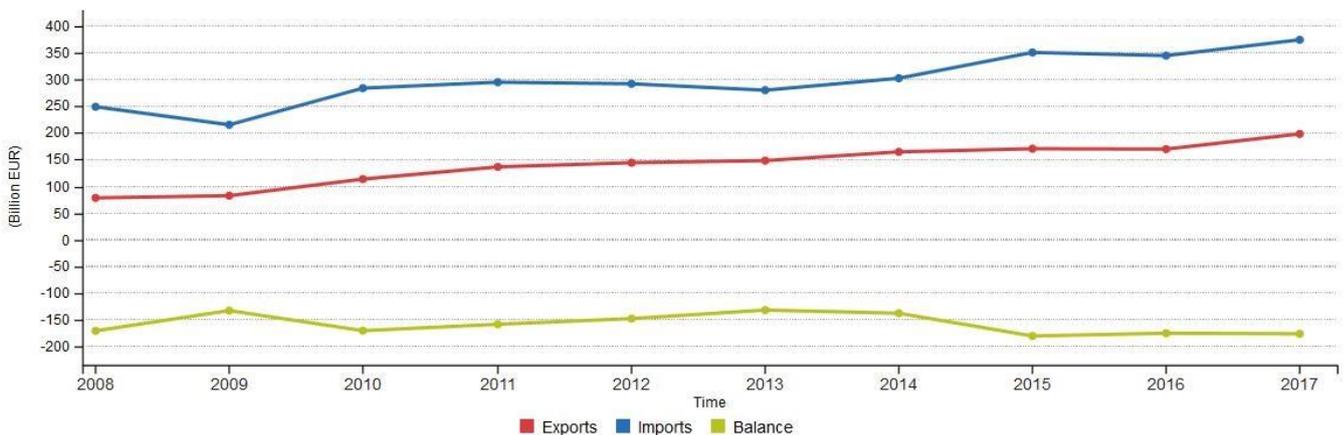
The position of China among the EU's main partners, 2017



Source: Eurostat (online data code: ext_lt_maineu)

eurostat 

Imports, exports and trade balance between the EU and China, 2008-2017



Source: Eurostat (online data code: ext_lt_maineu)

eurostat 

³European Commission. Joint Communication to the European Parliament and the Council: Elements for a new EU Strategy on China. 2016. Last accessed 05/28/2018. Retrieved from http://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf