



« The voice of the European Service Industries for International Trade Negotiations in Services »



ASIA FDI FORUM II

29-30 November 2016, Hong Kong



Wednesday, November 30, 2016:

9:00 – 10:30

Session V-B: Opportunities and Challenges for Investment in
China

**“The Nexus of Foreign investment and Trade in
Services: Issues and Challenges for China”**

Pascal Kerneis

ESF Managing Director



« The voice of the European Service Industries for
International Trade Negotiations in Services »

What is ESF?





« The voice of the European Service Industries for International Trade Negotiations in Services »

ESF Membership covers a large range of services sectors and Horizontal federations:

- Insurance
- Banking
- Business services: IT & Computer; consulting, advertising, after-sales services, News Agencies
- Professional services:
 - Legal services,
 - Accountants,
 - Architects,
 - Engineers, etc.
- Construction services
- Distribution services
- Postal & Express Delivery
- Audio-visual services
- Energy related services

- Environmental services
- Telecommunication services
- Tourism
- Air Transport
- Maritime Transport

&

- BUSINESSEUROPE
- Confederation of Danish Industries (DI)
- Confederation of Finnish Industries (EK)
- Confederation of Swedish Enterprises (SN)
- Irish Business and Employers Confederation (IBEC)
- Confederation of French Enterprises (MEDEF)



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Some ESF MEMBERS :



For more information, see www.esf.be



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Some ESF Associations members



A faint, blue-tinted world map is visible in the background of the slide, showing the outlines of continents and a grid of latitude and longitude lines.

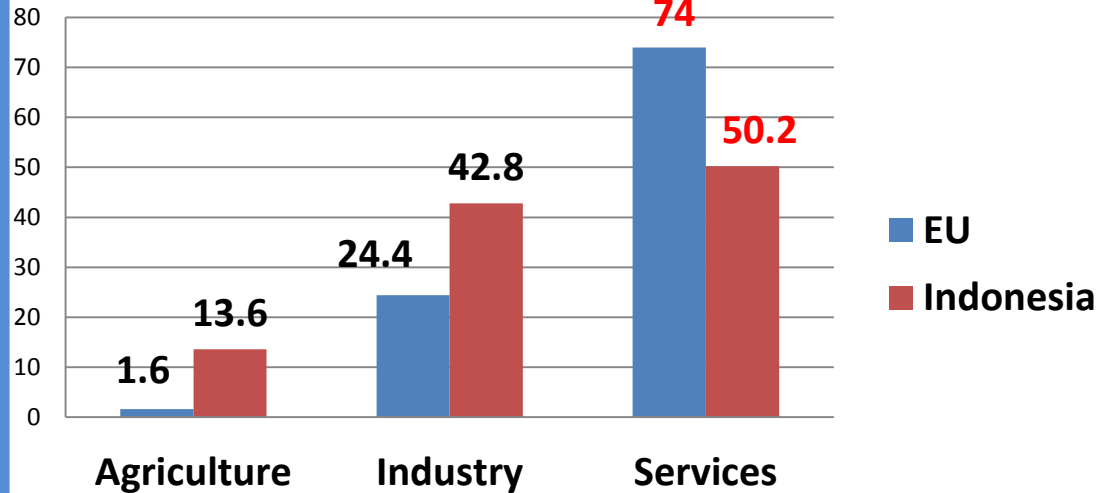
2) International trade & investment in services Between China and EU: Facts and Figures

EU-China Trade in Services and Investment – The figures

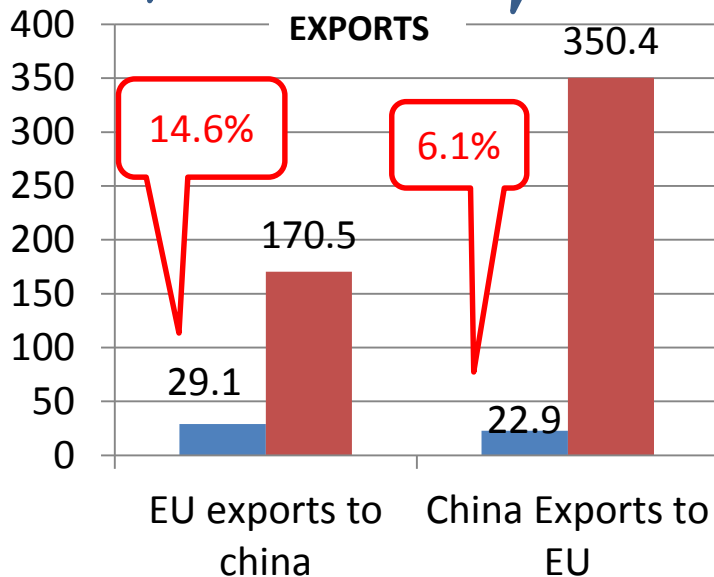
EU Average: 26.9%

China Average: 8.8%

EU - China: Percentage of GDP by Sector- % - 2015



EXPORTS

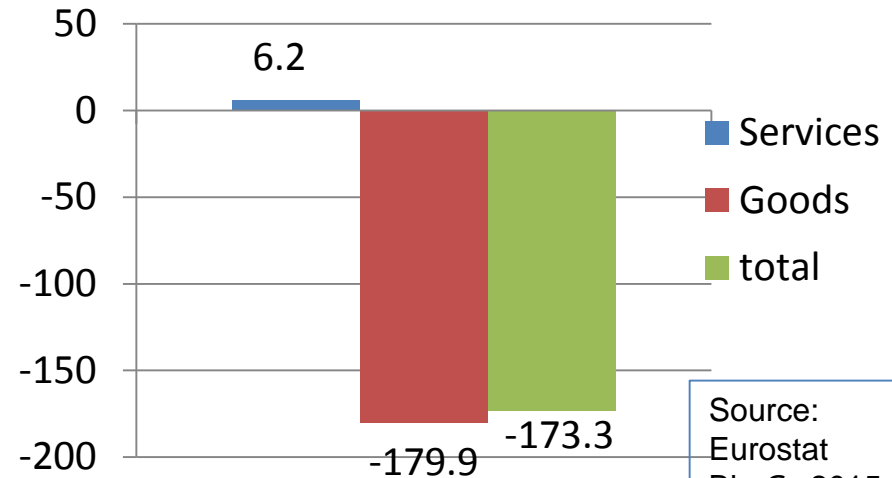


TRADE

Services Exports
All Other exports

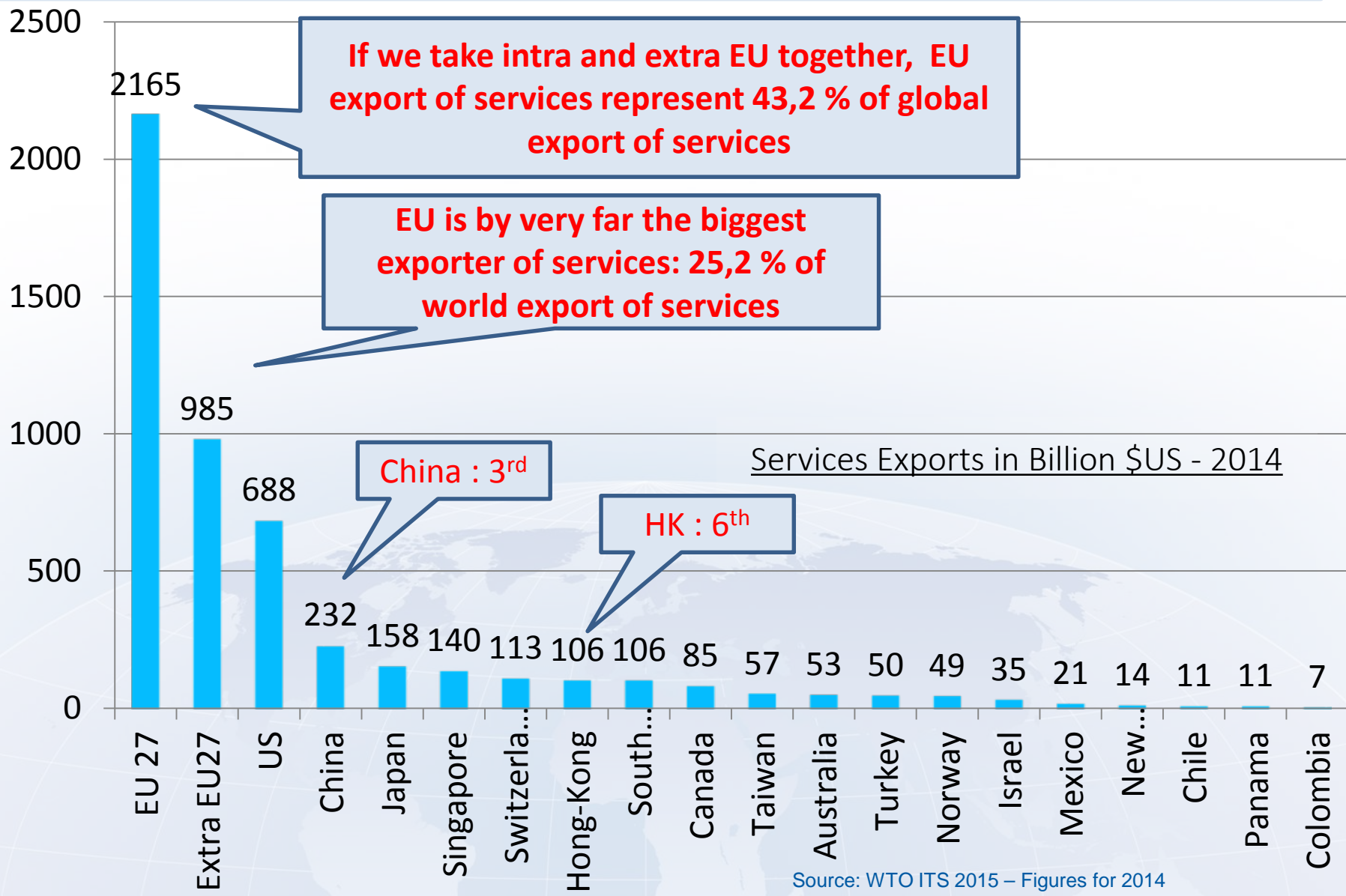
Source: Eurostat Bio € - 2015

EU BALANCE OF TRADE WITH INDONESIA



Source: Eurostat Bio € - 2015

THE EU IS BY FAR THE WORLD BIGGEST EXPORTER OF TRADE IN SERVICES

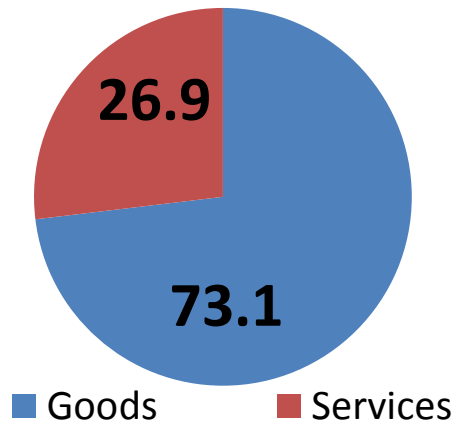


IMPORTANCE OF TRADE IN SERVICES

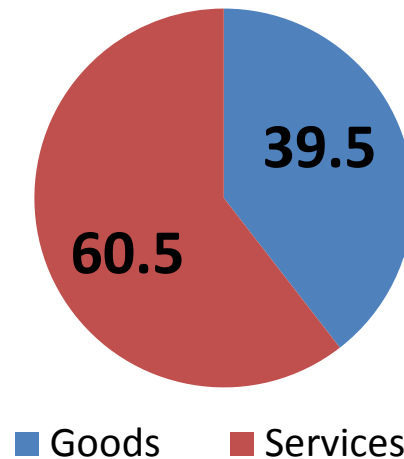
If we use the trade in value-added (TiVA) indicators,

60.5% of total EU Exports are Services – 41.9% of total China Exports are Services

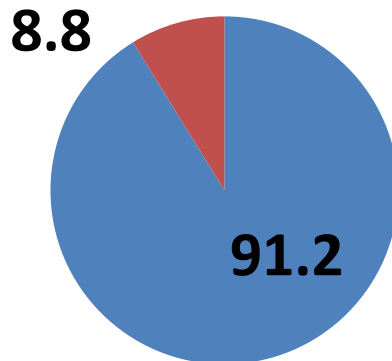
EU Exports in BoP – 2011 - %



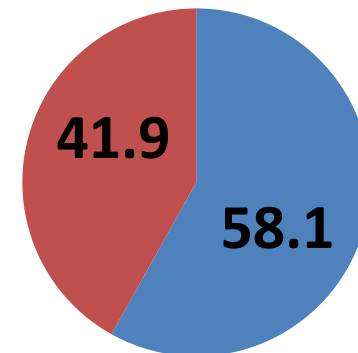
EU Exports in TiVA – 2011 - %



China Exports in BOP – 2011 - %



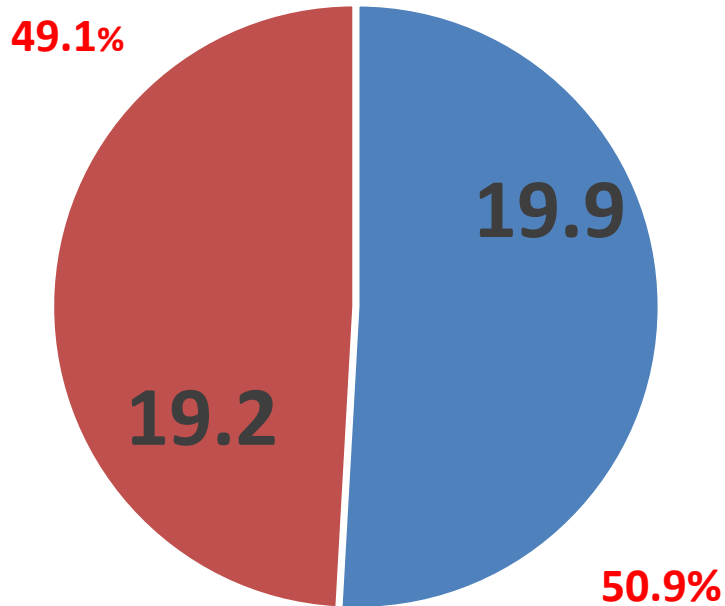
China Exports in TiVA – 2011 - %



China Trade is too much focused on trade in goods!

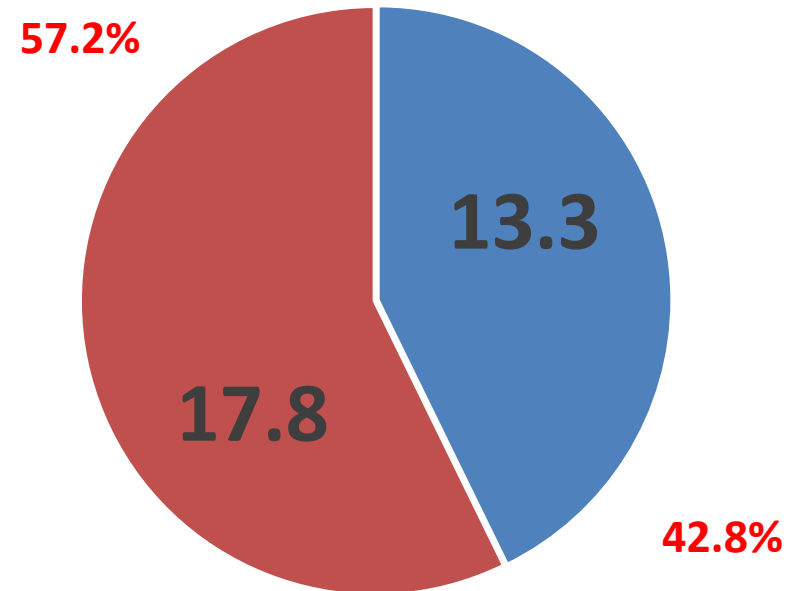
Share of Services value added in EU & China Goods Exports
 Share of Domestic & Foreign Services in Goods Exports - %

EU = 39.1%



■ Domestic Services
 ■ Foreign Services

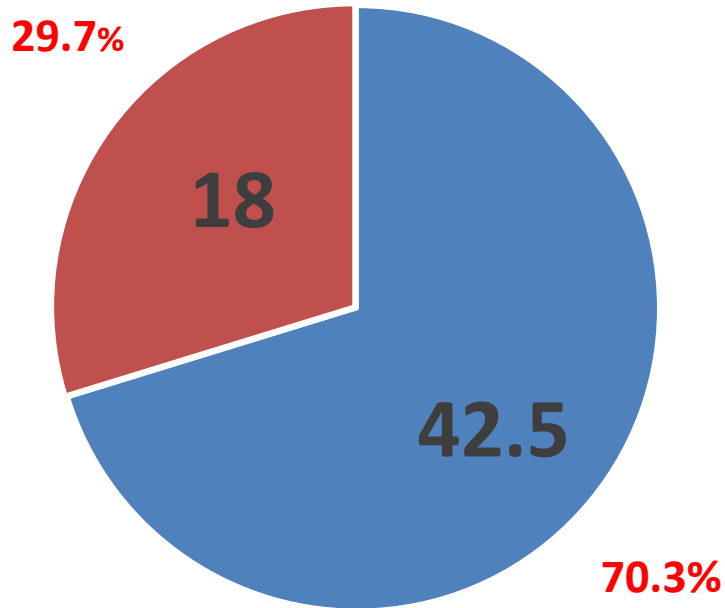
China = 31.1%



■ Domestic Services
 ■ Foreign Services

Share of Services in EU & China Global Exports
Share of Domestic & Foreign Services - %

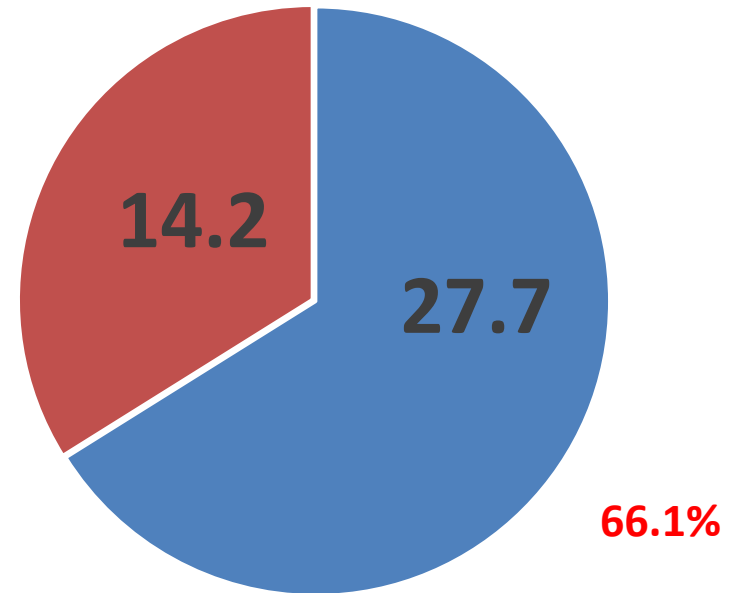
EU = 60.5%



■ Domestic Services
■ Foreign Services

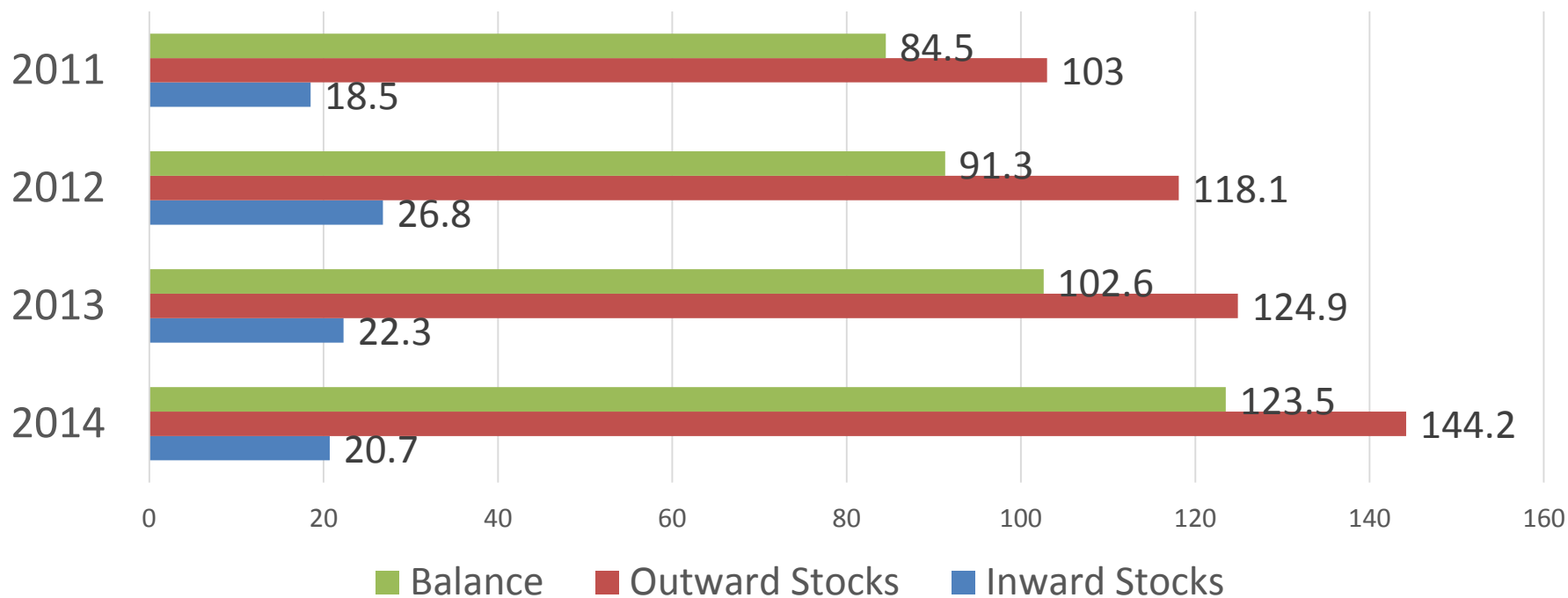
China = 41.9%

33.9%



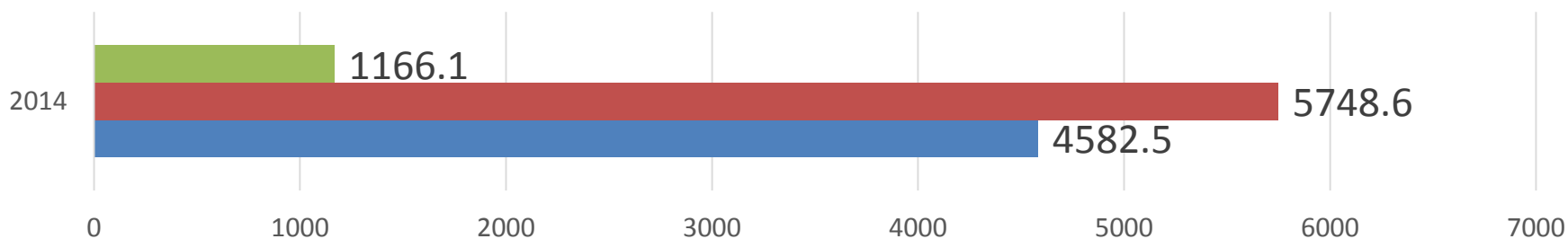
■ Domestic Services
■ Foreign Services

EU Foreign Direct Investment with China - € Bio



Balance Outward Stocks Inward Stocks

EU FDI with the world – 2014 - € Bio



EU FDI Stocks with China – 2012-2014

	Outward				Inward			
	Value (billion EUR)			Share (%)	Value (billion EUR)			Share (%)
	2012	2013 (*)	2014 (*)	2014	2012	2013 (*)	2014 (*)	2014
Extra EU-28	5 112.0	5 344.4	5 748.6	100.0	3 905.9	4 179.7	4 582.5	100.0
United States	1 627.8	1 812.6	1 985.3	34.5	1 543.9	1 756.0	1 810.8	39.5
Switzerland	664.8	665.9	632.3	11.0	500.6	484.1	509.4	11.1
Brazil	257.1	278.2	343.6	6.0	81.1	99.4	113.6	2.5
Canada	247.1	234.7	274.7	4.8	135.5	135.5	165.9	3.6
Russia	193.5	189.9	171.5	3.0	75.3	63.5	74.4	1.6
China	120.7	124.9	144.2	2.5	27.4	22.3	20.7	0.5
Mexico	82.4	109.6	119.2	2.1	21.4	23.8	28.3	0.6
Australia	141.0	126.9	115.3	2.0	30.7	24.2	26.4	0.6
Hong Kong	132.1	113.4	106.3	1.8	50.7	57.4	71.2	1.6
Singapore	92.6	91.9	102.9	1.8	47.7	35.7	43.8	1.0

(*) Based on international standards BPM6 and BD4.

Source: Eurostat (online data codes: bop_fdi_main and bop_fdi6_pos)

China is receiving only 2.5% of EU FDI

Only 0.5% of Inward FDI in the EU is coming from China

New trend in 2016? → Probably Too early to take any conclusion

➤ Decrease of EU FDI in China:

- ❖ Less M&A, less Greenfield operations, etc.
- ❖ Decrease of China economy?
- ❖ Unconvincing new China government measures? (negative list = re-grouping of existing restrictions, no real new opening; lack of persuasion of efficiency of new Free Trade Zone)
- ❖ Worrying New localisation requirements under the helmet of “cyber security” (insurance & banking? More?), internet censorship measures, which are incompatible with modern digital economy

➤ Increase of China FDI in EU:

- ❖ Many high profile cases of M&A (in German robotics, in semi conductors in Sweden; in Greek harbours, etc.) but still low!
- ❖ Chinese FDI lead by politics? (13th Five-Year plan) or by business wisdom/profit driven? By SOEs or by Private companies?

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3) EU-China Bilateral Investment Agreement (BIA): What's in it?

EU-China Bilateral Investment Agreement:

➤ Time line:

- ❖ EU Council mandate: Nov 2013;
 - ❖ BIA formally launched at the EU-China Summit of 21 November 2013 in Beijing;
 - ❖ 1st Round: 01/2014 – 2nd Round: 03/ 2014, 5th Round : Beijing,17-19 March 2015... 11th round: in Qingdao - week of 27 June 2016.
 - ❖ The 12th round of negotiations took place in Brussels the week of 26 September 2016.
 - ❖ 13th Round is scheduled tentatively for the week of 14 December 2016 in Beijing.
- It will replace the 26 existing Bilateral Investment Treaties between 27 individual EU Member States and China by one single comprehensive investment Agreement.
- Earlier this year 2016, EU and China negotiators reached clear conclusions on an ambitious and comprehensive scope for the EU-China investment agreement and established a joint negotiating text.

Content of EU China BIA?

→ “Deep and Comprehensive BIA” – Single Undertaking

~~– Goods: tariffs cuts (+95%), NTBs, Rules of Origin, TBT, SPS~~

→ Everything but trade in goods related issues

– Trade in services (Cross border, FDI= Mode 3 GATS + other sectors; Movement of people)

– Investment (Pre-establishment market access including in services sectors, post establishment protection: ICS?)

– IPR (copyrights, patents, data flows, etc.) (?)

– Public Procurement, including for services (central, regions, local, public entities)? Likely not, but China accession to GPA ?

– Competition (SOEs), dispute settlement

– Regulatory disciplines and cooperation

– Sustainable Development Chapter (rules on Labour, Envir., HR)

A. MARKET ACCESS PILLAR

- The current bidding level with China = WTO accession = GATS 2001
- Scheduling of Market access & National Treatment commitments using a Negative list : EU industry preferred choice!
 - ❖ GATS +; ➔ China FTAs+ ➔ China not in TiSA yet!
 - ❖ Removal of all equity caps, with negotiated exceptions,
 - ❖ Binding of current practise (i.e. Higher Market access than in existing FTAs), with negotiated exceptions,
 - ❖ More on Professional services (lawyers, auditors), telecom services, postal & express services, financial services, etc.

B. STATE OF THE ART INVESTMENT PROTECTION CHAPTER (BIT):

including Investor-to-State Dispute Settlement (ISDS) with transparency process and the new EU Investment Court System (ICS).

C. REGULATORY DISCIPLINES AND COOPERATION PILLAR (LIKE IN TISA!)

- Adoption of a strong Horizontal Chapter on Disciplines for Domestic Regulation :
 - ❖ Transparency of the regulation, Prior consultation of stakeholders; Impact assessment
 - ❖ transparency of the licensing requirements and procedures (Proportionate to the goal, Objective, least burdensome administrative costs as possible, short and predefined delays, right of appeal)
- Sector specific disciplines (e.g. on Telecoms, on Postal, on Energy, Environment, maritime and air transport, financial services, etc.)
- Sector specific regulatory cooperation (living agreement)
- Disciplines on State Own Enterprises (SOEs)
- Disciplines on cross border data flow (?) (very sensitive in the EU and in China!)



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Thank you for ATTENTION !

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