

THE DEVELOPMENT OF TRADE IN SERVICES BETWEEN CHINA AND EUROPE

Speech by Christopher Roberts, Chairman of the Policy Committee of the European Services Forum, at the opening of the China International Service Industries Convention and Expo - CISIC – Beijing, 30 June 2004 -

Mr Chairman, distinguished guests,

May I begin by thanking you for your welcome, and by congratulating the organisers of this convention and exhibition on their timely initiative in arranging this event. China's economy is growing fast; you are expanding your international trade on the back of membership of the WTO; and your agriculture and manufacturing industries are becoming more efficient and less labour-intensive. In such economic conditions China's further expansion requires access to the most modern and sophisticated services, and, where these are not available already, to develop them with the help of foreign expertise and foreign investment.

I plan to focus in this speech on ways in which trade in services between China and Europe can best be promoted. But let me say a word first about the organisation I represent, the European Services Forum, and about the importance of services in Europe.

The European Services Forum

The European Services Forum brings together the main service industries, both individual companies and business federations, from across the European Union. Most of our members are in the private sector, but some, for example in postal services, are in the public sector. Our members collectively operate in over 200 countries round the world, providing services to hundreds of millions of consumers. In balance of payments terms Europe accounts for over 40% of global services transactions, so it is very big business indeed.

The main concern of the European Services Forum is with international trade and the WTO. We have a continuing dialogue with Governments in Europe and the wider world, often on the basis of policy papers which are public documents published on our website. We are also in constant touch with our counterpart organisations in other countries like the Coalition of Service Industries in the United States, led by Mr Sorensen. Together we can and do present common positions to the WTO and individual Governments, so that service industries from around the world are heard speaking with one voice. If, as I understand may be the case, service industries in China are thinking of launching a similar organisation, that would be very welcome. I commend the idea to you.

The importance of services to the European economy

Services account for around 70% of the European economy, defined in terms of the value contributed by services to gross domestic product. The comparable figure for China is 35%. Services currently represent a quarter of European exports. Services' share of European exports has been rising rapidly and this trend will continue.

Three developments in European manufacturing are relevant here. First, the richer countries of Western Europe are reducing capacity in those industries like bulk textiles where wages and skills are relatively low. Second, some basic production, such as cars, is migrating to the new EU member

states in Central and Eastern Europe where labour costs are significantly lower. Third, European manufacturing, particularly in the richer regions, is concentrating increasingly on products for which specialist skills are needed and where there is high value added. This means, for example, a focus on fashionable clothing more than on towels and sheets, and on speciality rather than bulk chemicals.

However, as the richer regions of Europe progressively scale back bulk manufacturing, jobs have to be found elsewhere, and found in services. Happily Europe has world-class companies across the range of services - in financial services like banks and insurance, in professional services like law and accountancy, in transport, retailing, tourism, health and education services and many others. It is on such services, and on their ability to compete internationally, that the future of the European economy so largely depends.

The importance of services to trade between China and Europe

Trade relations between China and Europe are developing rapidly and to our mutual benefit, as was noted when Premier Wen Jiabao was in Europe last month. China is Europe's second biggest trading partner after the US. The European Union is the largest single foreign investor in China, where European investment grew by 30% last year.

All this is very satisfactory. But when we look at services alone, we see that there is still a long way to go. Trade between China and Europe is expanding, but only 6% of it is in services. If in turn we look at trade between Europe and the United States, 36% is in services.

Trade in services often brings wider economic benefits than trade in goods. Most services can only be delivered effectively through local investment and a local partner, with consequent benefits in local employment and technology transfer. For example, no wise retailer would set up in a foreign country without the access to local market knowledge which only a joint venture can readily supply. An exporter of shirts can leave local marketing and selling to the importer. An exporter of banking or insurance services needs a local presence and to satisfy himself that the customers understand the product and get the right advice. Trade in services is often more complex than trade in goods, but there are wider benefits.

What then can be done to increase trade in services between China and Europe? I suggest that we need action both bilaterally and multilaterally.

On the bilateral front I shall be making my own modest contribution. My law firm, Covington and Burling, has offices in Europe and the US, while in Asia we work in cooperation with local firms. In Beijing this week I shall be calling on two local law firms with whom we have already worked, and with whom we aim to strengthen our collaboration.

That is just one specific and personal example. More generally, the EU policy paper which the Chinese Government issued last October identified seven priority areas for economic cooperation. One of these related to Government activity but five of the other six - finance, the environment, IT, energy and transport - are important service sectors, and ones where the European service providers are innovative global leaders. The seventh is agriculture, where the exchanges will be about agricultural technology and agricultural research, another service sector where Europe is strong.

The same policy paper underlines the importance of China-EU cooperation in culture, education, health and the media. The practical way of achieving this is through the provision of health services, education services, information services and so on, all areas where Europe has much to contribute.

So there is plenty of scope for expanding our mutual trade in services. At present China runs a big surplus in trade in goods with the EU: exports are more than twice as large as imports. China runs a modest deficit in her trade in services with the EU, equivalent in value terms to 1.3% of her surplus in goods. That is very much what one would expect at the current stage of development. Over the next few years it would be natural for European services exports to China, and the European surplus in services, to increase; and for the trade in services in both directions to expand more rapidly than hitherto.

Lest you think that I am putting too much emphasis on European exports of services, let me add that the European private sector, and for the most part our Governments, see the outsourcing of services like IT and business services to China and other developing countries as beneficial to both sides. European airlines and banks, to give just two examples, are active in outsourcing to China: this helps them to cut costs and become more competitive. It would be illogical for Europe to press, as we do, for better access for our service exports, and at the same time to restrict outsourcing. So outsourcing opportunities for China will, I am sure, continue to grow.

We also need multilateral action, through the WTO. This means the strict implementation of existing WTO commitments, and the extension of those commitments through the current WTO negotiations on services. There are concerns in Europe, as in the United States, about China's implementation of WTO commitments. This is not the time to go into detail, but we have particular worries on banking and telecommunications [Pascal, are these the right priorities?]

The European Services Forum continues to press all Governments, including our own, to aim for the most ambitious result possible from the current WTO negotiations on services. Those countries which have not yet made offers should do so, and existing offers should be improved. I recognise that China made quite extensive commitments to liberalisation when she joined the WTO, but further market opening is, I suggest, possible and desirable.

We all stand to gain from expanding trade in services between China and Europe.

Chinese companies gain from joint ventures with European partners, and the transfer of skills, technical knowledge and management expertise.

Chinese employees can expect better pay and conditions, by contrast with manufacturing or agriculture

Chinese consumers will have access to a wider choice, better prices and better quality.

And your European trading partners will be happy as well, knowing the potential of the Chinese market.

In that way we can best fulfil the objectives of this important convention.