

# China and the Deindustrialization of the European Union

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*China and Europe need to work together, as historically it has been proven that this is the right course to follow.*

*Debate over granting of MES [market economic status] to China goes beyond trade policy and is mostly about Europe's lack of competitiveness, writes Luigi Gambardella.*

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In a nonbinding resolution passed by 546 votes to 28, with 77 abstentions, the European Parliament on 12 May called on the European Commission not to grant market economy status in the World Trade Organisation context to China until a level playing field could be established for EU industry and jobs.

The overwhelming majority of the lawmakers reflect the fears at the grassroots level caused by the fast deindustrialisation of the EU and unbearable unemployment in certain areas caused by the closure of major plants, in which successive generations of workers used to be employed.

The vote of the parliament was not a vote about China, even less a vote for or against China. The vote was about EU employment policy. How can the Commission guarantee to European citizens that their children will have employment opportunities similar to those of previous generations?

Trade defence instruments that make imports more costly is not the solution – at least if the EU continues to support economic globalisation and trade liberalisation. Today, the EU's exports to China support over 4 million jobs across the European Union.

In 2014, on average, each additional €1 billion (\$1.12 billion) in exports supported 15,000 additional jobs across the EU. With the EU's exports to China growing 4% last year, around 100,000 new jobs have been added to the job market. In a globalised economy, imports will replace local production, but at the same time, exports are creating other, new jobs. We should never forget that.

The EU problem is structural. The debate over China's market economy status in the Parliament is manifesting Europe's economic illness, in the same way as fever manifests the presence of malicious viruses in our bodies. Behind the discussions on trade defiance, the real issue is that Europe's economy is no longer competitive in the global market.

The causes are structural, including:

- European countries have adopted the most stringent environmental policies in the world, such as prohibiting the exploitation of shale gas, closing nuclear plants before alternative energy sources were available, imposing quotas on renewables, and introducing the toughest emissions norms.
- The highest tax rates in the world apply in Europe, while existing tax incentives are progressively phased out, in the framework of the fight against tax havens.
- The labour and social security laws have continuously been extended, multiplying gross cost of employment in the EU.
- Competition law focuses on consumer prices only, without regard to employment, promoting cheaper imports at the expense of national production.
- Strict enforcement of patent law stifles innovation, though innovation has been the key to Europe's economic growth in the past century. Entrepreneurs who launch new products are always at risk of patent claims by other companies because of hundreds of patents that were filed for elements with some similarities to the new product.

Instead of embarking on trade disputes, which will cost jobs both in the EU and China, it is time to start a dialogue between Chinese business leaders interested in investing in Europe and EU policymakers.

Chinese foreign direct investment in the EU exceeds \$54.2 billion. China has invested in and set up more than 2,000 companies that directly employ more than 74,000 European workers. Chinese investment in European firms also saves jobs, such as Geely Group's acquisition of Volvo saving 15,000 jobs. But if the EU embarked on structural reforms, Chinese investments could be multiplied.

It is urgent that Chinese business conveys with a single voice and in operational terms the structural reforms they expect in order to commit to more substantial investments in the EU and to create the new jobs that the European Parliament is asking for.

The ChinaEU association has been set up as a channel to coordinate the position of Chinese industry and bring the demands to the appropriate EU decision-makers.

History has demonstrated that dialogue and cooperation, not conflict, are able to overcome misunderstandings and reduce distances. China and Europe should work together more closely in the future, and on the future.

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