



# Public consultation on a strategy for the trade and economic relations between the EU and China

## EMF China project

### Introduction

The EMF contribution to the public consultation is based on the ongoing partly EU financed project "EMF China Research Project". The project is a pure research project focused on industrial policy in the sectors steel, ship and auto. The aim of the project is to arrive at a common assessment of China's economic future and its consequences for Europe based on the situation in the three sectors. The purpose of the project is to achieve knowledge of industrial development, protect the European Social Model, increased policy influence on a European level, increase the positioning of the European metal industry and to feed the sector dialogue.

The following two themes have been targeted by the European Commission:

1. What are the most important opportunities for Europe in China's economic growth and greater weight in international trade? What should the EU do to grasp these new opportunities?
2. What are the challenges and risks for the EU from China's rise? How should the EU respond to these challenges and risks?

### Expectations

China's industrial growth has been the unexpected event of the beginning of the 21<sup>st</sup> century owing to its impact on the entire global economy:

- China has become the world's fourth largest exporter and its third largest importer, and the recent scrapping of quotas in the textile and clothing sectors will merely strengthen its position.
- China has become the reference market for ferrous and non-ferrous metals alike, if not for raw materials in general.
- China has become one of the world's main creditors involved in financing US debt and awarding loans to the developing countries.

In short, China's recent emergence onto the world economic scene is shaking up long-established hierarchies and raises the question of the future of its relations with the world's major economic areas, including Europe.

If one sector of the economy has been at the heart of China's breakthrough it is the manufacturing industry. This is not because China has become industrialised in recent years, but rather mainly because it has transformed its industry over that period by competing on external markets.

One of the main reasons behind this transformation is the combined effect of investments by multinationals – including European multinationals – and the



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assertive industrial policy adopted by the Chinese authorities. A concomitant factor is the development of multinationals on the back of Chinese capital.

Following an initial phase of satisfaction on the internal market, exports based on comparative advantages are expanding to increasingly elaborate products that are gradually starting to compete with European markets both within Europe and in third markets. So delocalisation is going hand in hand with the loss of external markets. A new international division of labour is occurring before our very eyes, and it is playing a part in weakening European industries in the long-term.

However in spite of China's accession to the WTO, this danger, which is posing more and more of a threat to European industry, is based on unsustainable competitive advantages, for the rules governing Chinese society and freedom of association do not meet international standards; environmental impact is not controlled to a great extent, if at all; and more often than not intellectual property rights are simply ignored. So it is the European model of development and its social dimension that are likely to be called into question by a form of competition that is essentially unfair.

What impact on Europe's manufacturing industries is China's eruption onto markets for manufactured goods having and what potential impact could it have? Will China's expansion continue? If so when and under what conditions? How much leeway does Europe have in the area of industrial policy? To what extent does the Lisbon Strategy, which is seen as a balanced objective combining economic growth, social progress and sustainable development, present a coherent European response? What consequences is China's impact having on the strategies pursued by European companies, especially delocalisation and its positions in emerging markets?

More importantly, doesn't the 'Chinese industrial revolution' call for innovative responses, not just industrial innovation but also innovation in companies, in integrating lifelong learning into the promotion of skilled jobs; and the organisation at international level of structured social dialogue between China and Europe, so as to highlight the value added of the European Social Model?

### **Aim of the project and links with the objectives of the budget heading**

The EMF is planning to carry out research on the future of European metal industries with a view to organising a seminar with EMF affiliates in Brussels on 6-7 November 2006.

The aim is to arrive at a common assessment of China's economic future and its consequences for Europe based on the situation in three metal sectors chosen as examples, namely the steel industry, shipbuilding, and automotive.

That assessment can then serve as a basis for describing and evaluating the importance of the factors enabling Chinese industry to be globally competitive.

Finally, this research will endeavour to pinpoint the relevant issues and establish ways of internationally regulating the growth of China's metal industries, making them compatible with international standards regarding sustainable development and social responsibility. Trade union organisations would be fully involved in this research.



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The research can be divided into **three phases**:

1. **The first phase** will entail a proper study, designed to ascertain the impact of China's development on trends towards delocalisation and deindustrialisation in Europe by means of interviews and statistical studies. This study will be carried out as part of a broader examination of the strategies adopted by the multinationals operating in China and in Europe and of their consequences in the economic and social domains.
2. **The second phase** will consist of organising a wrap-up seminar to be attended by the members of the EMF Industrial Policy Committee, Company Policy Committee and other interested parties.
3. **The third and final phase** will involve evaluating the project and disseminating the conclusions of the study.

By implementing a research project in 2006 on the future of the European metal industries bearing in mind the new, currently emerging, international division of labour, trade union actors will be to:

- Draw up a shared assessment of the immediate future of the European industries in question;
- Initiate a discussion on the role of the social actors in regulating the European industries in question via social dialogue bodies like European Sectoral Social Dialogue Committees, European Works Councils, international dialogue committees within multinationals and regional social dialogue committees;
- Hold a seminar to discuss lines of action to be taken by the trade union actors vis-à-vis multinationals and the actors behind China's industrial development.

## Implementation of the work programme and timetable

The project will be carried out over a period of 1 year, from 1 December 2005 to 1 December 2006. It will be divided into three phases:

### Phase 1: Preparatory phase, December 2005 – September 2006

The team of European experts will be set up during the first two months (December-January) of the project and will be composed of three groups (English, French, and German).

A steering committee, which will monitor the study, will also be set up at the start of the project and comprise members of the Industrial Policy Committee, the Company Policy Committee and representatives from each of the sectors steel, shipbuilding and automotive. The team of experts and the steering committee will meet in Brussels to launch the project (March 8 2006).

The first part of this phase will be spent reviewing existing literature on the topic of the study. Next a meeting will be organised to coordinate the work done by the three groups and define the study's methodology and devise tables summing up the results of the interviews.



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### Interviews

Interviews with:

- o specialists in Chinese economic industry (2/country)
- o public authorities (2-3), trade ministry, industry ministry, OCDE
- o EU Commission, Parliament (DG trade, DG extern relations, embassy officials latest reports) by Syndex
- o companies (2/sector is minimum), unionists and management established or not in China
- o sector syndicates like Eurofer, CESA
- o + interviews in an eastern European country
- o Minimum 10 people to interview/sector (quality rather than quantity)
- o Italians do interviews in Italy, Germans in Germany and so on

### **Other interview possibilities:**

- o NGO about environmental, social, strike and demonstration issues
- o Trends about education, training, qualification of workers
- o Chinese investments in Europe (globalisation)
- o Geographic future: Vietnam

### Study & Handbook

Study: 55 p (results for experts and unionists with high level knowledge)

Handbook: 25 p (results in a pedagogical aspect to be shared with unionists)

Both documents will be translated into English, French and German and be handed out to the seminar participants on 6-7 November 2006.

Possibility of inserting statistics and list of suggested readings.

### **Phase 2: Implementation, 6-7 November 2006**

This phase will entail staging a seminar in Brussels, which will be organised and coordinated by the EMF. Approximately 100 people will be invited to attend it, the breakdown being as follows:

- 4 experts from each group - 12 people in total
- members of the steering committee – 10 people
- people involved in the interviews (economists, ministerial representatives, and so forth) – 25 people
- 50 additional guests, the list being drawn up by EMF.

During the seminar, simultaneous interpretation will be provided in six EU languages: Czech, English, French, German, Polish and Spanish. So interpreting booths will have to be rented and interpreters hired. The structure of the seminar will be based on the three research topics so as to enable discussions to be organized.

### **Phase 3: Follow-up, finished on 1 December 2006**

This phase will involve presenting the main conclusions to the interviewees and to the European authorities. Proceedings of the seminar will be drawn up. An evaluation meeting will take place in Brussels to assess the project and make the finishing touches to the final reports and the budgets.



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### Meeting calendar

<b>Date</b>	<b>Meeting</b>
<b>2005</b>	
December 1	Start of the project
<b>2006</b>	
January 2	Publish tender
January 20	Tender deadline
February 2	First meeting of researchers
March 3	Syndex & EMF meeting in Paris
March 8	1st Project Group + Steering Committee meeting
July 4	Researcher meeting
July 5	2nd Project Group + Steering Committee meeting
September 7-8	Researcher meeting in Paris
September 13	3rd Project Group + Steering Committee meeting
September 25	Final report dead line
<b>November 6-7</b>	<b>Final workshop</b>
December 1	Final day of project

### 4. Methods adopted

The following working methods will be used:

- Establishment of a trans-national team composed of experts and members of the EMF Industrial Policy Committee and the EMF Company Policy Committee;
- pinpointing the major problems faced by the study;
- conducting interviews using trans-national teams;
- carrying out the wrap-up work;
- joint drafting of conclusions;
- presentation at the seminar.



## **Focus of the study and discussions**

*The general outline for the study will be structured as follows:*

### **1. Industrial policy and the gradual opening up of markets**

#### *1.1 Industrial policy*

- Strong interventionism
- Creation of national champions
- Restructuring Chinese public-sector companies
- The role played by local authorities

#### *1.2 Gradual and controlled opening up of markets*

- The role of protectionism
- Gradual opening up of markets, accession to the WTO
- Extensive diversion of trade to Asia

#### *1.3 Broader scope: from steel to telecommunications*

### **2. International division of labour by trans-national companies, delocalisation and deindustrialisation**

#### *2.1 Impact of the strategies adopted by trans-national companies and SME*

- The importance of FDI and its direction towards technology-based industries, 74% from Asia
- The international division of labour

#### *2.2 The strategy adopted by trans-national companies in China\**

- Division of labour and TNCs
- Outward-oriented industries, the driving force behind trade and the role of foreign company subsidiaries
- The lesser dynamism of Chinese companies

#### *2.3 European deindustrialisation?\**

- Which jobs are being transferred?
- Competitiveness and innovation
- Chinese dualism: competitive and internationalised industries versus the less dynamic traditional sector
- Poor competitiveness of industry

### **3. The other side of the coin: social and environmental impact**

#### *3.1 Huge increase in inequality and unemployment*

- China as an indication of human development
- Social and territorial inequalities
- Growth which is strong but doesn't create many jobs
- Unemployment



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### *3.2 Other 'external factors'*

- The rural exodus and mega poles
- Other 'external factors' of strong growth: air and water pollution, the greenhouse effect

### *3.3 The 'sustainability' of Chinese growth*

- The absence of social rights: a factor of economic inefficiency?
- Competition of low cost countries in respect of ILO standards
- The absence of democracy: lack of transparency and control?
- The sustainability of growth, without taking account of sustainable development: Could there ever be 1.2 billion Chinese people adopting the American way of life? Strong growth, but for how long?
- China: future world number two?
- Challenging orthodox theories

## **4. Application to three sectors of the metal industry**

**Note:** The focus of the study needs to be narrowed down as much as possible to maintain the set amount of space and to keep the level of research at top level. Areas marked with an asterisk might be skipped in the research.

### **Anticipated results**

The EMF expects the seminar and common assessment to yield an independent strategic view of the future of industrial and commercial relations between China and the European Union.

This project represents the starting point for an initiative taken by the EMF to form its own opinion about the issues raised by China's industrial development. The study and discussions held during the seminar will help pave the way for a visit to China by trade unionists in the future.

### **Contact information at the EMF**

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