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REPORT

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In this report:

1. Speeches in English are reported in full.
2. Speeches in other languages are summarised.
3. Speeches in German and Italian are reproduced in full in a separate document.
4. Corrections should be handed in at Room 1059A not later than 24 hours after the report has been circulated.

The contents page for this sitting is given at the end of the verbatim report.

Mr van der Linden, President of the Assembly, took the Chair at 10.13 a.m.

THE PRESIDENT. – The sitting is open.

I apologise for the delay, which occurred because of the late sitting of the Bureau. I hope that you understand.

1. Minutes of proceedings

THE PRESIDENT. – The minutes of proceedings of the sixth sitting have been distributed.

Are these minutes agreed to?

The minutes are agreed to.

2. Written declarations

THE PRESIDENT. – In accordance with Rule 53 of the Rules of Procedure, two written declarations, which have been signed by at least 20 members, have been printed.

The first, No. 374, is on the situation of the Serbs expelled from the Republic Serbian Krajina (UN Protected Area) and the Republic of Croatia in 1990 to 1995.

The second, No. 375, is on the situation in Cyprus.

Any Representative or Substitute may add his or her signature to either of these written declarations in the Table Office, Room 1083. If any names are added to either declaration, it will be distributed again two weeks after the end of the part-session, with all the accumulated signatures.

3. Changes in the membership of committees

THE PRESIDENT. – Our first item of business is to consider changes proposed in the membership of committees. These are set out in document Commissions (2006) 1 Addendum 4.

Are the proposed changes in the membership of the Assembly's committees agreed to?

They are agreed to.

4. Relocation of economic activities abroad and European economic development

THE PRESIDENT. – The next item of business this morning is the debate on the report on relocation of economic activities abroad and European economic development presented by Mr Mimica on behalf of the Committee on Economic Affairs and Development, Document 10757.

The list of speakers closed at 5.30 p.m. yesterday. Eight names are on the list, and no amendments have been tabled.

I call Mr Mimica, the rapporteur. He has eight minutes.

Mr MIMICA (*Croatia*). – One of the most concrete manifestations of globalisation is when companies transfer part or all of their activities – whether in production or services – to locations abroad that are deemed more favourable, often from the cost point of view. Whether the move is from western to central or eastern Europe or to, say, Asia, the consequences for the region affected can be traumatic. As a result, relocation – often popularly referred to as “outsourcing” or “off-shoring” – has become controversial and appears high on Europe’s political agenda, especially following the debate on the EU constitutional treaty.

The Committee on Economic Affairs and Development felt that it could not ignore that emerging phenomenon and we therefore raise it today in the Assembly to examine the challenges posed as well as the opportunities afforded by relocation, especially in Europe but also in the world.

The report tries to explore the background and arguments that are used in both camps – in the developed European countries where the investments originate and in the less developed countries that receive new investments. It traces major developments in relocation and describes the scope of the phenomenon in order to paint a realistic picture of what is at stake. The debate that the report initiates is

much broader than issues of capital flow and employment policy. It also covers the international division of labour, restructuring, trade policy, trade in services, investment regulations and income distribution.

The report reveals some interesting and less well-known facts that are important for a general understanding of the relocation phenomenon. They include the fact that jobs are primarily lost not through relocation but through restructuring and technological changes. Only 11% to 15% of the declining wages in developed countries can be attributed to relocation.

Special attention is devoted to trade in services and off-shoring because of the scope and productivity of the service sector. According to all available data, off-shoring in services is a net gain process, but it will depend greatly on the outcome of further liberalisation under World Trade Organisation trade negotiations and the EU service directive regulations. The recent withdrawal for revision within the EU of the so-called Bolkestein directive on services in the internal market shows different, if not conflicting, views on the further deregulation and liberalisation of international trade in services. Therefore, governments find themselves in a position of striking a delicate balance between ensuring unhindered access to providing public utility services for everyone and a need to avoid social dumping in the service sector.

On the more general aspects of relocation, it should be stressed that it is an important part and consequence of globalisation. In that broader context, globalisation has contributed to expanded trade and growth. However, it has also spelled enormous economic and social challenges. Relocation, although only one element of globalisation, played the role of a trigger which revealed its far-reaching negative aspects and prompted governments to get to grips with its social consequences by boosting economic policy performance to support tomorrow's jobs.

When examining relocation from the sending countries' point of view, I would point out that richer European countries with higher wages, more elaborate social protection and often a more established labour market complain about domestic companies moving all or part of their production to countries with lower wages, less social protection and less regulated labour markets. Some public figures have called for counter-measures to put that primarily corporate phenomenon on hold.

Relocation may, at least temporarily, lead to considerable individual and social hardship and suffering, as a town or region may lose a vital source of employment and income. That social aspect of relocation must never be neglected. Solidarity in coping with the negative social impacts of globalisation and relocation must be further promoted not only at national economic policy level but at the multilateral level of the EU and wider. The European Commission's recent proposal to set up a globalisation adjustment fund runs along those lines. That concept of solidarity at European level could address the problems of widespread fear of change and pessimism about European integration.

When addressing the point of view of the recipient countries, I stress that they perceive relocation as an important contribution to their overall development and to catching up with developed countries. They claim that the attractiveness of their economies was created by implementing harsh reforms. In spite of achieving a lower-cost environment, they are aware that low-cost advantage cannot be a stable bias for sustained economic growth. Relocation is not a static process and there will always be some other country further to the east that will be able to offer even lower costs for new investments. Nevertheless, recipient countries can experience positive impacts from relocation, not only in increased employment but also because of the spill-over effect of relocation on managerial and technical knowledge and increased access to markets. That makes productivity in host countries rise sharply.

The proposed resolution supports an unbiased macroeconomic approach to the relocation phenomenon, while not neglecting but also not over-estimating the negative microeconomic and, especially, social impacts of relocation. It does not tend to the defensive side because it explores arguments for a win-win situation, arguing that protectionist trade policies are not the solution. The draft resolution suggests that unrestricted investment flows across Europe lead to higher prosperity for all. It increases the potential for growth and is a vital precondition for political, democratic and social stabilisation and for the cohesion of Europe as a whole. The answer to the relocation hardships of the sending countries should not be an administrative ban on that genuinely unstoppable process. On the contrary, they should engage in bold structural reforms in all sectors, including labour, products, services and education, to increase competitiveness and to put the developed country in a position to attract foreign investments and become as much "insourcing" as "outsourcing".

The best way to improve the competitiveness of the European economy on a global scale is to allow competition within and between European countries. The road to global competitiveness starts with competition at home. In that context, the draft resolution calls for renewed efforts to implement the Lisbon Agenda, aiming at increased European competitiveness, to win back investments and thereby attain

higher economic growth and employment. The policies of several European countries that seem successfully to have turned the tide could serve as examples for others. In that regard, the policy of promoting employability turns out to be more efficient than a policy of merely protecting employment. Thank you.

(Mrs Papadimitriou, Vice-President of the Assembly, took the Chair in place of Mr van der Linden.)

THE PRESIDENT. – Thank you, Mr Mimica. I call Mr Dupraz, who will speak on behalf of the Alliance of Liberal Democrats for Europe.

Mr DUPRAZ (*Switzerland*) said that the last ten years had seen globalisation of economies. Many companies had relocated to reduce their costs of production. His group thought that the market was the best system. Many companies had relocated to countries where living standards were not as high. That had to be good for the citizens of those countries, even though it meant job losses in the west.

Authorities had a social responsibility to ensure that people were economically secure. It was no longer the case that a worker would stay in a job for life. On average, a person would have three jobs during his or her working life. It was necessary to ensure that vocational lifelong training was available to workers to enable European corporations to remain competitive in the marketplace. He thanked the rapporteur and suggested that the positive points made in the report had to be endorsed.

THE PRESIDENT (Translation). – Thank you, Mr Dupraz. I call Mrs Smirnova, who will speak on behalf of the European Democratic Group.

Mrs SMIRNOVA (*Russian Federation*) thanked the rapporteur on behalf of her group and indicated that its members would vote in favour of the report. Making European companies competitive was essential, but the globalisation objective was irreversible. Companies in market economy countries would always try to cut their costs to increase profits. The positive effect would be increased wages and improved social welfare in lower-cost countries. Unfortunately, companies often moved production, not to increase wages in low-cost countries but to exploit that cheap labour. Rarely did the interests of worker and company coincide. She recognised, however, that companies that wanted to cut costs would move to developing countries. That would undoubtedly result in increased unemployment in many European regions. She did not believe that restrictions should be imposed, although it would be necessary for legislation to be introduced to try to reduce the negative effects.

The fact that companies moved to developing nations would not always be beneficial for those countries. Low-wage countries did not always have sound environmental policies, and the effect of pollution on the health of citizens had to be considered. Transnational corporations had an important role to play as they could exert greater pressure than the authorities, and that could not be ignored. She referred to Ford, Phillips and DHL. It was essential that Council of Europe member states remained competitive to attract corporations as this would enable social protection to be provided for their citizens.

THE PRESIDENT. – Thank you, Mrs Smirnova. I call Mr Grignon, who will speak on behalf of the Group of the European People's Party.

Mr GRIGNON (*France*) agreed with most of the proposals in the report. Using the example of European Union accession, he suggested that new member states created the opportunity for spectacular developments by opening up new markets and partners. He agreed that it was essential to increase productivity to United States levels. He understood the concerns of those who argued against companies relocating because of lower costs to countries where there was no social protection. He called for the need for joint rules between Europe and the United States and used the alcohol industry as an example. There had been calls to dismantle subsidies, but there were many cases in the United States where they had been maintained. A pragmatic assessment was needed. It was essential to ensure that unnecessary rules were not imposed on industries to enhance global competitiveness. A great deal of work was needed in European countries on this issue to avoid the haemorrhaging of corporations.

THE PRESIDENT. – Thank you, Mr Grignon. That concludes the list of speakers on behalf of the political groups.

I call Mrs Barnett. You have four minutes.

Mrs BARNETT (*Germany*) said that the report covered the relocation of economic activities, job creation, cost reduction and the creation of profits. However, the negative effect of relocation was that it left behind obsolete industrial facilities. Dwindling tax revenues and any start-up aid that had been given to companies were lost when they left. It was necessary to take stock of the consequences of relocation and

introduce a programme to deal with them. Companies that left could leave desolation in their wake, and the local community had to mop up the economic consequences. Consumer protection and environmental protection concerns had to be considered. Social well-being must not be sacrificed on the altar of cost structures.

Investment in research and development was of great importance; biotechnologies, in particular, could open up new fields of investment. Tax concessions should be made to industry and taxpayers should be given security of employment. The Assembly should look at what was happening with the trade unions of Europe, and the state should be prepared to step in to support and educate people. The economy should not be forfeited because of cost structures. Profit was not an end in itself. The debate on the issue should continue after the draft resolution had been voted on.

THE PRESIDENT. – Thank you, Mrs Barnett. I call Mr Meyer.

Mr MEYER (*France*) said that globalisation was an economic, social and political reality which had been enhanced by modern technologies. Many industries had relocated to countries that were developing rapidly. Globalisation was not a new philosophy, but enlargement had led to an increased fear of industries relocating to the new countries which were cheaper. There was also a fear of China, which provided cheap manufacturing.

The report made it clear that there was no question of reverting back to protectionism; that never brought benefits in the long run. The crux of the matter was the distinction between the effect of the transfer of industries of the macroeconomic level and the effect at microeconomic level. It was possible for countries to relinquish the most unsuitable industries to the open global market, but relocation had caused a negative socioeconomic impact on local economies. Mr Peter Mandelson, the EU Commissioner for External Trade, had stated in October 2005 that Europe would have to choose between letting matters take their course, reverting to protectionism and gradually liberalising trade. The consequence of a liberal trade policy was that the state would need to support the most vulnerable people affected. The Lisbon programme had aimed to deal with the social consequences of globalisation. China was able to provide cheaper manufacturing because working conditions were less good there and there was also an issue of child labour being used. Member states could not ignore people's concern about competition from China. The report had provided food for thought. The challenge was to show solidarity with the poorer countries, without affecting the social and economic balance in their own countries.

THE PRESIDENT. – Thank you, Mr Meyer. I call Mrs Pirozhnikova.

Mrs PIROZHNIKOVA (*Russian Federation*) thanked the rapporteur for an excellent report. The Economic Affairs and Development Committee had discussed the report at several meetings and had noted that it had been well prepared. The topic was of great significance for Europe and the world. The relocation of industry, including manufacturing, would continue inside and outside the European Union, and the issue needed to be dealt with now. Mrs Smirnova had mentioned several transglobal corporations: Ford, Phillips and DHL. DHL was moving out of Brussels as there would be cheaper production costs elsewhere and the company would save money. Capital would go where the conditions for capital were most attractive. Belgian companies were also moving to other countries within the European Union, but there was also competition from China, which held 10% of the global textile market. The situation was not all bad, as consumers were able to obtain cheaper goods, as representatives of those people should bear in mind. Members had a responsibility to ensure that the impact of globalisation on conditions in their own countries was not negative. The report would be a first step in that discussion.

THE PRESIDENT. – Thank you. I call Ms Pashayeva.

Ms PASHAYEVA (*Azerbaijan*). – As a global superpower, Europe is anxious about the pace of its economic growth in the 21st century. Key factors include the Chinese economic miracle, Russia's future diplomacy as a leading energy supplier to Europe and growing tension over Iran. If rapid economic growth is the issue, one key factor might be access to cheaper alternative energy resources. Another important issue is the development of economically beneficial and safe energy corridors.

The recent impasse between Russia and Ukraine shows that the availability of alternative energy suppliers is crucial for Europe. The south Caucasus and Caspian region in which Azerbaijan is located are both vital to Europe. In addition to its rich oil and gas resources, Azerbaijan can play a crucial role as a cheap and safe transit hub for the transport of hydrocarbons from central Asia to Europe. Soon, the first tanker will take Azeri oil from the Turkish Mediterranean sea port of Ceyhan to the world market. Furthermore, Azerbaijan will start to pump gas through Georgia and Turkey to European consumers.

The region links Europe to Asia through transport corridors such as the great silk route. Azerbaijan, Georgia and Turkey have announced plans to link their railway communications, which will be a major step forward, and to build a railway network, which will provide an economically beneficial transport corridor linking Europe to Asia. By including the south Caucasus region in its new policy, the EU has made it clear that the region is vital to Europe.

Azerbaijan and Georgia enjoy close and friendly ties and favour the possibility of becoming EU members in the future. They want to share European values and contribute to the development of the Union. However, the south Caucasus region, which can play a positive role in the economic development of Europe, is also a delayed-action mine. Any explosion in the region would have a negative impact on Europe in general and, in particular, it would delay economic development in Europe.

The danger is that Armenia continues to occupy 20% of the territory of Azerbaijan. As a result, around 1 million Azerbaijanis have been displaced from their homes. Many of them still live in refugee camps and cannot return home with dignity – they have reached the end of their tether. Yerevan ignores resolutions approved by influential organisations such as the United Nations and the Parliamentary Assembly of the Council of Europe, and continues to pursue a policy of occupation, which casts doubts on the peaceful resolution of the conflict.

On Georgia, separatist regimes in Abkhazia and south Ossetia have not given up their ambitions to break away. European institutions must take a more active approach to those conflicts and, whenever it is required, they should not decline to use force to achieve the implementation of relevant resolutions. Europe must support the new members of the European community, which will help those nations striving for rapid economic growth. We must never forget this: it is early today, but tomorrow it will be too late.

THE PRESIDENT. – Thank you. I call Mr Kovalev.

Mr KOVALEV (*Russian Federation*) thanked the Bureau of the Assembly for including the matter in the order of business. He commended the report, which provided a complete review of the issue. It assessed the challenge of the expanded economic area and had included the Russian Federation, which emphasised the realistic approach of the report. The Russian Federation looked to Europe for trade and would welcome a greater European presence. He encouraged the Council of Europe to be involved in the issue of globalisation and suggested a gradual approach to the development of investment in eastern Europe and the Russian Federation. The Organization for Economic Co-operation and Development and the World Trade Organization had worked on proposals for the development of new principles to encourage trade and co-operation. Those proposals should be supported by the Committee of Ministers as the basis for a new strategy to avoid the negative aspects of globalisation. That idea might sound protectionist; however, social partnership and stability meant that a careful approach was needed.

Another issue was that of long-term energy use. Fossil fuels were finite and would run out one day. Energy saving and conservation measures were necessary. It was also desirable to find new sources and stocks of energy. These would need considerable additional infrastructure in order to be exploited effectively. Alternative energy forms would also help to secure a sustainable energy policy for the future. The Russian Federation had been, and would continue to be, a reliable partner in these enterprises.

It was also necessary to take into account the mutual interests of different countries. The Russian Federation should not simply be a supplier of raw materials to others. He represented the area of Tomsk, which was a large oil and gas producer. The energy produced in this region went straight on to the market, and only 20% of its villages were connected to the gas grid. In winter, the temperature could reach minus 50 degrees centigrade. In neighbouring regions, 50% of the villages were connected and they were still demanding cheaper gas. He invited members to visit the Arctic to see why gas cost so much. Markets could be manipulated for political purposes, but they should, instead, act for social and economic improvement. The Russian Federation stood ready to help with that approach. He supported the draft resolution and asked all members to implement its recommendations immediately.

THE PRESIDENT. – That concludes the list of speakers in this very interesting debate. Mr Mimica, you have four minutes to reply.

Mr MIMICA (*Croatia*). – I thank all colleagues who substantially contributed to the outcome of this debate. I also thank the committee secretariat for their expert and professional input into the report. I am pleased that the debate was very much in line with the major findings and proposals of the report. That could present us with the opportunity to create a good basis for the Council of Europe's future actions.

Some might see the phenomenon of relocation as a good example of the concept of TINA – there is no alternative. But that does not work in this case. Politicians tend to use that argument when trying to defend their proposals. In this case, there are at least three alternatives in dealing with the consequences of relocation. One could be the imposition of restrictions and a protectionist policy. Another could be for the government not to touch anything – after all, governments have a very poor record in coping with and mastering the economic effects of globalisation. A third approach could be to try to manage the social impact of relocation. I opted for that. We need to assess which of the options is the least expensive, and I think that the third option is the least expensive in a social, political and economic sense. The proposals in the draft resolution are in line with the idea of allowing relocation flows, but at the same time pursuing policies that increase the competitiveness of the local economy and cope with the negative microeconomic effects of the social consequences by assisting individuals and regions directly affected by the loss of jobs.

Relocation is a process in progress. In this case, progress does not encompass only positive connotations. I therefore suggest that we continue to monitor and address this phenomenon within the Council of Europe. I would be more than pleased if the report and resolution stimulated a broader public debate at national and European level, as well as here at the Council of Europe. This debate should reveal how economic growth, social stability and social protection can be sustained and strengthened at a time of unrelenting globalisation. Governments and political classes must show a clear vision in assessing all the political choices to determine the most acceptable economic and social model. We are in a position to assist them in accomplishing that demanding task. I call on the Council of Europe to avail itself of this opportunity to be one of the leading players in monitoring and directing relocation processes in the future.

THE PRESIDENT. – Thank you. Does the Chairperson of the Committee on Economic Affairs and Development wish to speak?

Mr KIRILOV (*Bulgaria*). – I thank our rapporteur, Mr Mimica, for doing an excellent job. I state on behalf of the committee that we will continue this debate. Indeed, such a debate is already going on all over the European Union. There is a lot of friction, but the very fact that there is a debate is positive. In September, our committee will organise a conference dealing with globalisation and its economic consequences. We already have a rapporteur.

As was well pointed out in Mr Mimica's report, it is important to know that, as the British proverb says, "If you can't beat them, join them." It is impossible to stop this process. In several countries in Europe, people find the reasons for this in the enlargement process, but that takes the debate in the wrong direction. Even if there were no enlargement, the process would go on, as it is a process of world restructuring.

It is the initiatives that are taken to cope with the social consequences that are really important. I cited a British proverb. The British presidency of the European Union offered one solution – the creation of a fund that will deal with these consequences, including training and creating new jobs. Job creation is a high-level priority because this process concerns our citizens. I thank all my colleagues for coming here on a Friday – there is a very good presence here – and I thank the rapporteur.

THE PRESIDENT. – Thank you. The debate is closed.

The Committee on Economic Affairs and Development has presented a draft resolution, to which no amendments have been tabled. We will therefore proceed directly to a vote on the whole of the draft resolution contained in Document 10757.

The vote is open.

The draft resolution in Document 10757 is adopted.

(Mr Schreiner, Vice-President of the Assembly, took the Chair in place of Mrs Papadimitriou.)

5. Implications for Europe of the economic resurgence of China

THE PRESIDENT. – The next item of business this morning is the debate on the report on the implications for Europe of the economic resurgence of China presented by Mr Wille on behalf of the Committee on Economic Affairs and Development, Document 10756.

The list of speakers closed at 5.30 p.m. yesterday; 11 names are on the list, and four amendments have been tabled.

I call Mr Wille, rapporteur. He has eight minutes.

Mr WILLE (*Belgium*). – Today's report aims to be an instrument of analysis of China's resurgence. I say resurgence, not "rise", which was the original word, because China has been influential and active through the ages. The report is not a snapshot but a film of China's economic resurgence and the implications for Europe. Its background is economic.

China has a double face. On the one hand, China is a real world economic power. Some say it is the third and some say the fourth greatest economic power. Whether it is third or fourth is not important. It is a world power and its economic power increases every day. On the other hand, when we examine the per capita figures, China is a developing country.

After many years of continued sustainable growth, China has not reached a level of GDP per head that is comparable with that of, for example, Japan, when it started its impressive growth. Our report states that, after agricultural and industrial reform in China, further progress can be made only with substantial financial reform. Current savings are 44% of gross national income. Nobody expected the state to have to recapitalise banks for billions of dollars. What happened? A limited number of banks spend fortunes on bad loans to state-owned enterprises, thus denying the need for good banking practice based on market principles. Corruption and lack of professionalism must be replaced by skills and international benchmarking.

China faces several challenges and I shall cite some of them. It must secure necessary natural resources, such as energy, raw materials and water and use them efficiently. It must reconcile economic growth with environmental protection and it must also ensure social improvements for the broad masses in all regions of the country. How can it achieve that? It can do so by setting aside sufficient funds for social protection while monitoring rapid economic growth, by keeping unemployment low even as technological progress could reduce employment, by balancing economic progress between the poor and the rich and between coastal areas and other provinces, by developing cities without destroying precious agricultural land and by intensifying economic reform while maintaining and increasing social peace and stability.

The currency reform of 2005 and the link to a larger currency basket are extensively explained in the report. The major objectives are to ease the external trade balance, boost domestic demand, strengthen the competitiveness of Chinese companies, open up the domestic economy to international competition – that means us – and preserve price stability.

The report also tries to explain the consequences of growing Chinese demand for energy and water. China has 21% of the world's population but only 7% of the world's water resources. The Chinese therefore need to make major policy efforts in that field, requiring exorbitant amounts of money.

Furthermore, no serious report on China can exclude the problem of the ageing population and the possible reform of the one-child policy. The figures are clear. In Europe in 1930, 10% of the population was 60-plus; in 2030, 30% of the population will be 60-plus. In China in 2003, 10% of the population was 60-plus; in 2050, 30% of the population will be 60-plus. It means that China has half the time to solve that major problem. China also faces the challenge of internal migration and setting up a credible pension system. That is a major challenge for 1.3 billion people. The report concludes that sustainable growth of more than 7% is required to respond to Chinese needs for health care and education for all. Furthermore, 20 million new jobs are to be created yearly for the foreseeable future as the curb on a growing population will be reversed.

Chinese membership of the World Trade Organization drives the country to liberalise its market. Many countries may obstruct or restrict Chinese imports until 2013. We are therefore asking on the one hand and restricting on the other. Relocation and outsourcing are major concerns for many of our industries and workers. However, we cannot forget that, with its huge surplus of foreign currency, China already looks to us for retail and distribution. The reason is that great profit is made in retail and distribution.

The report concludes that the eurozone and China are economically counter-cyclical. Europe's labour market is costly and regulated, its growth is relatively sluggish and consumer confidence is, at best, patchy. However, democracy is, thank God, widespread. Social programmes are strong and average earnings are well ahead of those in China. However, that odd couple, those two regions, have become integral trading partners because both have export-oriented economies. China's export strength is now based on high volume and low cost whereas Europe increasingly specialises in value-added goods. We both face the problem of ageing populations. For the foreseeable future, several key facts will play a role. Europe needs to be a substantial power in the world. China is not the only country in this position. Brazil, Russia and India are rising economic powers.

China's success should not be feared. It should inspire hope. Countries such as China and India have been the biggest factor in helping to approach the world's millennium development goals. If China fails, that will not prevent the influx of low-cost goods to the developed world, but it will set back the cause of poverty reduction by generations. If China succeeds, the lives of one-fifth of the world's population will drastically improve. I hope that improvements will also occur in social status and that they will take place in an environment of democracy.

THE PRESIDENT (Translation). – Thank you, Mr Wille. I call Mr Chope, who will speak on behalf of the European Democratic Group.

Mr CHOPE (*United Kingdom*). – Thank you, Mr President.

This is an excellent paper and I congratulate the rapporteur, whose first-hand knowledge of doing business in China has informed its contents. The debate is timely, echoing that taking place this very week at the World Economic Forum in Davos.

The economic resurgence of China, with an annual growth rate of 9%, five times that of the United Kingdom, indeed provides an opportunity and a challenge. Carping criticism of China's low wages, as articulated in Amendment No. 1, tabled by the spokesman for the Group of the European People's Party, will not help to meet China challenge. Nor will complaining about the invasion, as it is described, of Chinese products, as set out in Amendment No. 2. We have to be realistic and introduce more competition and flexibility in our own labour markets: less bureaucracy, less regulation and less interference in private enterprise.

In a debate such as this it is tempting for a United Kingdom representative to sound complacent, especially in the light of the speech by the new Chancellor of Germany in Davos this week, in which she praised the economic reforms of Margaret Thatcher. I have to say that the United Kingdom economic advantage gained by those reforms is being eroded through strangulation by EU red tape and regulation. According to the UK Office for National Statistics, in preliminary figures issued on Wednesday 25 January, the UK economy grew last year at only 1.8%, the lowest rate since 1992, and about half the rate forecast by our Chancellor of the Exchequer earlier in the year.

Even more serious for the United Kingdom is the decline in capital investment to record lows and a trade deficit nearing the danger level of 5% of gross domestic product. As an economist at the Royal Bank of Scotland commented, the United Kingdom manufacturing sector is in terminal decline and our industry remains chronically weak at a time when the world economy is doing well. It will probably not surprise members to learn that unemployment in the UK is rising. It has obviously not reached the level that still prevails in Germany, but the trend is in the wrong direction.

We have shaken off the shackles of the state socialism, but now regulation is being used as a neo-socialist means of controlling capitalism, stifling enterprise and individual liberty in Europe. Fortress Europe will not succeed. The euro is an increasingly uncompetitive international currency. I like the section in the report that emphasises the need for flexible currencies and exchange rates. The euro is itself an argument in favour of flexible currencies, because we can already see the consequences in the eurozone of that inflexibility.

We shall be able to cope with the China challenge only by releasing our people from the shackles of neo-socialism, and those shackles are being imposed by regulation. Even since the paper was finalised, while we have been talking about reform in Europe we have learned that, according to a report published this week, the Chinese have sorted out the bank loans problem to which the rapporteur referred. They described it as a 100-year-old problem sorted out within twelve months. Would that we had the same flexibility and commitment to urgent progress in Europe.

I am an optimist, Mr President. I believe that the eurozone will die, that the European Constitution is dead and that fortress Europe is crumbling just like the Berlin Wall and the Wall of China.

THE PRESIDENT (Translation). – Thank you, Mr Chope. I call Mr Mendes Bota, who will speak on behalf of the Group of the European People's Party.

Mr MENDES BOTA (*Portugal*) said the report was the fruit of a great deal of work that described a complex issue. Although there were those who wanted to take advantage of the opportunities that China offered, it had to be noted that China did not respect human rights and its standards were far removed from those expected by the Council of Europe. China had a one-party system; there was no parliamentary accountability and no social protection for employees. When workers wished to demonstrate they risked

imprisonment. They had puppet trade unions which existed to do the government's bidding. There were many inequalities and the authorities had the stamp and hallmark of corruption.

The resurgence of China had impacted on many European companies. Commodity prices had increased, factories and plants had closed down, and small and medium-sized firms had been forced out of business. He insisted that he wanted a resurgent China, but the manner of China's resurgence had to be considered.

THE PRESIDENT (Translation). – Thank you, Mr Mendes Bota. I call Mrs Veenendaal, who will speak on behalf of the Alliance of Liberals and Democrats for Europe.

Mrs VEENENDAAL (*Netherlands*). – I join with pleasure those colleagues who have shown the highest appreciation for this excellent report. The article on resources and the environment give me the impression that China will have to give greatest attention to its environmental policy. The recent disaster in the north of China received international attention, but most of the ecological disasters in China are not internationally known. Now that China has decided not to favour unilateral economic growth, the time has come for us to assist, as much as we can, in the implementation of environment-friendly policies.

I recently examined figures that come from certain western areas of China showing that the average age of the population was down by fifteen years, because of water pollution. As the reason for such alarming figures is to be found in the long-term water pollution caused by textile dyeing industries and misbehaviour in other industrial sectors, I am eager to know why the rapporteur is somewhat optimistic about the capability of China radically to correct and re-orient the water problem.

With reference to the problem of the ageing population and the possibility of replacing the one-child policy with a more child-friendly policy, thus leaving people to plan the size of their own families, will the rapporteur please refer to any available policy decisions made by the Chinese Government and/or the Standing Committee of the Chinese Communist Party, if at all possible?

I would like to point out that it became known today that a group of international bankers are to buy a Chinese bank. Will the rapporteur tell me whether that could provide the solution to China's corruption problems with banking systems? Thank you very much.

THE PRESIDENT (Translation). – Thank you very much, Mrs Veenendaal. I call Mrs de Melo.

Mrs DE MELO (*Portugal*) said that she was confused as to whether this was the same Parliamentary Assembly in which she had sat four days ago. She welcomed the reform of the financial and exchange rate sectors, and the fact that the Chinese Government had indicated that it was prepared to discuss social issues. However, there was a single-party system and there were many pollution problems in that country.

She was disappointed that the report referred only to economic issues. It could not be right to legitimise a regime that had such a poor social and human rights record. After all the debates that had been held during the week on human rights issues, it would look bad for the Parliamentary Assembly if it were seen to look favourably on the Chinese authorities for their economic performance. That would not send a clear message to those fighting human rights abuses.

THE PRESIDENT (Translation). – Thank you very much indeed, Mrs de Melo. I call Mr Meyer.

Mr MEYER (*France*) said that China had recently revised its economic growth figures by a massive proportion. The 16% revision was equivalent to the whole of the Taiwanese economy. Those impressive figures suggested that China was the sixth strongest economy in the world, and it had been reported that its economy would outstrip that of the United States by the year 2035. This had to be seen against the slowing of growth among European Union countries. The economic growth of China was of concern because of China's high use of raw materials which would have an effect on all the world economies.

It was essential to address the income inequalities in China. There were 100 million peasants in China and gross domestic product per capita put it on par with Indonesia, Honduras and Sri Lanka. Some 80% of private Chinese corporations did not respect labour laws. In effect, China was still a relatively poor developing country.

THE PRESIDENT (Translation). – Thank you, Mr Meyer. I call Mr Dupraz.

Mr DUPRAZ (*Switzerland*) gave his sincere thanks to the rapporteur for providing an exact map of the current situation in China and the country's weaknesses and strengths. China could not be disregarded as a partner. It was a host country for the relocation of European industry and must be recognised as such. China was a major client for the tools of production from western countries and attracted western business which would otherwise have disappeared. Many western companies had located part of their operations in China, thus enabling them to retain part of their work force in Europe. Annual growth in China had been an impressive 10%, but that was unlikely to be maintained. The benefits of locating a company in China were lower wages and plentiful factory space. Because of the uncomplicated planning system a company could set up its operation within seven months.

However, the gulf between the urban and rural population's standards of living was extreme, the financial sector in China was weak, and corruption was rife. China was a giant standing on weak ground. The Council of Europe had to find an appropriate solution to those problems. China had recently joined the World Trade Organization, showing that it was willing to become a player in the global market. This provided an opportunity to air any criticism of China's human rights failures. The standard of living in China was, however, increasing, as was democracy. Twenty years ago, the author Alain Peyrefitte had written the book "When China Awakens"; the European Union must realise that that day had arrived.

THE PRESIDENT (Translation). – Thank you, Mr Dupraz. I call Mr Reymann.

Mr REYMANN (*France*) said that the sudden upsurge in the price of oil last year had shown the impact of China on the world economic stage. Its growth between 2001 and 2004 had been 9.5% compared with the European Union figure of 6.3%. Members should not fall into the trap of pessimism and of considering China as the source of their ills; but they should not go too far the other way and consider China as the El Dorado of investors. China did not play by western rules. Its economic markets had been pushed into success by its authoritarian government. The dominant public sector featured corruption and favouritism. Members should not fear China. However, it did not respect patent law: at best, it copied European products; at worst, it counterfeited and carried out industrial espionage. The huge work force in rural China and the absence of trade unions were other aspects of China's inequality with Europe.

Faced with China's competition, Europe must not adopt a timid protectionist approach. During his visit to China in July 2005, José Manuel Barroso had said that the European Union must seize the opportunity provided by the unprecedented growth of China. European countries provided half the investment in China's market. There was an increasing market in China for luxury European goods such as cognac. Europe was able to compete with China, as was evident from the recent sale of Airbus. The importation of Chinese goods at low cost did improve the purchasing power of European households. However, could the economic expansion of China be achieved without liberalisation of its political and social life?

THE PRESIDENT (Translation). – Thank you, Mr Reymann. I call Mrs Oskina.

Mrs OSKINA (*Russian Federation*) said that the report was excellent. The situation was ambiguous and there was not one model for an economic market. China's impact on the global economy could not be ignored. China was the sixth leading country in terms of gross domestic product and third in terms of foreign exports. It manufactured products such as electronics, computers and aviation, medical and communications equipment. A new China had been created and the state had lost some control over the economy. Groundwork had been done to reform the political system, although it was far from western standards and "real socialism".

China was no longer a developing country but it depended on international co-operation. The market for foreign goods was equal to \$600 billion. Over 500 foreign companies were active in China and raw materials were imported from abroad. China would not be a superpower as its growth rate would slow, and it would not grow ahead of the United States. China's policies would become sounder and China would become more predictable. It would need raw materials and transport facilities from the West. China was not a threat but an essential partner in the move towards economic global stability. The European Union should help China to build good neighbourly relations in that region. With a 3 000 kilometre border between the Russian Federation and China, the Russian Federation was more interested than anyone else in improving relations.

THE PRESIDENT. – Thank you. I call Mr Schneider.

Mr SCHNEIDER (*France*) said that China had awoken. China was instilling fear by flooding the European market with products. At Christmas time a large proportion of the toys sold had been made in China. It was also a big player in the oil and steel market. The European Union would benefit by seizing the opportunity provided by the emergence of China on the global economic market, despite Europe

suffering an apparent disadvantage. Europe's exports to China had a higher value added than the standard consumer goods that China exported to Europe. In summary, Europe had traded Airbus for shirts. China was at a serious disadvantage in terms of the environment and it needed Europe's expertise on cleaning up operations, waste management and planning for risks and hazards. European countries must unite and co-operate to face the challenge to the European economy that China represented.

Europe now quaked before the resurgent China, but it should not be blinded to China's weaknesses. China's GDP for 2005 was lagging behind its GDP for 2004 which indicated that its economy was slowing down. It was constrained by structural handicaps, state-owned enterprise, and an unreformed banking system. The rural population had been left by the wayside and there was rising unemployment in the urban population. China needed a more modern system of employee protection. However, China's membership of the WTO showed that China was opening up to the outside.

THE PRESIDENT. – Thank you. The last speaker is Mr Hauptert.

Mr HAUPERT (*Luxembourg*) congratulated Mr Wille on his report and his analysis of China's economy and its analogies and differences with the other south-Eastern Asian economies. The report pointed out both the advantages and the disadvantages of China's economic resurgence. The disadvantages, including the effect on the environment, should not be hidden. The consequences of China's resurgence for European Union countries were also significant. Many low-priced goods were entering the market, causing job losses and relocations. The report underlined the economic potential of the Chinese market for European companies, including the possibility of high value-added products. This provided an opportunity for European companies to improve their productivity rather than establishing a protectionist rearguard action. In Luxembourg, the rise of the South-Eastern Asian economies had caused a crisis which had been resolved through restructuring and adopting a social plan supported by the population. For example, the company Arcelor was now the largest steel producer in Luxembourg.

Today's debate had highlighted the contradictions between the Council of Europe's desire to see China open up to the free market and the potential consequences of that for the economies of member states. The Council of Europe had often deplored China's isolation and its lack of economic and social progress or any prospect of lasting democratisation. Now, it was progressing towards the open market, but the Assembly was expressing apprehension about the effect on Europe's own companies. The shift in production and increased number of low-cost products were mentioned in the report. The rapporteur rightly emphasised the potential of the Chinese economy and the possibility that European companies could benefit from it and avoid pointless protectionism. He called on member states to use the Chinese economic resurgence effectively to maintain their position in an increasingly globalised economy.

THE PRESIDENT (Translation). – That concludes the list of speakers.

I call Mr Wille to reply. He has four minutes.

Mr WILLE (*Belgium*) said that there was a saying in France that one should judge the music by the player. The debate showed that members of the Assembly had stayed within the ambit of the report, namely the consequences for Europe of Chinese economic resurgence. It demonstrated the importance of the topic and the vital role that Europe could play. The speech by Mr Mendes Bota was worthy of respect and he agreed with many of his comments, but not his fears. The Council of Europe should show vigilance with regard to China. He encouraged members to visit the country and to speak with the Chinese about democracy, local autonomy and trade unions. They would be excellent products to export to China. If the Council of Europe failed to send the proper mixed signal, it would be mistaken. China might become an enemy if it were treated as one, as William of Orange, that famous Belgian, had said. He hoped that the Council of Europe could find shared values with China. The report made it clear that any partnership had to be win-win and he was confident that that would happen.

THE PRESIDENT (Translation). – Does the Chairperson of the Committee on Economic Affairs and Development, Mr Kirilov, wish to speak? He has two minutes.

Mr KIRILOV (*Bulgaria*). – This excellent report by Mr Wille, who has been able to gain first-hand impressions of the country, is very important for our Assembly and gives us a good background. We should of course continue to follow the trends that it clearly outlines.

China is a huge and growing economic power, and we cannot pretend that it is not there. According to World Bank estimates, China has the most success in fighting poverty. Poverty reduction now has a leading role in the millennium development goals.

I agree with colleagues who raised the issue of democratic standards. Following the economic developments in China, we should insist that its opening up is attached to a more balanced human rights policy and a gradual movement towards a democratic culture. That is in all our interests, but it is in China's interests as well.

The report usefully proposes a constructive engagement in China. We should closely follow its everyday developments at the same time as doing everything possible to influence it in a positive way.

THE PRESIDENT. – The debate is closed.

The Committee on Economic Affairs and Development has presented a draft resolution, to which four amendments have been tabled. They will be taken in the order in which they were tabled.

I remind you that speeches on amendments are limited to one minute.

We come to Amendment No. 1, tabled by Mr José Mendes Bota, Mrs Maria de Belém Roseira, Mr Piotr Wach, Mr Egidijus Vareikis and Mr Domenico Contestabile, which is in the draft resolution, after paragraph 3, insert the following paragraph:

“The Parliamentary Assembly cannot overlook the fact that there is inadequate respect for the social rights of Chinese workers, and stresses that to a large extent China's economy is growing as a result of a development model based on low wages and exploitation of the labour force, in a political single-party context in which there is a total lack of democratic parliamentary control.”

I call Mr Mendes Bota to support Amendment No. 1.

Mr MENDES BOTA (*Portugal*) said that he hardly needed to point out the significant differences between the draft resolution and the report. The main problem was the identification of the democratic deficit in China. The Council of Europe should not be afraid to mention it. In addition, the social deficit deserved attention. As Mrs de Melo had said, it was necessary to adopt a non-contradictory position. The Council of Europe had condemned the crimes of totalitarian regimes, but there was no mention of China's blatant shortcomings.

THE PRESIDENT (Translation). – Does anyone wish to speak against the amendment? I call Mr Monfils.

Mr MONFILS (*Belgium*) said that it was impossible to sum China's problems in three lines. The report was very detailed. Some colleagues thought that social and economic issues should be combined, but social issues would receive more attention as the subject of a separate report. This was an excellent economic report which should be adopted. There could be another social report on a future occasion.

THE PRESIDENT (Translation). – What is the opinion of the committee?

Mr KIRILOV (*Bulgaria*). – The committee rejected the amendment.

THE PRESIDENT (Translation). – The vote is open.

Amendment No. 1 is rejected.

We come to Amendment No. 2, tabled by Mr José Mendes Bota, Mrs Maria de Belém Roseira, Mr Piotr Wach, Mr Egidijus Vareikis and Mr Domenico Contestabile, which is in the draft resolution, paragraph 6, replace the first sentence with the following sentence:

“The Assembly is aware that the invasion of Chinese products onto the European market, particularly in the textile and manufactured goods sector and the rapidly increasing control of retail outlets based in Europe are among the main reasons for the bankruptcy and closure of thousands of factories in Europe and a worrying rise in the unemployment rate in the European labour force.”

I call Mr Mendes Bota to support Amendment No. 2.

Mr MENDES BOTA (*Portugal*) said that the title of the report indicated that the implications for Europe of Chinese resurgence were under consideration. The draft resolution needed to state that the close trade relationship had positive and negative effects. Those effects were felt differentially in Europe.

Replies:

Mr Bartumeu Cassany (Andorra)

Mr Marty (Switzerland)

Amendment No. 1 adopted

Draft opinion, as amended, Doc. 10770 adopted

7. References to committees
8. Constitution of the Standing Committee
9. End of the part-session