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Europe has few alternatives to counter China other than costly protectionism



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① THE SCENE

Pascal Lamy negotiated China's accession to the WTO in 2001 on behalf of the EU. A decade later, in a speech in Shanghai, Europe's former trade commissioner lauded what he called a "win-win" outcome.

But like a growing number of current and former European leaders, he's grown alarmed as China's trade surplus with the EU has ballooned. Lamy, now with the Jacques Delors Institute, was one of the authors of a recent [policy paper](#) that called for restrictions on Chinese exports using a quota system — an idea that the EU has now embraced.

¶ Q&A

This interview has been lightly edited for clarity and brevity.

Andy Browne: Is the EU-China trade war now off?

Pascal Lamy: I interpret the recent deal on hybrid cars' export restraints as a first step in the right direction. I think the European side will consider this as a down payment. In my

view, we need further steps to seriously address this rocketing Chinese trade surplus with Europe.

So is this a tactical concession by China or a strategic shift?

Both interpretations are possible. But from the EU side, this will not be seen as sufficient.

Is the car deal a model for other sectors?

Yes, indeed, although voluntary export restraints raise a series of technical issues. It's certainly easier for hybrid cars than it is for chemicals or pharmaceuticals. And, of course, when you look at the numbers you need quite a lot more given the [EU's] €350 billion annual trade deficit with China.

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You once called China's WTO accession a "win-win." Recently, you said that "China is killing open global trade." What changed?

I changed my mind because China changed. None of us predicted the speed of economic growth in China. A lot of people now say 'you made a mistake by not forecasting that China would become an enormous elephant.' My usual answer is: Who said that at the time? Give me some evidence that we had a choice between those who said 'be careful' and those who said 'that's a great idea.' [Former Chinese Premier] Zhu Rongji thought that the Chinese miracle was a clever mix of Chinese characteristics and good old Western liberal capitalist market recipes. This is not the view of Xi Jinping. He believes that the incredible economic success of the past 20 years is due to the fact that China is led by the Chinese Communist Party. Also, the state-owned sector is larger today than it was in 2010. What's changed, too, is that China no longer plays the game of comparative advantage, which is the ideological basis of the World Trade Organization. If you are better — cost and quality wise — than I am at everything, where's the comparative advantage?

Isn't a big part of the problem that China now out-competes Europe?

I'm not saying that all of China's comparative advantage is, let's say, WTO illegitimate. There is their education system, their engineers, their planning system, and the size of their market. But there's another part which is not in line with an open rules-based trading system. By the way, what's also changed is that a lot of markets that were open to China —

the US, Turkey, Japan — have taken protectionist measures. China's exports are now going to Europe, the only large and deep market that is still wide open.

Germany and France have proposed a “kill switch” that could shut China out of European markets completely. Is that a good idea?

I disagree with that formula. It's like the US using Section 301 to determine whether a trade partner is playing fair or not. The Jacques Delors Institute has proposed a WTO compatible quota system with in-quota tariffs and out-of-quota tariffs. That's a big difference — it's predictable, rules-based, with benchmarks and numbers, and everyone understands clearly how the system works. There is no unilateral determination except for the size of the quota.

AD

China also has a ‘kill switch’ — rare earths. Can Europe really afford to risk a trade war?

China's rare earth dominance is time-limited. The US, EU, and Japan have started working on alternatives. If you over-use market dominance, markets adjust, and there's a big price incentive to innovate.

Tariffs raise prices. Are European consumers ready to pay a premium?

Some prices will be higher, yes. Protection is costly. But what's the alternative? You have to choose between that and industry closures, social problems, and the growth of extremism on the right and left of European politics.

Can China be persuaded to compromise?

I've been trying to convince my Chinese friends that they should care about this. We have to convince them that if the people who will govern Europe are the products of industrial

and social shocks that China is creating, they will be much tougher with China than we, traditional center left or center right, are.

AD

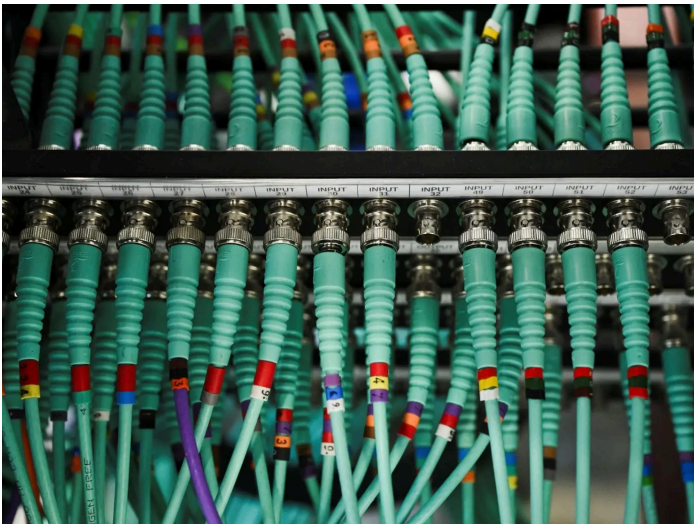
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