

# China's Trade Policy Towards the EU: Characteristics and Prospects<sup>1</sup>

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Draft for Discussion — Comments Welcome

## I Introduction

The trade and economic relation has always been the backbone of the China-EU relations. In the last decade, it can be witnessed a unique widening and deepening of bilateral trade and economic relation between China and the EU, as the EU became the largest trading partner to China and China has also been the EU's second largest trading partner, as well as China-EU investment relation has gained paramount importance. The soaring China-EU trade and economic relation can be attributed to several factors, starting from China's accession to the World Trade Organization (WTO) since 2001, through the dramatic expansion of bilateral economic cooperation promoted by a large number of institutional forums, up to identifying common areas of global commitments, responsibilities and cooperation opportunities. During the evolving China-EU trade and economic relation, China's trade policy towards the EU has gradually taken shape, following a multi-objective, multi-dimensional and multi-approach policy route.

## II The Background of China's Trade Policy Towards the EU

China's trade policy stances towards the EU should be interpreted based on several changing factors arising from current global and China-EU bilateral background.

*The first one* is the relative position change between China and the EU, in line with China's rising economic power in the global context. China as a large economic power is a relatively late arrival on the global stage. At the time of China's entry into the World Trade Organization (WTO) in 2001, China was in global terms an economic actor of limited consequence, though already growing fast. Almost two decades later, China's economic development is without parallel in economic history, enabling it to serve as the primary engine of global economic growth. The rising impacts of China's presence in the world make it eager to demonstrate that apart from being the world's factory floor, it is also a more advanced provider of capital, technology and human talents, pushing it to re-formulate foreign policy especially in

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the trade and economic arena. China's economic rise has reshaped international perspective on development and provided an alternative of Western development paths, making China's current and next external policy moves in the global spotlight. With China's rise as a giant economic power and the expectations for China to play a more important role in regional and international arena, there is a broader evolution of China's external strategies and priorities reaching out its main trading partners, including the EU. The China-EU relations have evolved into relations between an emerging economy and an established one, with a purpose being to avoid the historical trend of confrontation between powers.

***The second one*** is the rising importance of China-EU relations given the rising global uncertainties and US's retreat from multilateral affairs. The economies of China and the EU have become increasingly interdependent on each other following the 2008 financial crisis, providing significant implications for international trade, global governance and the global power structure. The trade policy shift of the US that challenged and reversed many existing trade practices and international agreements in order to fulfill its 'America first' promise further highlighted the importance of maintain China-EU cooperative relations. China and Europe are now equally exposed to a world of rising unilateralism and protectionism, calling for a closer cooperation between China and the EU on a series of issues ranging from the reform of the WTO, the coordination through the Belt and Road Initiative (BRI), and the solution to climate change. From Chinese perspective, the EU can play a key role as a major trading power and politically stable partner in confronting challenges arising from regional and global societies. At the same time, important features of the overall relationship between China and the outside world, such as increasing interdependence and coexisting cooperation and competition, are evident in China-EU trade and economic relation. Therefore, how to position and develop China-EU trade and economic relation is a major issue in China's overall diplomatic agenda.

***The third one*** is China's domestic transformation and opening up. China's institutional development and trade policy making went hand in hand. China's path of 'reform and opening up' can be marked by three milestones, which are China's 'reform and opening up policy' that set up 'Special Economic Zones' in 1978, China's accession to the WTO in 2001, and China's promotion of BRI in 2013. Currently the Chinese economy has entered into a phase of 'new normal' that the rate of economic growth has lowered, the quality of foreign trade has been improving, and the model of sustainable development model has been pursuing. Experiencing complex domestic economic challenges, China has been adjusting its foreign policy ambitions in different ways in the pursuit of benign interactions between domestic reform and external relations.

***The fourth one*** is the EU's perception and approaches toward China. China's trade policy towards the EU can partially be a reaction to how the EU formulates its perceptions and approaches towards China. Concerns arise within the EU on the lack

of consistency and coherence in the foreign policy towards China.<sup>2</sup> Ideally, a united and stable EU could significantly reduce transaction costs with China. However, in practice, national interests of EU member states are sometimes stronger than the wish to build and follow a functioning common foreign policy. In consequence, China has to keep dealing with an EU consisting of 27 nation-states (with Brexit) representing sometimes very diverging short and longer-term ‘national interests’, finding it difficult to define a coherence strategy towards a diversified EU.

### **III The Characteristics of China’s Trade Policy Towards the EU**

China’s trade policy towards the EU is based on the formation of a broader bilateral institutional framework between the two sides. China and the EU established diplomatic relations in 1975, when the European Union was the European Economic Community (EEC). Back then, China’s move had nothing to do with signing a trade agreement with the EEC, since the Chinese economy at that time was almost completely closed. The only reason of this step was eminently political. Then in 1985, the two sides signed Trade and Cooperation Agreement, following the first period of Chinese economic reforms after 1978. Still today, this is the legal document on which bilateral trade and economic relation is based. Following the starting of bilateral political dialogue in 1992, China-EU relations were upgraded in 1998, when annual summit meetings started. In 2013, China and the EU issued ‘China-EU 2020 Strategic Agenda for cooperation’ to fulfill the long-term goal of forging the strategic partnership for ‘peace, growth, reform and civilization’, thereby charting a new and accelerated course for bilateral cooperation. Along with this, China-EU economic and trade relation has evolved from relying solely on bilateral trade to attaching more importance to investment as well as industry and financial cooperation. In this context, China has remained a stable and consistent trade policy towards the EU, which bears the characteristics of multi-objective, multi-dimensional and multi-approach.

#### **1. The Multi-objective of China’s Trade Policy Towards the EU**

China has consistently implemented its ‘economic first’ policy towards the EU, attaching great importance to the existing trade and economic cooperation between the two sides. At the center of China-EU economic relation, trade has enjoyed important status, which is the engine of China’s economic growth. Trade has generated an enormous amount of resources in China and the EU and helped improve the welfare of both sides. Trade has also provided a solid bilateral foundation for a closer relation between peoples and governments. China attaches great importance to the existing trade cooperation between the two sides, expanding bilateral trade from goods to services, etc.

Now China-EU economic relation goes well beyond trade. It has gradually widened to

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<sup>2</sup> Guy de Jonquières, “Wanted: a European China Policy”, *CNN World*, on <http://globalpublicsquare.blogs.cnn.com/2012/09/04/wanted-a-european-china-policy/>, September 4, 2012, retrieved September 10, 2012.

new areas, such as investment, science and technology, and economic cooperation. From Chinese side, an economically developed EU can not only provide large export market, but also provide qualified investment, advanced technology and well-known brands. Pursuing an all-round China-EU economic relation, China has been broadening its trade policy towards the EU to devise better links with other policy fields, seeking to promote synergies between policy fields including trade, investment, technology, financial, energy and sustainable development, etc. In practice, China launched a variety of economic and trade promotion activities in coordination with the establishment of the leaders' diplomacy and major diplomatic mechanisms, such as organizing business delegations to cooperate with the state leaders' overseas visits to hold economic and trade talks and seminars.

Besides, China aims to strengthen relations with Europe as a priority to serve its strategic goals. China would like to have a strong European integration as a key global economic and partly political player and a strategic ally of China. This kind of the EU would fit into the baseline strategy of China about the multipolar global order,<sup>3</sup> with which China has interests in promoting bilateral economic, political and diplomatic relations through constructive engagement and cooperation in a broader agenda of solving global crisis through the United Nation (UN) system.

## **2. The Multi-dimensions of China's Trade Policy Towards the EU**

The EU's institutional complexities and the problem of speaking with one voice have contributed partly to the multi-dimensions of China's trade policy towards the EU. China has formed a proactive, pragmatic and balanced policy towards the EU--a three-dimensional EU policy, that is, to explore new ways of cooperation in accordance with different characteristics of the EU as a whole, the geographical European sub-regions and individual EU member states, where each complementing another and advancing together.

### ***(1) Interactions with the EU as a Whole***

At the EU level, China released three 'China's EU Policy Paper' in 2003, 2014 and 2018 respectively, which provide basic legal foundation of China's trade policy towards the EU. In these policy papers, China expressed the willingness to explore high-level strategic synergies between the Chinese government and the EU decision-making bodies, and enrich the scope of China-EU economic relation.

In 2003, the Chinese government published the first "China's EU Policy Paper", right after China issued the tenth 'five-year plan' and put forward the 'going global' strategy. The 2003 policy paper proposed eleven aspects in term of economic and trade relations (table 1) and explicitly pointed out the importance of strengthening and continuously developing China-EU relations as a part of Chinese foreign policy. This document is an unprecedented move because the Chinese government has never released a similar policy document on a country or regional organization, which is

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<sup>3</sup> András Inotai. Economic relations between the European Union and China. Centre international de formation européenne. <https://www.cairn.info/revue-l-europe-en-formation-2013-4-page-47.htm> (Winter 2013).

proof enough of the importance that China has attached to its relations with the EU.

**Table 1 China's EU Policy Paper (2003)**

Time	Main Aspects of Economic Cooperation and Trade
October 2003	<ul style="list-style-type: none"> <li>● China is committed to developing dynamic, long-term and stable economic and trade cooperation with the EU and expects the latter to become China's largest trading and investment partner.</li> <li>● China proposes to update the Trade and Economic Cooperation Agreement with the EU at an appropriate time.</li> <li>● China calls for properly addressing irrational restrictions and technical barriers, easing high-tech export control and releasing great potential of technological and trade cooperation in line with WTO rules.</li> <li>● China calls for EU's granting of full market economy status at an early date, reducing and withdrawing anti-dumping and other discriminatory policies and practices against China.</li> <li>● China calls for the prudent use of the Transitional Product-Specific Safeguard Mechanism (TPSSM).</li> <li>● China calls for a reasonable compensation for its economic and trade losses which may arise due to the EU enlargement.</li> <li>● China calls for strengthening coordination and cooperation with the EU in the new round of WTO negotiations.</li> <li>● China calls for strengthening dialogue on investment.</li> <li>● China welcomes EU to increase development aid, especially in the environment, poverty, health care, education and other areas.</li> <li>● China calls for strengthening cooperation in the area of quality supervision, inspection and quarantine, and establishing consultation mechanism to promptly resolve issues adversely affecting bilateral market access under the principle of maintaining safety, sanitation, health and environmental protection.</li> <li>● China calls for boosting the customs cooperation and concluding a China-EU Customs Agreement in due course.</li> </ul>

**Source:** Ministry of Foreign Affairs of the People's Republic of China, [https://www.fmprc.gov.cn/mfa\\_eng/wjb\\_663304/zzjg\\_663340/xos\\_664404/dqzzywt\\_664812/t27708.shtml](https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zzjg_663340/xos_664404/dqzzywt_664812/t27708.shtml), last visited on 14 January 2020.

In the 2003 policy paper, China is committed to developing dynamic, long-term and stable economic and trade cooperation with the EU and raises expectations for the EU to further boost cooperation by updating the Trade and Economic Cooperation Agreement, strengthening dialogue on investment, increasing development aid, concluding a China-EU Customs Agreement, addressing and resolving issues which may adversely affect bilateral market access, as well as limiting the use of irrational restrictions and technical barriers such as high-tech export control, anti-dumping and other discriminatory policies and practices.

Following the 2003 policy paper, China has gradually established a comprehensive cooperation mechanism with the EU. Apart from the China-EU Leaders' Meeting (1998), the China-EU Business Summit (2004), the China-EU High-level Economic

and Trade Dialogue (2008), the China-EU high-level cultural exchange mechanism (2012) as well as consultation and dialogue mechanisms in major areas have all been established and flourished<sup>4</sup>.

In 2014, the Chinese government published the second policy paper titled “China’s Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation”(Table 2).

**Table 2 China’s Policy Paper on the EU (2014)**

Time	Main Aspects of Economic Cooperation and Trade
April 2014	<ul style="list-style-type: none"> <li>● China views the EU as one of its most important trade and investment partners and hopes that both sides will contribute to the long-term, steady and in-depth development of their economic and trade relationship.</li> <li>● China calls for continually making use of the China-EU High-Level Economic and Trade Dialogue, the China-EU Economic and Trade Joint Committee and other mechanisms as a platform for policy coordination, promoting cooperation and addressing the concerns of both sides.</li> <li>● China calls for actively advancing negotiations of an investment agreement between China and the EU and striving to achieve an agreement as soon as possible to facilitate two-way investment. The both sides should start the joint feasibility study on a China-EU FTA as soon as possible.</li> <li>● China calls for enhancing exchange and cooperation in the field of competition policy, further substantiating China-EU Competition Policy Dialogue, implementing related cooperation document, jointly maintaining a market order of fair competition and promoting a sound market competition environment.</li> <li>● China calls for actively exploring new patterns of mutually beneficial development cooperation between China and the EU. The two sides should step up coordination and work actively for the success of the WTO Doha Round negotiations. The EU should commit to resolving economic and trade frictions with China through dialogue and consultation, act cautiously when resorting to trade remedy measures and create a good trade environment for the two sides. The two sides should strengthen cooperation on quality supervision, inspection and quarantine, and make use of existing consultation mechanisms to resolve problems in bilateral trade in a timely and appropriate manner. China will continue to urge the EU to ease its restrictions on and facilitate high-tech product and technology export to China, so as to release the great potential of bilateral high-tech trade. The two sides should strengthen cooperation in the area of e-commerce.</li> <li>● China calls for revising and improving the China-EU Customs Agreement and the Strategic Framework for China-EU Customs Cooperation under the guidance of the China-EU Joint Customs Cooperation Committee (JCCC), intensifying bilateral cooperation and multilateral coordination between respective customs authorities on IPR enforcement, supply chain security and facilitation, as</li> </ul>

<sup>4</sup> European External Action Service(EEAS) and Ministry of Foreign Affairs of the People’s Republic of China, [https://eeas.europa.eu/sites/eeas/files/2015\\_november\\_eu-china\\_dialogue\\_architecture.jpg](https://eeas.europa.eu/sites/eeas/files/2015_november_eu-china_dialogue_architecture.jpg).

Time	Main Aspects of Economic Cooperation and Trade
	well as fighting commercial fraud and promoting trade facilitation.

**Source:** Ministry of Foreign Affairs of the People’s Republic of China, [https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/wjzcs/t1143406.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wjzcs/t1143406.shtml), last visited on 14 January 2020.

In 2014 policy paper, China views the EU as one of its most important trade and investment partners and hopes both sides will maintain a long-term, steady and in-depth bilateral economic and trade relationship by further strengthening coordination mechanisms at different levels and resolving trade frictions.

In 2018, for the 15th anniversary of the strategic partnership between China and the EU, China unveiled its third and latest policy paper on the EU (Table 3).

**Table 3 China’s Policy Paper on the EU (2018)**

Time	Main Aspects of Cooperation in Trade, Investment, Connectivity, and Fiscal and Financial Fields
December 2018	<ul style="list-style-type: none"> <li>● China gives full play to the guiding role of the China-EU High Level Economic Dialogue, deepen dialogues on macroeconomic, economic and trade policies, enhance mutual understanding and proper reading of and seek greater synergy between each other’s policies and regulations, unlock cooperation potential, handle disagreements and frictions in a constructive manner, avoid politicizing economic and trade issues, and ensure the sustained, steady and win-win progress of China-EU economic and trade relations.</li> <li>● China calls for joint efforts with a positive and pragmatic attitude to reach a win-win bilateral investment treaty, and launch a joint feasibility study on China-EU Free Trade Area at an early date to build a sound institutional framework for upgrading the economic and trade cooperation.</li> <li>● China calls for promoting coordinated development of trade in goods and services. China will expand the import of high quality goods from the EU through existing channels and new platforms such as the China International Import Expo. The EU should ease its high-tech export control on China, strictly fulfill its WTO obligations, ensure that its trade remedy legislation and practices are in line with WTO rules, apply trade remedy measures reasonably, and prevent discrimination, de jure or de facto, against some WTO members.</li> <li>● China calls for maintaining two-way openness and facilitate mutual investment. China will significantly ease market access, fully implement the management system of pre-establishment national treatment and a negative list in a bid to foster a stable, fair, transparent, law-based and predictable business environment that protects the legitimate rights and interests of foreign investment and treats Chinese and foreign firms registered in China as equals. China hopes that the EU will keep its investment market open, reduce and eliminate investment hurdles and discriminatory barriers, and provide Chinese companies investing in Europe a fair, transparent and predictable policy environment and protect their legitimate rights and interests.</li> <li>● China calls for enhancing exchanges and cooperation in the field of competition, and jointly uphold the market order of fair competition. China follows with interest the EU laws and regulations on trade and investment, and hopes that EU makes its legislation consistent with WTO rules and takes concrete actions to safeguard an open and fair market environment to reduce and remove the doubts and concerns of Chinese companies. The Chinese government supports Chinese companies in Europe in setting up the China Chamber of Commerce to the EU.</li> <li>● China calls for promoting the development of the China-EU Connectivity Platform, seek greater</li> </ul>

Time	Main Aspects of Cooperation in Trade, Investment, Connectivity, and Fiscal and Financial Fields
	<p>synergy between the Belt and Road Initiative and the EU development plans including the EU Strategy on Connecting Europe and Asia, the Investment Plan for Europe, the Trans-European Transport Networks, actively leverage the role of the Asian Infrastructure Investment Bank, the European Investment Bank, the European Bank for Reconstruction and Development, and the China-EU Joint Investment Fund, better implement all cooperation projects, and encourage active participation of EU member states. Support the sound development of the China-Europe Railway Express, simplify the international railway transport procedures, lower transit costs, and provide better security protection for goods.</p> <ul style="list-style-type: none"> <li>● China calls for making good use of transportation cooperation mechanisms at all levels, and enhance policy dialogue, aligning of and exchanges on technical standards. Support port and shipping companies in actively participating in each other's projects, promote all-round and mutually beneficial shipping and maritime cooperation. Follow through on the consensus on civil aviation and enhance exchanges and cooperation.</li> <li>● China calls for advancing customs cooperation to facilitate trade. The China-EU Joint Customs Cooperation Committee will provide better guidance and coordination for customs cooperation. Fully implement the Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters and other documents, promote cooperation on IPR border law enforcement, Smart and Secure Trade Lanes, mutual recognition of Authorized Economic Operator, trade statistics, combating fraud, monitoring of solid waste, cross-border sanitary and phytosanitary quarantine, security of imported and exported goods, and supervision of food safety, and actively explore new areas of cooperation such as regulation of cross-border e-commerce.</li> <li>● China calls for further enhancing communication and cooperation on intellectual property rights, support IP agencies on both sides in establishing and improving regular communication mechanisms for more dialogue on IPR creation, utilization, protection, management and services to jointly foster a more enabling IPR environment. Support early conclusion of the Agreement on Geographical Indications. China protects the lawful IPRs of foreign enterprises in China and hopes that the EU and its member states will strengthen the protection of Chinese IPRs.</li> <li>● China calls for increasing exchanges and cooperation in such areas as standards, metrology, certification, quality management and supervision, and safety check of special equipment, fully harness the role of the China-Europe Standards Information Platform in discussing the standardization issues of common interest to provide Chinese and European enterprises with timely, effective and authoritative information on standards.</li> <li>● China calls for leveraging mechanisms such as the China-EU Economic and Financial Dialogue and the Working Group between the People's Bank of China and the European Central Bank to maintain close communication on major international economic and financial issues. Support greater two-way openness of the financial sector and advance cooperation on cross-border financial infrastructure connectivity. Promote cooperation between financial institutions, including cooperation with multilateral financial institutions, and between businesses, maintain steady development of the financial sector, deepen communication and dialogue between the financial regulatory bodies, enhance mutual regulatory recognition and trust, and actively address appeals from banks on both sides for cross-border operations.</li> <li>● Financial institutions from EU member states are welcome to enter the Chinese market. China hopes that the EU will support Chinese financial institutions in setting up institutions in Europe and expand access channels for Chinese policy financial institutions to do business in the EU. Support</li> </ul>



Time	Main Aspects of Cooperation in Trade, Investment, Connectivity, and Fiscal and Financial Fields
	<p>CEINEX in becoming a platform for offshore trade in RMB-denominated financial products, risk management and asset allocation. China encourages EU member states to issue RMB bonds in China and offshore RMB bonds in major global financial centers. China hopes that the EU will exercise caution when introducing the Intermediate Parent Undertaking requirement to safeguard the sound development of the financial cooperation between the two sides.</p> <ul style="list-style-type: none"> <li>● China calls for carrying out cooperation under the G20 framework to jointly support the G20's status and role as the premier forum for international economic cooperation. Uphold the spirit of partnership, support multilateralism, strengthen macroeconomic policy coordination, advance structural reforms, promote reform in the international financial system, push forward trade and investment liberalization and facilitation, and build an open world economy.</li> <li>● China calls for strengthening communication on the WTO reform through the joint working group on WTO reform to safeguard the WTO's core values and fundamental principles, uphold its authority and effectiveness, safeguard the development space of its developing members, and promote a more open, inclusive, transparent multilateral trading regime.</li> </ul>

Source: The State Council of the People's Republic of China, [http://english.www.gov.cn/archive/ministrydocument/201812/18/content\\_WS5d3ae98cc6d08408f5022944.html](http://english.www.gov.cn/archive/ministrydocument/201812/18/content_WS5d3ae98cc6d08408f5022944.html), last visited on 14 January 2020.

Compared with the previous two China's policy papers on the EU, the latest one covers a much wider range of economic and trade issues, and provides more concrete suggestions for strengthening bilateral relations.

Generally, China seeks to explore greater synergy between each other's policies, unlock cooperation potential in various areas including finance, handle disagreements and frictions in a constructive manner, and ensure the sustained, steady and win-win progress of China-EU economic and trade relations. In particular, China stressed the importance to avoid politicizing economic and trade issues.

Following the 2018 policy paper, a remarkable visit by Chinese president Xi Jinping to Italy, Monaco and France from 21 to 26 March 2019 fully reflects the importance China attaches to China-EU relations, especially in the background of China-US trade frictions. The significance of Xi's visit to Europe is three-fold: to provide new impetus for China-EU comprehensive strategic partnership, to inject stability into today's international change and bring positive energy to safeguard multilateralism, and to advance integration of BRI with the EU Eurasia interconnection, which will promote the interconnection between the Asian and European continents and also the sustainable growth of the global economy.

Although China's EU policy paper remained consistent stance toward China-EU relations, it can be seen that the EU has pursued a noticeable transition in its China policy, suggesting that Europe is taking an increasingly critical stance on China. In March 2019, a ten-point plan published by the European Commission explicitly described China as 'an economic competitor in pursuit of technological leadership and a systemic rival promoting alternative models of governance'. Calling China an economic 'systemic rival' and a 'strategic competitor' reflects the EU's growing

concerns of rising competition with China. The EU's concern mainly stems from the lack of reciprocity of market access for European companies in China and the active moves of Chinese state-owned enterprises (SOEs) and technology companies in European's strategic sectors. Faced with stark comparisons between China's rapid economic development and EU's own, the EU has been overburdened by excessive anxiety and has adopted trade defense measures, while establishing an investment review mechanism to address market distortion.

In response to the EU's attitude shift, China does not necessarily consider this new EU statement as a bleak note for China. It is observed that China remains a practical and proactive approach in engagement with the EU, reiterating its support for the integration of the EU, the unity and growth of the EU, and the more active role of the EU in international affairs. Under the broader comprehensive China-EU strategic partnership, China sticks to the spirit of seeking commonality, mutual respect and trust, and equal consultation between the two sides, from the government's position to specific actions.

## ***(2) Cooperation with Sub-regions of Europe***

In many parts of the world, China's presence takes place through economic channels and the same is true for the Europe. However, in past decades China put more of its efforts into Western Europe while neglecting the Central and Eastern part. This situation began to substantially change since the launch of China's BRI that the economic ties between China and the CEE countries have been explored. Under the current '17+1' platform with Greece participated as the 17<sup>th</sup> CEE country, China works full steam on institutionalizing its cooperation through Memorandums of Understandings. Through regular economic cooperation, China is increasingly forge closer relations with these 17 European countries, with a growing Chinese business presence, significant investment, stronger and better organized Chinese communities and expatriates, a set of cultural/media activities, and an increasing bond between China and each individual government.

The '17+1' platform bears some unique features that are more in line with China's philosophy, values and approaches, which is certainly a sign of China's innovative economic diplomacy. First, it is a voluntary and open platform. When selecting the countries invited to join the initial '16+1' platform, China proposed a viewpoint of the European continent that contrasts the EU as one. In the strategic choice of its CEE partners, China does not comply to the EU borders, nor with those of the Euro zone, or introduce any economic criteria. Not being limited by any existing scope of cooperation, China seeks to take advantage of the CEE region's economic development potential and its geostrategic position that could play a key satellite role in the BRI. The voluntary participation in the '17+1' platform also reflects the willingness of CEE countries to engage with China and thereby increase their influence within the EU. The '17+1' format generates tangible economic results and emerges as a prosperous platform for cultural and diplomatic ties between China and the CEE region. The final end of China is to promote the interconnection between the

Asian and European continents and also the sustainable development of China-EU relations with certain CEE countries' participation.

Second, China promotes development and prosperity by reinforcing infrastructure construction. This represents one of China's key successful experiences as developing economy over the decades, and it has a good chance of putting China's comparative advantages into full international play.

Third, China has adopted different approach reflecting Chinese philosophy and values in dealing with challenges arising from China-CEE cooperation. From strategic perspective, the '17+1' cooperation has raised concerns and been criticized as 'divide and rule' policy by certain European politicians and communities. Since this unique form of cooperation lays in the unprecedented initiative of an external power to regroup only a part of the EU member states, without the participation of the founding members. Addressing these concerns, China has been trying hard to separate the economic relation from political and strategic considerations, reiterating that although planning to become one of the most influential states by mid-century, it is not aiming for world leadership as is the case with the US at present, but wishes to better participate in the global order by contributing Chinese talents and solutions to global economic governance. Fully aware of the challenges for the '17+1' format, such as the climate of mistrust and reluctance to cooperate at the national level and the limited knowledge of the Chinese partner, China intends to overpass the mistrust by exploring positive and constructive consultations, academic and policy researches and public exchanges between China and European countries, in order to create a mechanism that prevents the deterioration of political relations from affecting economic relation. From economic perspective, China has been learning and figuring out the diversity of expectations and economic priorities in different European Countries. The long-term vision of '17+1' cooperation under the BRI requires clear and practical short-term economic solutions, which China is exploring through practice. The idea of 'learning by doing' has been fully embodied in China's strategy.

### ***(3) Relations with Individual EU Member States***

China remains active bilateral engagement with EU member states and sets differentiated priorities in different bilateral relations.

When it comes to economic relation, China attaches importance to relations with Germany, France, UK, Netherland and Italy, which could play a leading and demonstration role in China's economic exchanges with European countries. In terms of trade, China's main trading partners in the Europe are Germany, Netherlands, UK, France and Italy. Among them, bilateral trade between China and UK, France, Germany and Italy maintained growth rate of approximate 10 percent. However, China has very different import and export structures with these trading partners, with Germany running the largest trade surplus with China and the Netherlands having the largest trade deficit with China. In terms of investment, China's outward FDI in the

Europe mainly flow into UK, Netherlands, Germany, France and Luxembourg, while China's inward FDI mainly come from Germany, Netherlands, France, UK and Italy. China maintained a robust two-way investment relation with above countries. Through more cooperation platforms such as the Asian Infrastructure Investment Bank (AIIB) that the UK, Germany, France and Italy participated in, these investment relations could be further enhanced.

Besides, China also earns diplomatic points by affording even the smallest states equal status when it comes to state visits. In addition to March's meetings with heads of states in Rome and Paris in 2019, President Xi Jinping also visited Monaco, a tiny country with a population of 38,000 people. This could be interpreted as a reward for Monaco's granting a Chinese telecommunication company, Huawei, a contract to build its 5G infrastructure. It should be noted that Huawei has launched an impressive public relations and lobbying campaign across Europe, inviting journalists and politicians to its headquarters and underlining repeatedly its separation from the Chinese state and communist party. As China's presence becomes more obvious in certain EU member states, China has been seeking diplomatic approaches complementing economic cooperation to avoid public debates on China-related subjects and its consequences within the EU scope.

### **3. The Multi-approach of China's Trade Policy Towards the EU**

Pragmatism is what China desires in its relations with the EU. Drawing from past experience, both positive and negative, China tries to avoid the approach of drawing lines by ideologies or determining good or bad relations by judging from the similarities and differences of the nation's social and political system.

Under the three-dimensional trade policy framework towards the EU, China has been seeking to develop much more sophisticated and complex policy tools combining both 'hard law' and 'soft law' approach to build trust and facilitate cooperation with the EU. On the Chinese side, it is easier to establish institutional settings and treaty basis for matters in fields of economics, trade, science and technology that mainly reflect common economic interests between the two sides, than those in areas of environment, labor standard, enterprise social responsibility and other non-trade matters that are more sensitive. This is because negotiations in the former areas are mostly related to clauses of legal techniques and practical operation, whereas the latter areas are almost linked to ideology and views or values that cannot be legally binding in an easy way. Therefore, China prefers a pragmatic choice with 'parallel development of hard law and soft law' to cover issues arising from China-EU relations.

## **IV The Prospects of China's Trade Policy Towards the EU**

### **1. Three Challenges Facing China in its Relations with the EU**

Currently, after a year of intense focus on its relations with Washington, China is

preparing for a renewal of its ties with the EU. In engagement with the EU and the outside world, China is facing short, medium and long-term challenges.

***A short-term challenge*** facing China is to consider what to do regarding the growing skepticism and worries in the Europe about China's outward FDI. The EU is facing an 'increasingly aggressive' China as its investment and BRI cooperation is extending in the Europe. Along with China's economic transformation and upgrading, the Chinese enterprises have been shifting their investment demands to acquire European know-how, brand and skills in a larger scale especially in some strategic areas. While arguing for freer market access in China, at the same time the EU turned to be vigilant and restrictive towards Chinese enterprises' investment in Europe, fearing that Chinese investment will damage their national security and economic interests by acquiring strategic assets<sup>5</sup>. Addressing these concerns requires China better regulates oversea investment behaviors and further enforces a 'bringing in' strategy to complement its 'going out' policy to provide reciprocity for European companies.

***A medium-term challenge*** facing China is to see how China responds to efforts by EU together with other developed countries to discipline the industrial subsidies and SOEs with China in mind. Before any concrete achievement on the discussion of industrial subsidy disciplines building on the work developed in the China-EU Joint Working Group on WTO reform, the EU has already delivered subsidy proposals through the trilateral group work with the US and Japan<sup>6</sup>. Regarding this hot-debated issue, the EU and China have different considerations. From the EU's perspective, abundant direct or indirect government support and potential preferential treatment for Chinese SOEs are key issues in the EU-China economic relation. The potential for Chinese SOEs to break into the EU market has raised concerns within the EU over unfair competition as well as political or national security risks driven in part by Chinese SOE's non-economic objectives. China argues that SOEs should be treated equally as private enterprises and cannot be discriminated only because of its ownership identity. Actually, until the introduction of market-oriented reforms, SOEs also used to be a feature of some European economies. China has started the plan to accomplish a thorough reform of SOEs, apply modern corporate governance standards and ensure SOEs operate alongside other business in accordance with market rules. It remains to be seen how the Chinese SOEs reform is proceeding, but at least frank and objective discussions on SOEs issue between the two sides are necessary.

***A long-term challenge*** facing China is to position its role in regional and global economic governance. China has been a major economic power and has been striving for playing a global leadership role commensurate with its new status. Still, this process will be a long one, and China is learning from it and trying to convince other economies that it will be a responsible power. The mixed reactions in the Europe to

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<sup>5</sup> European Parliament, Foreign direct investment screening—A debate in light of China-EU FDI flows (2017).

<sup>6</sup> The latest Joint Statement of the EU, US and Japan was released on 14 January 2020 in Washington, D.C.

the rise of China and the BRI actually reflect the confusion of Western countries on how to properly handle the power transition in global economic governance represented by the growing influence of China, since it is historically unprecedented that a country like China is becoming a significant player on the global economic stage. The EU's internal understanding for the BRI and China-CEE cooperation is an important part of China-EU relations. The BRI that embodied Chinese wisdom and vision of peace and development called into question on how China's development-oriented model that is different from Western rules-oriented model would work and whether the liberal Western approach to development and international cooperation has other alternative.

To confront above challenges, both sides need to assume responsibility for reducing potential sources of conflict. Both China and the EU should calibrate their strategic thinking and figure out a long-term sensible policy agenda toward each other that not bothered by short term turbulence in bilateral relations. China and the EU have more in common than they think, but do less than they could simply because of their lack of an internalized and integrated vision of who they are and how they can best relate to each other. The sustainability and efficiency of China-EU economic relation substantially depends on how the Chinese and European societies, cultures, mentalities and values can be mutually understood and esteemed. Business success cannot be separated from understanding each others' behavior, priorities and thinking.

## **2. China's Future Trade Policy Stance Towards the EU**

The shift of EU leadership in December 2019 marks a new start for both the EU and China-EU relations. The new EU team led by Von der Leyen intends to play a more active role in upholding European interests and values by consolidated the multilateral order.

China is unlikely to fundamentally alter its approach to the EU in the near future. There are two supporting reasons. First, China perceives the EU's newly released China policy as a pragmatic focus on economic relation albeit slightly more assertive than before. China still sticks to its previous image building as a peaceful emergence in the world. Second, China values Europe as a strategic partner in trade and other global affairs. Compared with mixed voices of media in the Europe, China's official media speaks highly of China-EU relations and indicates that China's EU policy will remain consistent and stable, and China will continue to support the EU playing positive and significant roles in the WTO, UN and other international arena.

In the near future, the focus of China's trade policy towards the EU will be three-fold.

***First, China will make efforts to secure the successful conclusion of a CIA between China and the EU.*** The negotiation and conclusion of the China-EU CIA is the logical consequence of the development of China-EU relations. The relevance of this CIA initiative is not only explained by tremendous commercial transactions and

widening and deepening economic cooperation between the two sides, but also by the fact that 26 out of the 27 EU member countries have bilateral investment treaties with China (except Ireland, and not considering UK anymore). China has a strong will in concluding an overall CIA with the EU. The existing bilateral investment treaties (BITs) between China and EU member states are insufficient to respond to bilateral investment realities, particularly on the Chinese side. China signed BITs with EU member states in 1980s and 1990s, mainly reflecting China's interests as a foreign investment recipient. Nowadays, this situation has changed. Since China's outward FDI is surging, its interests as an investment provider became more important. As a result, it is in China's interest to upgrade the existing BITs to include more clauses to protect China's overseas capital. On the other hand, a China-EU CIA will improve the protection of EU-investments in China and reduce barriers to investment in China. So it turns out a win-win for both sides in terms of the attraction and protection of bilateral investments.

Furthermore, the negotiation of China-EU CIA is in line with China's overall Free Trade Agreement (FTA) strategy to play an active role in reshaping global trade and investment rules, especially those about service trade. China has already started domestic experiment on the opening up of pilot free trade zones (FTZs), which could help shape a new pattern of all-round open up, put into practice innovative laws and regulations, and lay the foundation for China-EU CIA negotiations. Through these practices, it is essential that China delivers openness and predictability for foreign operators.

Nevertheless, owing to the broad scope and complex nature of China-EU relations and different levels of openness between China and the EU, concluding a new CIA between the two sides will not be easy. The EU is more experienced in concluding advanced investment treaties. China is seeking to realize a mutually satisfied CIA while observing its core interests, bargaining over issues of market access, intellectual property rights, government procurement, the scope and extent of industry openness, transparency of SOEs, etc. with the EU.

In addition, how to deal with non-trade policy objectives (NTPOs) in China-EU CIA, such as environment, labor standard and enterprise social responsibility that the EU attaches more importance to is of concern. So far, China has not quite touched upon NTPOs in its trade agreements with other countries, while the EU has been seeking to implement its ambitious multi-purpose trade policy with NTPOs as one of key dimensions. The disparity of positions of China and the EU with respect to NTPOs may affect the process in which the two sides negotiate the CIA. In this respect, questions arise as to how to incorporate the expectations of the EU on NTPOs been fulfilled in its relations with China, and whether the promotion of NTPOs has been at the expense of more traditional trade concerns and market opening in China-EU CIA negotiations? If the two sides want to conclude the CIA negotiation before the expected deadline, a reasonable scope of the CIA should be confined. Second, the

negotiation process of a CIA is closely related with the competences of the institutions involved of each side. On the China side, this seems to be no problem for it is a highly centralized country and all agreements with foreign countries must be negotiated and concluded by the central government, only with the exception of Hong Kong and Macau, which have treating-making powers with foreign countries in fields of economics and trade, science and technology, and social affairs. Things in this respect are much more complicated on the EU side. The EU, as a regional organization of high integration, should coordinate among different member states to decide carefully on the 'give and take'.

Nevertheless, so long as both sides persist in the views of building a long-running comprehensive strategic partnership and follow-up principles seeking common interests while reserving differences, mutual respect and trust, mutual benefits and preferences and equal consultations, the new China-EU CIA to lay down a solid and updated treaty foundation for the sustainable development of China-EU relations will possibly come into reality within forthcoming years. Moreover, the CIA will pave the way for the negotiation of a possible free trade agreement between the two sides.

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***Second, China will make efforts to expand cooperation between China and the EU in regional development in the pursuit of synergies between BRI and relevant EU strategies.*** The BRI has become China's most ambitious vehicle for international economic cooperation. The Europe is the final destination of this ambitious project, and still represents the largest and most attractive consumer market for Chinese products. Having more European countries participating in the BRI is valued as a major success in the Chinese domestic political context. For connecting Europe and Asia through a vast infrastructure and data corridor, massive investments in rail, roads, shipping and communications infrastructure would be poured in. To meet financial requirements and achieve policy synergies, China and the EU can promote three major dockings, namely, docking BRI with Europe's development strategies, docking China's international production capacity cooperation with the Investment Plan for Europe, and docking '17+1' cooperation between China and CEE countries with the overall cooperation between China and Europe.

There is considerable foreign skepticism about the BRI, but the biggest strength of the initiative rests on doing solid, tangible things. It is crucial to guarantee the win-win outcome of the economic and technological cooperation projects, securing a long-term and stable cooperation in the BRI.

***Third, China will make efforts to strengthen strategic partnership with the EU towards shared global responsibility.*** Both China and the EU should continue to promote an open world economy and contribute to the improvement of the global economic order<sup>7</sup>. Deepening China-EU economic ties will not only bring potential

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<sup>7</sup> Bruegel, Chatham House, China Center for International Economic Exchanges and The Chinese University of Hong Kong, *EU-China Economic Relations to 2025-Building a Common Future* (2017).



benefits to both sides, but also go some way towards strengthening the global economy and enhancing global governance, given the importance of both economies in the world.

***Furthermore, the prospects of China-EU relation are affected by other factors going beyond the bilateral interaction.***

First, the China-EU cooperation is intertwined with the US, given the paramount importance of the US to both sides as well as to the global economy. Finding ways to constructively develop China-EU relations in areas of trade, investment, finance, research and development, and other cooperation mechanisms without negatively affected by the sharp shift of US trade policy should be a goal in Beijing, Brussels and EU member states.

Second, the benefits of closer China-EU relations are likely to be enhanced if the EU27 and the UK are able to agree a sensible Brexit that ensures a continued close economic relationship between them. All three economies have a mutual self-interest in seeing a constructive outcome from the Brexit negotiations between the EU27 and the UK.

Finally, bilateral coordination between China and the EU on issues relevant to global governance – from deeper trade relations and financial cooperation to climate change policies – must be leveraged through and contribute to the strengthening of the G20, the WTO, the UN and other appropriate multilateral bodies. This will ensure that this deeper bilateral cooperation can be of global benefit and be sustainable over time.