European Parliament

EU-China Summit – building new connections

The EU-China Summit on 29 June 2015 marks the 40th anniversary of EU-China diplomatic relations. It provides an opportunity not only to take stock of progress achieved on the EU-China 2020 Strategic Agenda for Cooperation, such as in the ongoing negotiations of a bilateral investment agreement, but also to identify new fields of cooperation. New dialogue mechanisms could be launched in areas such as 'legal affairs', including the rule of law, an area in which some Member States have already engaged in bilateral dialogue with China. Of late, China's 'rule by law' concept has been high on the political agenda of the Chinese leadership. In the field of connectivity, potential synergies could be explored between China's pan-continental 'One Belt, One Road' initiative and the European Fund for Strategic Investment (EFSI), also known as the 'Juncker plan'.

Exploring cooperation on connectivity and the digital economy more specifically

As the EU concludes the debate on the EFSI Regulation, which is expected to generate public and private strategic investment of roughly €315 billion in transport, communication and energy infrastructure during the 2015-17 period, China has made public and motivated its interest in participating in the EFSI, with a particular emphasis on the digital economy. Shortly before the EU-China Summit, at a workshop hosted by the Committee of the Regions and facilitated by the ICT business association, ChinaEU, major Chinese banks and ICT companies attending the event demonstrated their interest in the EU initiative. Chinese analysts have pointed to the strategic complementarity between China and the EU with regard to the digital transformation of the EU economy (5G mobile-technology development) and China's efforts to link ICT and manufacturing ('Industry 4.0'). On 5G, the EU struck partnerships with South Korea in 2014 and Japan in 2015.

China's interest in participating in the 'Juncker plan' is inextricably linked to the country's eagerness to anchor its 'One Belt, One Road' projects – short for Silk Road Economic Belt and the 21st Century Maritime Silk Road – in the entire EU. The extended version of the ancient Silk Road, launched by President Xi Jinping in 2013, seeks first and foremost to boost the economic development of China's central and western provinces, which trail China's thriving coastal provinces, and to manage China's transition to a more sustainable 'new normal' economic pathway. Moreover, it aims to enhance Eurasia's integration process by improving connections on land and at sea between Asia, Europe and Africa. Coordinating the two projects could stimulate economic growth in Europe through enhanced connectivity, and extend the European single market to a better integrated Eurasian market. So far, China's diplomatic outreach to Europe regarding this project has mainly concentrated on 16 central and eastern European countries which, together with China, formed the 16+1 dialogue mechanism in 2012, governed by the Belgrade Guidelines. Hungary became the first EU Member State to sign up for the project in June 2015. China set up a US$40billion New Silk Road Fund, and initiated the creation of the China-led Asian Infrastructure Investment Bank (AIIB) to contribute to Asian infrastructure funding needs estimated at US$800 billion annually. Some 14 EU Member States have become prospective AIIB founding members. One Belt, One Road's knock-on effect is already being felt.

Providing momentum for negotiations on a bilateral investment agreement

Since the 2012 decision to launch talks on a comprehensive EU-China bilateral investment agreement (BIA), to mutually liberalise investment by eliminating restrictions for foreign investors, and to provide a legal framework guaranteeing effective protection of foreign investment, five rounds of negotiations have taken place. The main challenges European business faces in China are forced technology transfer and joint venture requirements, preferential treatment of state-owned enterprises (SOEs), subsidies, weak enforcement of intellectual property rights, counterfeiting, as well as uncertainty and unpredictability of legal protection. Analysts have argued for early conclusion of a BIA to tackle these investment barriers and

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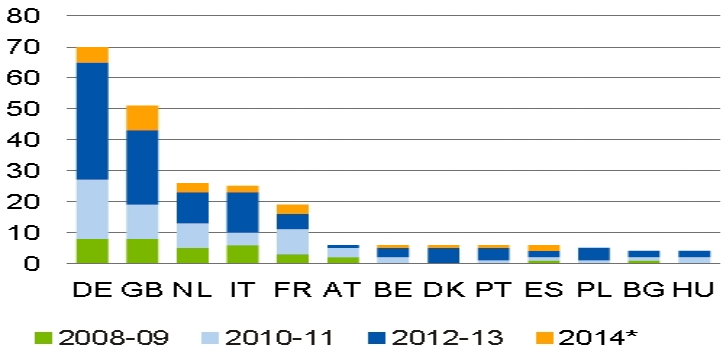
ensure reciprocity in market access, and to remedy the uneven playing field in the EU resulting from the patchwork of bilateral investment treaties (BITs) in force between China and individual Member States. Since 2008, a China-US investment treaty has been under negotiation. These talks gathered momentum in mid-2013 when China agreed to 'pre-establishment' national treatment and a 'negative list' approach.

Recent investment-related reform efforts in China

In January 2015, China released the *draft* of a new foreign investment law. It features inter alia a broader definition of investment, a shift from a 'positive list' to a 'negative list' approach, listing restricted and prohibited sectors for foreign investment rather than permitted and encouraged ones – with the intention to gradually reduce the list further – as well as pre-establishment national treatment. It also transforms the current 'case-by-case' pre-approval system into a reporting scheme. As in the 1980s, when economic reforms in China were first tested in Special Economic Zones (SEZs) before they were applied throughout the country, the new elements are to be tested in geographically limited spaces across China such as in the Shanghai pilot free trade zone (SPFTZ), a testing ground notably for (financial) service sector reforms. Analysts have however been critical that the SPFTZ's 'negative list', despite several reviews (a cut from 190 to 139 items as of July 2014), has not liberalised activities of major interest to foreign investors.

Figure 1 - Chinese FDI in the EU by number of M&A deals



Data source: DB Research, July 2014, p. 12.

Bilateral investment situation

EU foreign direct investment (FDI) in China stood at €118 billion in 2012, accounting for roughly 18% of China's FDI stock. This corresponded to 2% of overall EU FDI stock. Part of EU FDI to China is channelled through Hong Kong (EU FDI stock in 2012: €133 billion) and thus may be under-reported for China. In 2014, Chinese greenfield projects and mergers and acquisitions (M&A) in Europe reached an all-time high of US$18 billion. In 2013, Chinese FDI stock in Europe (US$53 billion) equalled 8% of its overall FDI stock. Chinese investment has been driven by different economic motives. In the aftermath of the financial crisis, Chinese investment in Greece and Hungary has involved infrastructure projects, in Portugal and Spain utilities, energy and real estate ('golden visa investors') as well. Investment in France, Germany, Italy, the Netherlands, Sweden, and the UK has predominantly sought to acquire technology, know-how and brands, targeting mainly the agriculture and food, energy, automotive and other high-tech manufacturing sectors.

Prospects for a 'common approach' to climate change for COP21

China is the world's largest emitter of greenhouse gases, followed by the US, the EU and India. In November 2014 China pledged that its carbon emissions would peak 'around' 2030 and its use of non-fossil energies, including nuclear energy, would be raised to 20% by 2030. China's climate change commitments have been welcomed, but it has been argued that 2030 is too late to limit global warming to 2°C. In October 2014, the EU decided on a binding greenhouse gas reduction target of 40% and a renewable energy share of at least 27% of total EU energy consumption by 2030. The EU-China summit is set to be an opportunity to agree on a 'common approach' for the November 2015 UN climate change conference (UNCCC) COP21. But, while the EU would like to see China assuming more responsibility for current emission levels, the country insists on its developing country status which, under the 1997 Kyoto Protocol, exempts it from binding reduction targets due to the lack of historical emissions. In their May 2015 Joint Statement on climate change, China and India reaffirmed their adherence to the principles of equity and common but differentiated responsibilities (CBDR), and called for the leadership of developed countries to reduce greenhouse gas emissions, rejecting tougher climate change goals. China intends to submit its COP21 2030 targets in June 2015. Despite diverging views on the 'differentiation' issue, China and the EU could enhance cooperation on green technologies – using the EU-China Urbanisation Partnership launched in 2012 as a model of innovative EU-China project-based cooperation – and on a cap-and-trade scheme to promote a global carbon pricing agreement based on policy convergence: the EU has a mature emissions trading system (EU ETS), and China introduced such a scheme in five cities and two provinces, and plans to extend it across the country in 2016.