

Towards a new EU policy approach to China

21st EU-China Summit – April 2019

With the European Parliament elections set for May 2019, the 21st EU-China Summit has been advanced, to be held in Brussels on 9 April 2019, only nine months after the previous one. The 2018 summit's joint statement captured a broad range of deliverables that had been achieved over a three-year period, since the EU and China had failed to agree on joint statements in 2016 and 2017. Considering that not even the short-term commitments on the trade and investment agenda from 2018 have been met, that the context of US-China great power competition looms large and that the EU has adopted more assertive language in its recently issued EU-China strategic outlook, it remains to be seen whether meaningful outcomes will be reached at this year's summit.

Major issues likely to impact the 21st EU-China Summit

The EU-China Summit 2019 will be held against the backdrop of significant [uncertainty](#) about the outcome of the **US-China trade war** that has [taken its toll](#) on the Chinese economy. The exact extent of the drop in Chinese GDP growth is [unclear](#), since Chinese [official data](#) are rather a reflection of the government's [political targets](#) than of the real economic situation, and few [Chinese academics](#) discuss their diverging calculations in public. The Chinese government has responded to the trade frictions with the US, inter alia, by [shifting away](#) from policies prioritising [deleveraging](#) back to [stimulus policies](#), including [tax cuts](#) and [infrastructure spending](#), and by [ordering references](#) to its 'Made in China 2025' strategy to be removed from public discourse, while doubling down on achieving its objectives under new labels. The strategy seeks to achieve a high degree of self-sufficiency, and ultimately a dominant position for Chinese companies in 10 advanced technologies at home and abroad, by outcompeting firms of advanced economies. As the trade war is still a major risk and a priority for China, it is likely to continue to drag its feet in talks with the EU in areas in which it wishes to remain flexible for a trade deal with the US. A case in point is an [EU-China agreement on geographical indications](#) (GIs), talks on which [should](#) already have been finalised by October 2018. The summit will also take place at a time when China's [Belt and Road Initiative](#) (BRI) faces a backlash from new governments in [Malaysia](#), the [Maldives](#), [Myanmar](#), [Pakistan](#), and [Sierra Leone](#), and allegations of Chinese '[debt-trap diplomacy](#)' continue unabated. It will also be held at a time when the EU is rolling out its 2018 [strategy on connecting Europe and Asia](#), focused on economic, environmental, fiscal and social sustainability, open procurement, transparency and a level playing field. [Italy](#) and [Luxemburg](#) have, however, just formally signed up to the BRI, challenging EU unity on the issue. It remains to be seen whether this complicated context will be conducive for the EU and China to make headway towards concrete deliverables under the EU-China [Connectivity Platform](#), e.g. on the implementation of already identified [pilot projects](#). The EU-China Summit 2019 moreover coincides with a controversial and strongly politicised debate in the West about the security, economic, and geopolitical [implications](#) of (not) involving Chinese telecom equipment vendors in the EU's **5G networks** (see EPRS '[at a glance](#)' note).

An EU policy shift to a more realistic, assertive and multi-faceted approach to China

In a fairly unusual move ahead of the forthcoming EU-China summit, on 12 March 2019, shortly before the [EU-China High-Level Strategic Dialogue](#) of 18 March, the EU published a '[strategic outlook](#)' for EU-China relations, to be debated at that week's [European Council](#) meeting. The paper refers to a shift in the balance of challenges and opportunities the EU faces in its ties with China; it moves away from portraying China as a strategic partner towards an issue-based, differentiated framing of China as a **cooperation partner**, a **negotiating partner**, an **economic competitor** and a **systemic rival**. It spells out three goals: to 'deepen its engagement with China to promote common interests at global level', based on clearly defined interests and principles; to 'seek more balanced and reciprocal economic relations'; and to 'adapt to changing economic realities and strengthen its own domestic policies and industrial base'. It sets out **10 actions**, and stresses that Member States need to apply a **uniform approach** to China to achieve these goals.

Dealing with China's selective engagement in favour of multilateralism

The [EU](#) and [China](#) are cooperating successfully in some multilateral formats, such as at the 24th meeting of the Conference of the Parties ([COP24](#)) under the United Nations Framework Convention on **Climate Change** ([UNFCCC](#)) in Katowice in late 2018, when they pushed for [stringent and uniform reporting rules](#) to implement the Paris Agreement. However, China continues to pursue distinct policies in its bilateral ties, such as [funding new coal-fired plants](#) (for instance, in [Bosnia and Herzegovina](#)) as part of its BRI projects. By doing so, it [clashes](#) with the EU's [strategy for the Western Balkans](#). Other opportunities for EU engagement with China abound on global and regional issues, such as [ocean governance](#), [sustainable finance](#), [Afghanistan](#), and [Iran](#). However, China's engagement in favour of multilateralism is at times [selective](#), and based on a different understanding of the rules-based international order, as demonstrated by its refusal to accept the Permanent Court of Arbitration's [2016 binding ruling](#) on maritime features in the South China Sea. **WTO reform** will be a litmus test for China's preparedness to support the revision of vital aspects of the WTO's rulebook – such as those on industrial subsidies, state-owned enterprises, forced technology transfer, and the [developing country status](#) – which are inextricably related to its unique economic model.

Glacial progress in levelling the trade and investment playing field with China

The EU is keen to address the long-standing **reciprocity gap** in EU-China economic relations. According to provisional EU figures for 2018, the deficit ([€185 billion](#)) in EU-China total trade in goods ([€605 billion](#)) has continued to grow. Despite [selective removals](#) of [market access barriers](#), such as [ownership caps](#), China's overall [investment restrictiveness](#), notably in [services](#), is still very high. The yet to be decided implementing details of the [new foreign investment law](#), which [features](#) a negative list approach, pre-establishment national treatment provisions and a [prohibition](#) of forced technology transfer, will reveal how meaningful the law is in practice. Progress in the EU-China talks on a **comprehensive agreement on investment (CAI)**, the EU's main investment policy tool to level the playing field with China) has, despite [20 negotiating rounds](#) since 2014, been glacial. It remains to be seen whether the [recent](#) adoption of the [EU framework for foreign direct investment \(FDI\)](#) screening and the tightening of US FDI screening and export controls will spur China's interest in concluding the CAI by 2020, as [envisaged](#) by the EU. According to transaction-based data, in 2018 Chinese FDI flows [in the EU](#) declined considerably, but less than [those](#) in the US.

Revising competition and public procurement rules to level the playing field?

There is growing awareness in the EU of the need for a [common multi-pronged policy response](#) to the **systemic competition** between the EU's market-based and China's state-capitalist economic models. The latter pursues industrial policies heavily reliant on state-sponsored national champions that seek to acquire global leadership in advanced technologies, while being shielded from foreign competition at home. Huawei has benefited from open overseas markets to [expand](#) its [global footprint](#), but China has the [most restrictive environment](#) for digital trade. As a [review](#) of current EU instruments is set to identify new policy responses to the distortive effects of state-subsidised foreign companies operating in the internal market, [business](#) has, inter alia, proposed a new instrument to address state-subsidised takeovers of EU companies by foreign investors as a policy option. A French-German initiative to [create](#) European champions as part of [proposals](#) for a new EU industrial policy has suffered a setback, after the proposed merger between the rail divisions of Siemens and Alstom was [blocked](#) at EU level, drawing [criticism](#) and fuelling a [debate](#) on **EU industrial policy**. [Unblocking](#) the revised proposal for an [international procurement instrument](#), gridlocked in the Council, is a policy option to open third countries' **public procurement** markets, including the [Chinese one](#).

In its [resolution](#) on the state of EU-China relations, the EP called for enhanced EU engagement with China on global challenges and in support of multilateralism, building on successful [cooperation](#) on [peacekeeping](#) and [anti-piracy](#). It stresses that China-led initiatives require a unified EU response and that the imbalance in EU-China economic ties needs to be tackled. It comments critically on the deteriorating human rights [situation](#) in China, notably in the autonomous provinces of [Tibet](#) and [Xinjiang](#); on [political](#) and [legal](#) issues in mainland China and [Hong Kong](#); on [difficult cross-strait relations](#); and on China's [foreign influence operations](#).

