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.

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