DIRECTORATE-GENERAL FOR EXTERNAL POLICIES

POLICY DEPARTMENT

POLICY BRIEFING

Trade and economic relations with China 2013

Abstract

China was able to resist to the global economic downturn in 2012, continuing its unprecedented growth at a pace only slightly lower than that registered in before the crisis.

China adopted stimulus measures to sustain its economy during the recession, but these also faced some setbacks. While Inflation has been kept at bay, the risk of a real estate bubble and of a general overheating of the economy remains a matter of concern for the new government, in place only since March 2013. Despite some liberalisations, Beijing's command of many sectors of the economy remains strong, and access to its domestic markets not always easy for foreign operators.

The EU's trade and economic relations with China are generally good, and the number of disputes remains within reasonable ceilings. However, the EU is dissatisfied with China's reluctance to fully implement its WTO commitments and, more generally, with protectionist measures that affect EU interests. For its part, Beijing is still dissatisfied with the EU's refusal to grant the country 'market economy' status and has criticised the opening of a major anti-dumping and countervailing duty case on solar panels.

Negotiations for an EU-China partnership and cooperation agreement, initiated in 2007, have still not been concluded. In September 2012, China and the EU agreed to open negotiations for a bilateral investment agreement; these should begin in the coming months.

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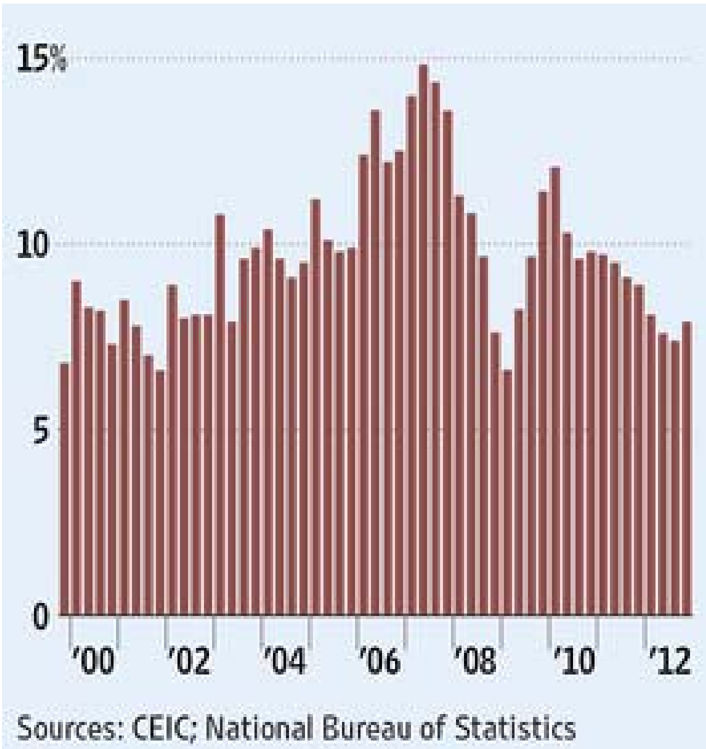
1. Short economic overview

Due to the global economic slowdown, China's growth is lower than in past years.

China is currently facing a plethora of challenges on numerous fronts. The country's leaders cannot ignore them without threatening the country's future economic growth and its much-desired transition from a middle-income to a high-income country.

China's economy grew by 7.8 % in 2012, making the year's growth the slowest since 1999 (when growth was 7.6 %). As Figure 1 suggests, the economy reached its peak growth of 8.1 % in Q1 2012 before slowing down to 7.4 % in Q3 2012. This was the first time that the official growth target was missed, as well as the slowest quarterly pace of growth since Q1 2009 (when growth was 6.5 %). China's GDP growth accelerated to 7.9 % in Q4 2012, when the economy exceeded the official growth target, which had been lowered in 2012 from 8.0 % to 7.5 %. This was also the first time in eight years that the Chinese government decided to cut its growth target, in what Premier Wen Jiabao called a bid for 'higher-level, higher-quality development over a longer period of time'[1]. The pace of China's GDP growth is projected to reach to 8.0 % in 2013 according to the IMF, and 8.3 % according to the World Bank[2]. The official growth target for 2013 has been set at 7.5 %[3].

Figure 1:
Quarterly GDP growth (2000-2012)[4]

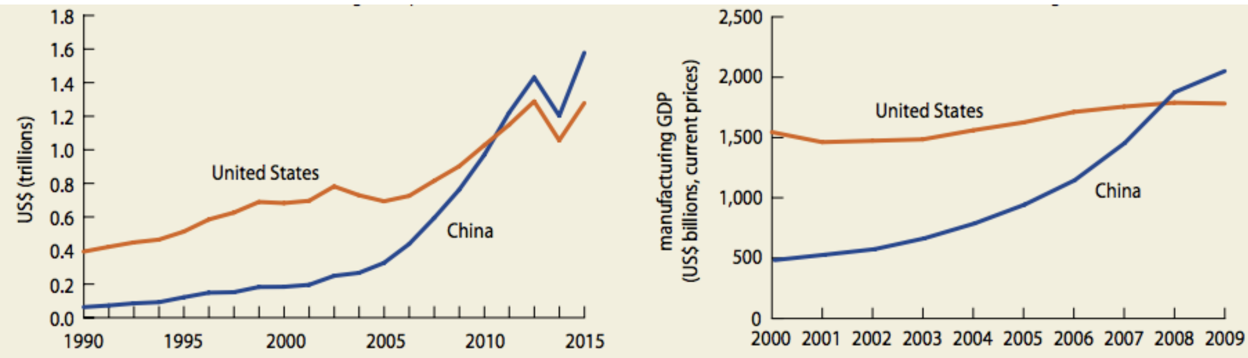


[1] Xinhua, China cuts 2012 GDP growth to 7.5% for quality development (05 March 2012)
[2] China's Q1 2013 GDP growth of 7.7% was lower than expected, prompting the IMF to cut its original estimate for 2013 by 0.2%; The World Bank lowered its forecast by 0.1%; The Wall Street Journal, IMF's Asia Chief China Slowdown Fears Overblown (19 April 2013)
[3] Xinhua, China keeps 2013 GDP growth target unchanged at 7.5% (05 March 2013)
[4] The Wall Street Journal, Charting China's Economy: The Fourth Quarter (18 January 2013)

Traditionally an export-oriented economy, China has had to readjust to the crisis and support domestic demand.

Throughout 2012, Chinese officials attempted to rebalance the Chinese economy by steering away from its export- and investment-driven model, and towards one based on local consumption. As Figure 2 illustrates, China has already surpassed the US as the world's largest exporter and manufacturer. China has also outpaced the US as the world's top global trader: in 2006, the US was the largest trading partner for 127 countries, while China for only 70; by 2011, China increased the number to 124 countries, and the US's dropped to 76[5]. Yet China's exposure to the global economy has made it particularly vulnerable to the global downturn. The ongoing economic difficulties of the European Union, China's former top export destination, figure among the most significant contributing factors to this development. The EU drop in demand was confirmed by the Chinese Commerce Ministry, which announced that the US had overtaken the EU as China's biggest export destination in the first ten months of 2012[6].

Figure 2: China and US exports (1990-2015 est.) and manufacturing GDP (2000-2009)[7]



The Chinese currency has partly re-appreciated over the last two years.

Another contributing factor to the fall of Chinese exports has been the appreciation of its currency, the renminbi (also referred to as RMB, CNY and yuan). Prior to July 2012, the IMF had described the Chinese exchange rate as 'substantially undervalued', sparking conflicts with its major trading partners (most notably the US). The IMF's description has since been changed to 'moderately undervalued' following the currency's gradual appreciation[8].

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[5] AP/The Guardian, AP IMPACT: China surpasses US as top global trader (03 December 2012)
[6] The South China Morning Post, US overtakes EU as China's top export market (20 November 2012)
[7] The World Bank, China: The Case for Change On the Road to 2030 (27 February 2012)
[8] The Financial Times, IMF says renminbi 'moderately undervalued' (25 July 2012)

Figure 3:
USD per 1CNY exchange rate (July 2009 - April 2013)

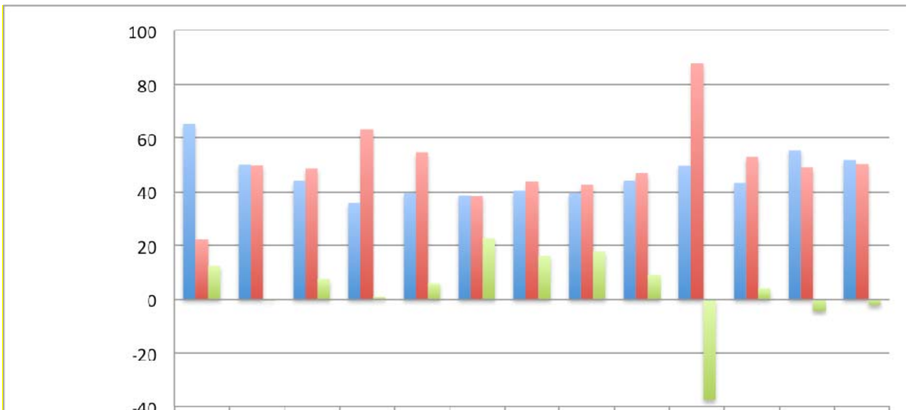
Source: *xe.com*

Beijing pumped liquidity in the economic system to offset declining external demand.

China reacted to the fall in foreign demand by introducing an RMB 4 trillion (USD 570 billion) stimulus package — equivalent to 16 % of China's GDP — at the onset of the financial crisis in late 2008. The plan targeted ten major areas, including transport infrastructure, with the result that China's 2009 and 2010 GDP growth was mostly driven by investment[9].

Another stimulus package, worth over RMB 1 trillion (EUR 125 billion), was announced by the National Development and Reform Commission in September 2012, suggesting that Beijing remains attached to such large-scale investments to drive GDP. A number of economists have suggested that local consumption may be the economic engine of China's future, but the transition to such a model will only be adopted very slowly and with great caution[10].

Figure 4:
Contribution of the three components of GDP to GDP growth, 2000-2012 (%)[11]



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Consumption	65.1	50.2	43.9	35.8	39.5	38.7	40.4	39.6	44.1	49.8	43.1	55.5	51.8
Investment	22.4	49.9	48.5	63.2	54.5	38.5	43.6	42.5	46.9	87.6	52.9	48.9	50.4
Net exports	12.5	-0.1	7.6	1.0	6.0	22.8	16.0	17.9	9.0	-37.4	4.0	-4.3	-2.2

[9] Xinhua, China's 4 trillion yuan stimulus to boost economy, domestic demand (09 November 2011)
[10] South China Morning Post, Experts warn on latest China stimulus package (18 October 2012)
[11] National Bureau of Statistics of China, 2-20 Contribution Share and Contribution of the Three Components of GDP to the Growth of GDP for 2000-2011 data; Reuters, China's economy post slowest growth since 1999 (18 January 2013) for 2012 data

Increasing domestic demand and creating a welfare state are among the priorities of the new Chinese government.

As the figure above demonstrates, investment and consumption have fuelled China's GDP growth for most years since 2000. Those economists who consider that domestic consumption signals a structural transformation of China's economy see the country moving away from its earlier reliance on exports (and later government investment) to a higher dependence on domestic expenditure, which has been promoted by Beijing in a bid to sustain growth[12]. The outlook for 2013 in this regard remains rather positive. Although wage growth slowed from its peak of 15.8 % in the second half of 2012, most recent data suggest that urban disposable income[13] rose by an average 12.6 % in 2012, outpacing nominal GDP growth[14]. Some have also speculated that China's changing demographic outlook — in particular its increasingly old population — might lead to lower savings and higher consumption rates, but this is unlikely to happen quickly[15].

Domestic consumption has also been stimulated by other, slightly less direct means and in particular by Beijing's effort to gradually build up a welfare state. For example, China's rural health-insurance scheme, which covered only 3 % of the eligible population in 2003, now covers 97.5 %; this plan has increased participants' disposable income[16]. Pension coverage has also significantly increased, from 147 million urban employees and 55 million rural residents a decade ago to 229 million urban employees and 449 rural residents[17].

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[12] See, for example, the *Financial Times*, China unlocks right kind of growth (18 October 2012) and *The Economist*, Rebalancing China: China's consumer-led growth (20 October 2012)

[13] The amount of money that households have available for spending and saving after income taxes have been accounted for.

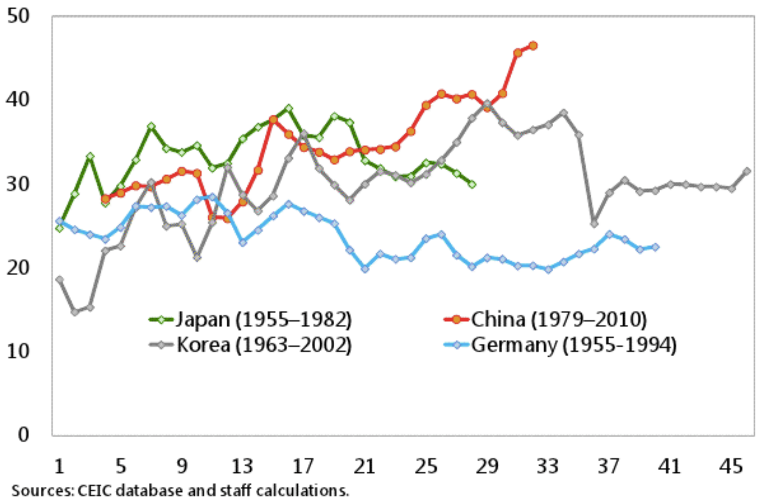
[14] The *Wall Street Journal*, A Reality Check Needed for China? (31 December 2012); The Wall Street Journal, China's Outlook Brightens (18 January 2013)

[15] The *Financial Times*, Will China's demographic shift force a fall in investment share? (06 February 2013)

[16] Around one half of China's population lives in the countryside, although approx. 260 million are estimated to live away from the address of their household registration (mainly migrant workers from rural areas), see China Daily, Census: Population hits 1.37b (29 April 2011); The *Economist*, Asian welfare states: New cradles to graves (08 September 2012)

[17] The *Guardian*, China's 'golden decade' brings some relief to rural poor (05 November 2012)

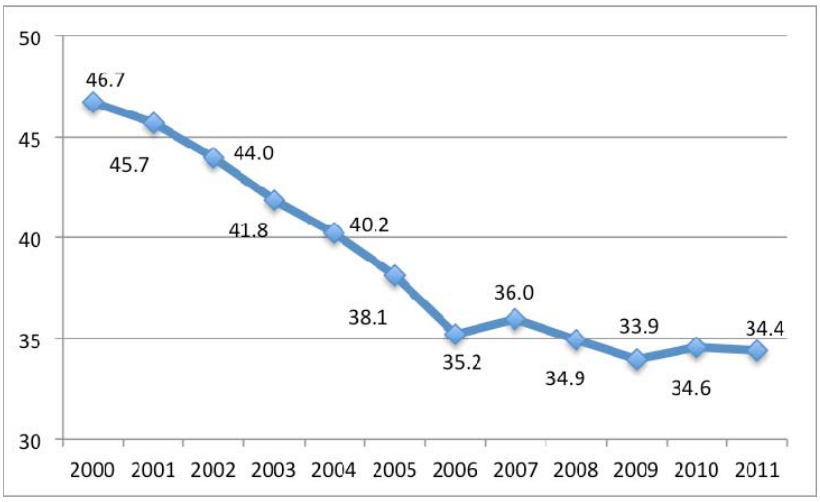
Figure 5:
Share of investment in GDP in a comparative perspective (%)[18]



Inflation was kept at bay by the Chinese government in 2012.

Inflation (the consumer price index) remained low in China in 2012, reaching its peak of 3.6 % in March, before falling to 1.8 % in August and rebounding to 2.5 % in December[19]. Economists expect it to rise throughout 2013, while remaining below the government's inflation target of 3.5 %[20]. Inflationary control is seen as an important goal as the Chinese economy enters a new phase of growth.

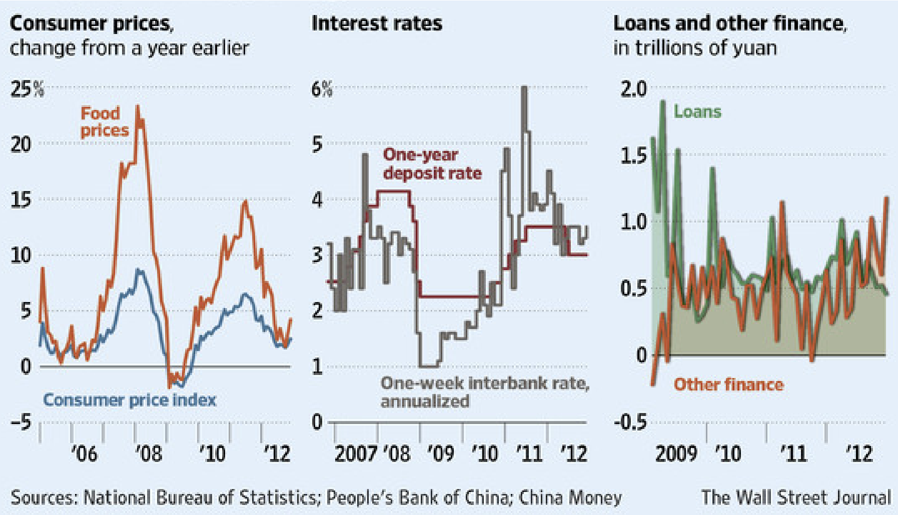
Figure 6:
Household final consumption expenditure, 2000-2011 (% of GDP)[21]



In June 2012, the People's Bank of China cut the one-year lending rate for the first time since 2008, from 6.56 % to 6.31 %. One month later, the Bank again cut the rate, to 6.0 %[22]. The one-year deposit rate was lowered from 3.5 % to 3.25 %, and then to 3.0 %, in the same period[23]. These unprecedented interest rate cuts were widely seen as bids to reverse falling GDP by boosting domestic demand.

[18] Nan Geng and Papa N'Diaye, Determinants of Corporate Investment in China: Evidence from Cross-Country Firm Level Data, IMF Working Paper (March 2012)
[19] Reuters, China inflation data keeps policy bias on growth (09 April 2012); Reuters, China trade, loan surge boosts economy, inflation lurks (08 February 2013)
[20] Xinhua, China keeps 2013 GDP growth target unchanged at 7.5% (05 March 2013)
[21] The World Bank, World Bank Development Indicators (January 2013)
[22] Bloomberg, China Reduces Interest Rates for First Time Since 2008 (08 June 2012); BBC News, China's central bank cuts interest rates in growth move (05 July 2012)
[23] Ibid.

Figure 7:
Inflation (2004-2012), interest rates (2007-2012) and loans (2009-2012)[24]



Credit growth in China remained strong in 2012, defying the central government's cap on bank lending. The total credit to GDP ratio grew to over 190 % from roughly 175 % between 2010 and 2011[25]. In 2002, the proportion of conventional bank loans stood at 95 % in 2002, while in July 2012, for the first time ever, non-bank institutions (also referred to as the 'alternative finance sector' or 'shadow banking') equalled banks in the volume of their financing[26]. Total financing grew eightfold within the same period.

Local government debt is a source of growing concern for Beijing.

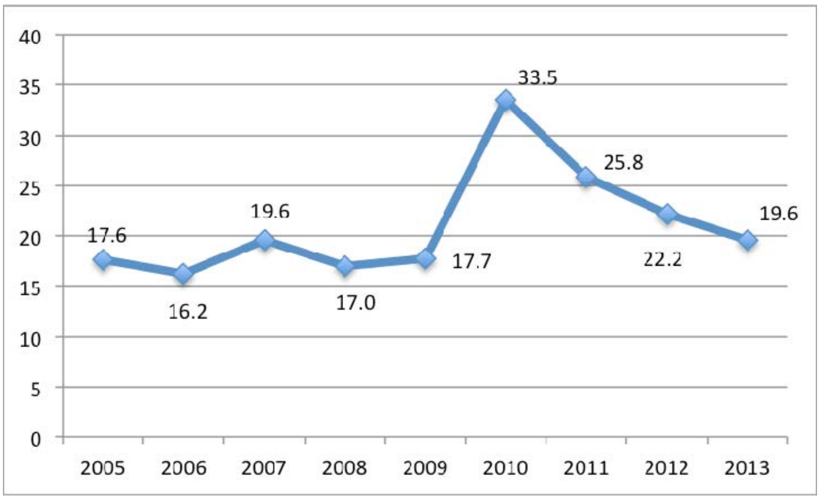
Local government debt remains another problem, especially since Chinese banks reportedly extended at least RMB 3 trillion (USD 482 billion) of the roughly RMB 4 trillion in loans and interest that local governments were slated to pay by the end of 2012[27]. Estimates of the total local government debt vary from 20 % to 40% of China's GDP[28]. Since local governments have extremely limited tax-raising powers and are not allowed to issue bonds, they rely on selling and leasing state assets, such as land, buildings and access rights, to obtain financing and serve as collateral for loans[29].

China's recent stimulus package has been accompanied by substantial local investment projects. To finance these projects, local governments have raised funds from commercial banks and bond investors via various local government financing vehicles (LGFVs). Some experts suggest that local governments have actually raised RMB 12 trillion instead of the

[24] The Wall Street Journal, Charting China's Economy: The Fourth Quarter (18 January 2013)
[25] The Financial Times, Loan financing: Risk increases in alternative finance sector (11 December 2012)
[26] Ibid.; The Financial Times, China's brokerages turn shadow banks (27 January 2013)
[27] The Financial Times, China averts local government defaults (29 January 2013)
[28] The Financial Times, China local authority debt 'out of control' (16 April 2013)
[29] This is usually done by transferring these assets to semi-commercial "local government financing vehicles" (LGFVs), which use them as collateral for loans and increase land prices by pursuing development projects, such as highways and stadiums, which raise land value, enabling them to lease this land out at an increased rate and use the difference to repay the original loan and/or interest rates. These new assets are then transferred to LGFVs in order to be used as collateral for new loans. This system is entirely dependent on rising land values and uninterrupted revenue from land sales (Ibid.)

officially advertised RMB 4 trillion, with the difference stemming from local governments' contributions[30]. The central government is acutely aware of the local government debt issue and has tried to curb borrowing by regulating local government financing vehicles (LGFVs) and banning certain fund-raising activities[31].

Figure 8:
General government gross debt, 2000-2013 (% of GDP, est.)[32]



China's banks also remain highly liquid, with deposits exceeding loans. In addition, one fifth of deposits are held in reserve at People's Bank of China, giving the banks sufficient capital to extend or even write-off toxic loans for the time being[33].

Real estate is still a pillar of Chinese economy but excessive prices and speculation may lead to a bubble and risk market collapse.

Real estate continues to account for a sizeable portion of China's GDP; its direct contribution is estimated at 12-13 % and its indirect contribution (when combined with associated industries, including steel, cement and household appliances) at as much as 30 %, making it one of the principal drivers of the Chinese economy[34]. Investment in real estate increased by 16.7 % on a year-on-year basis in the first eleven months of 2012. A Chinese government think-tank warned that 2013 may see continued rises in real estate prices, thereby further inflating China's real estate bubble, and running the risk of a market collapse in some cities[35]. Beijing has been adamant about curbing rises in property prices in order to achieve more sustainable growth[36]. This effort will not be without costs, since a 1 % decline in China's real estate investment has been estimated to lead to a 0.1 % decline in the country's real GDP within the first year[37].

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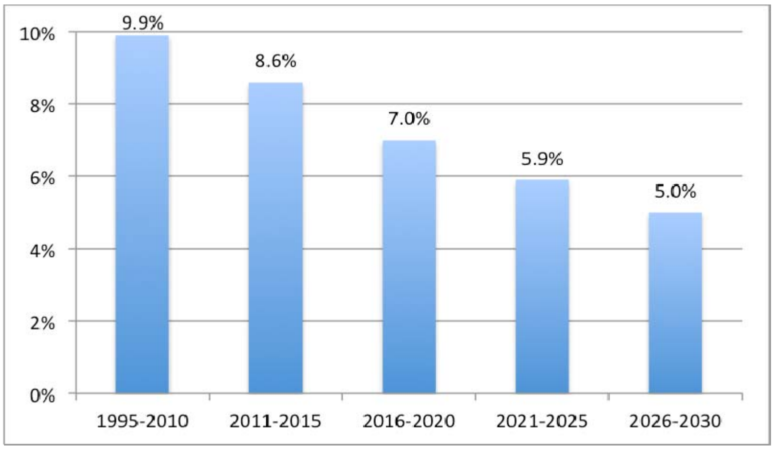
[30] South China Morning Post, Experts warn on latest China stimulus package (18 October 2012)
[31] Reuters, China bans some local government fund-raising activities (31 December 2012)
[32] International Monetary Fund, World Economic Outlook database (October 2012)
[33] The Economist, Resilient China: How strong is China's economy? (26 May 2012)
[34] The Wall Street Journal, China's Economic Growth Slows Down Amid Global Turmoil (13 July 2012); The Financial Times, Is Chinese real estate nearing a tipping point? (28 May 2012); Bloomberg Businessweek, China May Be Ready to Embrace Its Real Estate Boom (19 July 2012)
[35] China Daily, Report warns on China's real estate rebound (14 December 2012)
[36] Bloomberg Businessweek, China May Be Ready to Embrace Its Real Estate Boom (19 July 2012)
[37] Ashvin Ahuja and Alla Myrvoda, The Spillover Effects of a Downturn in China's Real Estate Investment, IMF Working Paper (November 2012)

Figure 9:
Projection of China's future GDP growth (assuming steady reforms and no major shock), 2010-2030[38]



Economic and political reforms are needed in China.

China's comparative advantage in labour-intensive manufacturing is being slowly eroded, as labour costs continue to rise by approximately 20 % per year and as the pool of skilled workers shrinks. The core of China's working age population (aged 20-39) has already begun to decrease. Barring an internal market or policy response, the country's excess supply of labour will, according to estimates, fall from the current 150 million to about 30 million by 2020, crossing the Lewis Turning Point (LTP) — the point at which a labour shortage occurs — between 2020 and 2025[39]. Rising costs have prompted some companies (especially in the shoe-making and textile industry) to move production to Bangladesh, Cambodia, Indonesia and Vietnam. The additional problems of intellectual property rights enforcement and the rule of law, coupled with the rise of additive, top-end manufacturing, have led some analysts to speculate that some production might return to advanced economies[40]. What is more, the entrenched position of state-owned enterprises — which enjoy preferential access to finance and a monopoly in a number of key sectors of the Chinese economy — will need to be addressed in order to accelerate China's transition to a market economy. Open innovation and 'going green' are also oft-repeated recommendations[41].

The Chinese leadership is well aware of these challenges. The country's new Premier Li Keqiang has said that reforms 'cannot be delayed' and must target a broad range of areas in a more targeted, flexible and forward-looking manner[42]. However, as Figure 9 suggests, China's future GDP growth is expected to steadily decrease in the future, even if further reforms are introduced.

[38] Based on The World Bank, China: The Case for Change On the Road to 2030 (27 February 2012)
[39] The LTP is reached once surplus labour is exhausted and consequently industrial wages rise at a faster rate and industrial profits and investment fall. Mitali Das and Papa N'Diaye, Chronicle of a Decline Foretold: Has China Reached the Lewis Turning Point?, IMF Working Paper (January 2013)
[40] See, for example, The Economist, Comparative advantage: The Boomerang effect (21 April 2012) and The Financial Times, China is losing its manufacturing lead (13 September 2012)
[41] For a more detailed elaboration on China's reforms see The World Bank, China: The Case for Change On the Road to 2030 (27 February 2012) and Ligang Song, Unfinished reform threatens Chinese growth (27 January 2013)
[42] Reuters, China to reform, grow economy, IMF eyes freer Yuan (18 March 2012).

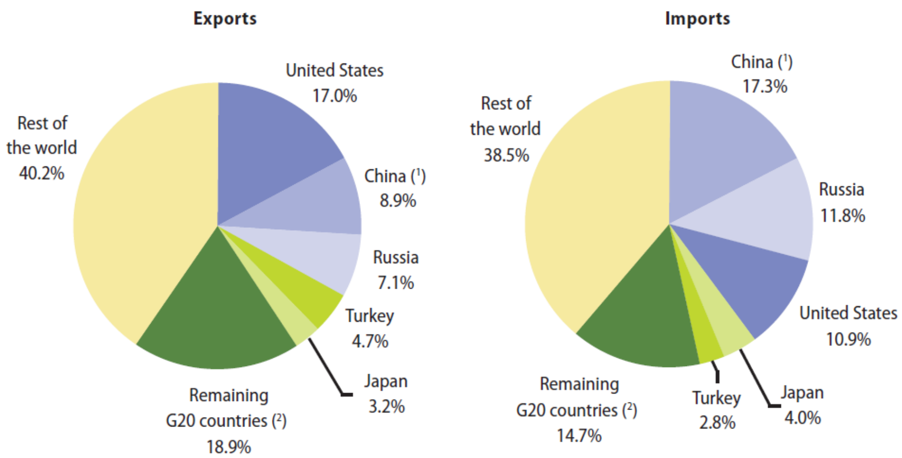
2. Trade Statistics

China is the biggest trading country in the world and the second economy after US.

China accounts for about 12 % of world trade in goods. China became the world second-largest national economy at the beginning of 2011, dethroning Japan, which had kept this position for more than 40 years. In February 2013, it was formally announced that China had overcome US as the world's biggest trading country.[43]

The EU and China are two of the world's largest trading partners and trade between them has boomed in the past two decades, along with foreign direct investment (to, and now increasingly from, China). China represents the EU's second-most important trading partner after the US, absorbing about 8.5 % of EU exports and providing 16 % of its imports.

Figure 10:
The EU's main merchandise trading partners (2011)



(1) Excluding Hong Kong.
(2) Including Hong Kong.

Source: Eurostat

In the decade from 2001 and 2011, EU27 exports of manufactured goods to China rose from EUR 30 billion to EUR 136 billion. The imports increased from EUR 136 billion to EUR 292 billion in 2011. The EU's total imports from China in 2012 amounted to EUR 289 billion, representing a decrease of about 1 %; whereas exports totalled EUR 132.6 billion, an increase of 5 % on the previous year. Due to the persistent economic slowdown in Europe, the trend is likely to continue in the first months of 2013.

China's economy still relies on foreign direct investments.

More than half of China's exports are currently produced by foreign invested enterprises ('processing trade'). Neighbouring Asian companies in Japan, Taiwan, Hong- Kong and South Korea play a major role in this process. The role of European enterprises in Chinese processing trade is limited, despite the fact many Chinese finished consumer goods are exported to the EU.

[43] Bloomberg, China Eclipses U.S. as Biggest Trading Nation (10 February 2013)

2.1. Trade in Goods

The EU trade deficit remains substantial despite importing fewer Chinese goods as the result of depressed European demand.

The value of EU goods exported to China in 2012 amounted to EUR 143.8 billion (+5.5 % on 2011), while EU goods imported from China in 2012 equalled EUR 289.7 billion (-2.4 % on the previous year). This represents a trade deficit of EUR 145.8 billion. As EU demand remains weak due to the economic crisis, the EU's trade deficit with China is expected to further diminish in 2013[44].

Figure 11: EU27 trade in goods with China

	2000	2007	2008	2009	2010	2011	2012
China (€ million)							
EXPORTS	25,863	71,788	78,245	82,312	113,268	136,358	143,871
IMPORTS	74,632	232,628	247,856	214,155	282,523	293,781	289,743
BALANCE	-48,768	-160,840	-169,611	-131,844	-169,256	-157,422	-145,872
Total extra-EU27 (€ million)							
EXPORTS	849,739	1,242,927	1,317,503	1,099,157	1,356,597	1,558,936	1,686,344
IMPORTS	992,698	1,445,032	1,582,927	1,233,075	1,530,530	1,721,711	1,791,437
BALANCE	-142,959	-202,105	-265,424	-133,918	-173,933	-162,776	-105,092
China as share of extra-EU27 trade (%)							
EXPORTS	3.0	5.8	5.9	7.5	8.3	8.7	8.5
IMPORTS	7.5	16.1	15.7	17.4	18.5	17.1	16.2

Source: Eurostat

From the EU, China buys principally machinery and transport equipment for industrial purposes. The country exports industrial products, such as manufactured goods, chemicals, textiles and clothing.

[44] European Parliament Library calculations based on Eurostat data (March 2013)

Figure 12: EU27 trade in goods with China by product group

	Import		Export		Balance	
	2011	2012	2011	2012	2011	2012
€ million						
Manufactured goods	283,333	281,020	119,820	125,836	-163,513	-155,184
Agricultural products	7,713	7,219	13,441	14,365	5,728	7,146
Other products	893	760	1,137	1,135	245	375
Mineral fuels, lubricants and related materials	378	315	1,319	1,917	941	1,601
Total	293,781	289,743	136,358	143,871	-157,422	-145,872
Share of extra-EU27 trade (%)						
Manufactured goods	28.4	28.1	9.5	9.2		
Agricultural products	4.4	4.2	10.0	9.8		
Other products	1.6	1.1	1.8	2.3		
Mineral fuels, lubricants and related materials	0.1	0.1	1.3	1.6		
Total	17.1	16.2	8.7	8.5		

Agricultural products: SITC 0, 1, 2 and 4
Mineral fuels, lubricants and related materials: SITC 3
Manufactured goods: SITC 5, 6, 7 and 8
Other products: SITC 9

source: Eurostat

Germany is by far the EU's largest trade partner with China.

Of the EU27 countries, Germany was the largest exporter to China in 2012: Germany exported EUR 66.5 billion — slightly less than half (46 %) of the EU's exports. France came second, with EUR 15 billion (or 10 %), followed by the United Kingdom (EUR 11.9 billion, or 8 %) and Italy (EUR 9 billion, or about 6 %).

Germany was also the largest importer in 2012, with EUR 61 billion, representing 21 % of the EU's total imports. Germany was followed by the Netherlands (EUR 54 billion), the UK (EUR 41 billion) and Italy (EUR 25 billion).

All EU Member States, except Germany, registered deficits in trade with China in 2012. The largest deficit was recorded by the Netherlands (EUR 46 billion), followed by the UK (EUR 30 billion), Italy (EUR 15 billion) and Spain and France, both with a deficit of about EUR 10 billion.

The large deficit registered by the Netherlands can be explained by the Rotterdam port, which acts as the gateway for sea trade to continental Europe. Some imports to Belgium, Luxembourg, Germany and France enter Europe at Rotterdam, where they are recorded and contribute to the 'inflated' deficit statistics of the country.

Figure 13: EU27 trade in goods with China per member state

	Import		Export		Balance
	€ million	Share of extra-EU27 trade (%)	€ million	Share of extra-EU27 trade (%)	€ million
Germany	61,083	18	66,548	14	5,465
Netherlands	54,887	22	8,055	7	-46,832
United Kingdom	41,862	15	11,981	7	-29,882
France	25,514	15	15,134	8	-10,380
Italy	24,636	14	9,007	5	-15,630
Spain	14,701	12	3,766	5	-10,936
Belgium	13,463	12	7,635	7	-5,827
Poland	7,966	16	1,367	4	-6,599
Czech Republic	6,965	26	1,301	6	-5,664
Sweden	6,266	15	4,333	7	-1,933
Hungary	5,493	25	1,399	7	-4,094
Denmark	4,846	22	2,278	8	-2,568
Austria	4,318	13	2,750	7	-1,568
Finland	2,648	12	2,605	10	-43
Slovakia	2,418	15	1,349	13	-1,070
Greece	2,256	9	370	2	-1,886
Romania	2,086	14	384	3	-1,702
Ireland	1,857	12	1,559	4	-298
Luxembourg	1,535	31	199	6	-1,336
Portugal	1,375	9	779	6	-596
Slovenia	912	11	168	2	-744
Bulgaria	758	7	595	7	-163
Estonia	582	21	101	2	-481
Lithuania	531	5	67	1	-465
Latvia	363	12	50	1	-313
Cyprus	259	15	28	5	-231
Malta	161	13	61	3	-100
EU27	289,743	16	143,871	9	-145,872

source: Eurostat

2.2. Trade in Services

The EU traditionally enjoys a surplus in its trade in services with China.

The exchanges between the EU and China also involve services, one sector in which the EU actually has a trade surplus with China: exports amounted to EUR 26.2 billion in 2011, whereas the EU imported EUR 18.3 billion This created a EUR 8 billion surplus, larger than the 6 billion in 2010 and 5.4 billion in 2009. The 2011 surplus was mainly due to surpluses in 'other business services' (EUR +3.2 billion), royalties and license fees (EUR +2 billion) and computer and information services (EUR +1.2 billion).

Figure 14: EU27 trade in services with China by sector

	Exports				Trade balance	
	2010		2011		2010	2011
	€ million	Share of extra-EU27 trade (%)	€ million	Share of extra-EU27 trade (%)	€ million	€ million
Other business services	7,572	4	8,619	5	2,797	3,270
Transportation	7,997	6	8,136	6	-775	-713
Travel	2,472	3	3,142	4	321	936
Royalties and license fees	1,961	6	2,156	6	1,872	2,077
Computer and information services	1,458	4	1,558	4	1,161	1,223
Construction services	1,187	6	1,163	6	862	713
Communications services	377	2	523	3	144	186
Financial services	368	1	393	1	256	210
Insurance services	252	1	248	1	-81	-108
Government services	148	2	165	2	40	75
Personal, cultural and recreational services	94	2	137	2	48	79
Services not allocated	4	1	3	1	-22	-21
Total services	23,892	4	26,245	4	6,629	7,931

source: Eurostat

The EU surplus is widening despite the fact that this market is still subject to strict public control in China. The potential to expand is thus vast, and the surplus is expected to further widen in the coming years, as Chinese tourism booms (for overseas travel, the principal destinations will be Italy and France) and the demand for foreign professional services steadily increases.

2.3. Investments

European foreign direct investment (FDI flows) in China totaled EUR 17 billion in 2011. Although Chinese FDI flows to the EU is expanding, it only accounted to a mere EUR 2.8 billion in 2011 (equivalent to only 2 % of the US's total FDI flow to the EU).

Figure 15: EU-China FDI (foreign direct investments): Stocks

	2008		2009		2010		2011	
	€ million	Share of extra-EU27 FDI (%)	€ million	Share of extra-EU27 FDI (%)	€ million	Share of extra-EU27 trade (%)	€ million	Share of extra-EU27 FDI (%)
Outward FDI	54,697	2	63,902	2	79,884	2	101,534	2%
Inward FDI	5,590	0	5,884	0	6,386	0	15,029	0%

Figure 16: EU-China FDI (foreign direct investments): Flows

	2008		2009		2010		2011	
	€ million	Share of extra-EU27 FDI (%)	€ million	Share of extra-EU27 FDI (%)	€ million	Share of extra-EU27 FDI (%)	€ million	Share of extra-EU27 FDI (%)
Outward FDI	5,946	2	8,207	2	13,427	4	17,509	5%
Inward FDI	-385	0	62	0	107	0	2,807	1%

Inward FDI (or *FDI in the reporting economy*), namely investment by foreigners in enterprises resident in the reporting economy.

Outward FDI *(or FDI abroad)*, namely investment by resident entities in affiliated enterprises abroad.

source: Eurostat

China is increasingly a destination for EU investments, although it lags far behind other regions of the world, such as the United States and Europe. While Chinese foreign investments in the EU are rather small, there is evidence of increasing interest from Chinese companies in European undertakings. Chinese companies try to gain further market access and acquire state-of-the-art technologies that may be used to improve the quality of their products; this was the case, for example, when the Swedish carmaker Volvo was taken over by the Chinese Geely[45]. The manufacturing activities of Chinese firms in the EU countries are, however, rather limited and attract less than 25 % of Chinese EU FDI flow in 2010. The UK, Sweden, Germany and Luxembourg are among the main destinations of Chinese investments.

While the EU invests heavily in China, Europe is not a privileged destination for Chinese FDI.

As noted by Eurostat, a sizeable portion of bilateral EU-China investments is channelled through Hong Kong. The EU's FDI flow to Hong Kong was valued at to EUR 6.8 billion in 2011, compared with EUR 7.0 billion in 2008, while Hong Kong invested EUR 5.0 billion in the EU in 2011, compared with EUR 3.7 billion in 2008, EUR 1.7 billion in 2009 and a peak of EUR 14.6 billion in 2010[46].

Negotiations for an **EU-China Partnership and Cooperation Agreement** (PCA) were launched in 2007 based on two pillars: political cooperation and trade and investment liberalisation. The PCA is not a free trade agreement, since it does not include tariff reductions for agricultural and industrial products or specific commitments for services. However, it may include provisions that facilitate trade and investment. China has always shown a much lower level of ambition than the EU, and has made it clear that it would prefer an agreement mainly covering broad cooperation and dialogue principles. According to the European

[45] For a more detailed analysis of Chinese investments in the EU, please refer to Euro-China Investment Report 2011-2012. The European landscape of Chinese enterprises: An analysis of corporate and entrepreneurial firms and the role of the ethnic communities (2011).
[46] Eurostat, EU - China Summit. EU27 deficit in trade in goods with China down to 67 bn euro in the first six months of 2012 (18 September 2012)

Commission, some of the 22 chapters on the trade and investment have been finalised, but the conclusion of the deal is far from imminent[47].

At the 15th EU-China summit held on 20 September 2012, China and the EU agreed to launch negotiations on a **bilateral investment agreement. Negotiations** have yet to start.

3. Trade irritants with China

Access to the Chinese market, although improved in recent years, remains difficult. China has only partly implemented its obligations under the WTO Protocol of Accession and has not hesitated to protect its industry and service sectors.

Access to the Chinese service market is difficult for foreign companies.

Certain key sectors, such as banking and telecommunications, remain particularly difficult for foreign companies to access. The Chinese government often applies excessive regulatory requirements that limit foreign investors and service providers. In this respect, and despite steady liberalisation, the Chinese government's control over the domestic economy remains relatively tight. For example, of the 22 000 telecoms licenses granted since 2001, only 23 have gone to foreign companies. Foreign law firms in China are still not allowed to employ Chinese lawyers and their employees are not permitted to participate in bar exams to gain Chinese qualifications[48].

China increasingly applies country-specific standards and other regulatory barriers that impose a heavy burden — both in terms of money and time — on foreign operators. Foreign companies in China often complain about the lack of a level playing field, which means that their competitors benefit from generous subsidies and other financial schemes. These companies report a persistent lack of transparency and predictability in government and rulemaking issues.

The Commission's 2013 report on trade barriers highlighted a few sectors that it considers priorities. Barriers to accessing the information security sector are still cause of concern.

Liberalisation of foreign direct investments is still under way, and the revision of the foreign investment catalogue (end of 2011) was restricted to a limited number of areas. In an attempt to protect its flourishing electric car sector, Beijing severely limited foreign investments in electric vehicles' batteries. In 2011, China adopted new legislation enabling the government to block mergers and acquisitions involving foreign investors if these operations are considered a threat to national security.

Finally, intellectual property rights (IPR) infringement remains a serious problem for the majority of European companies operating in China.

[47] European Commission, Trade relations with China (Memo, 2010).
[48] European Commission, facts and figures on EU-China trade (May 2012).

3.1. Indigenous innovation policy

Indigenous innovation policy measures were partly suspended in 2011, but the problem may resurface.

In 2006, China inaugurated a series of policies aimed at developing its local technological capability. The set of policies was named the 'Indigenous Innovation Policy' and served to link intellectual property with government procurement. The areas targeted for development included clean energy and information technology, with the aim of accelerating China's development of technology and thus improving the competitiveness of Chinese firms in the high-tech sector. The policy required foreign companies to share some of their technologies with local labs, in the hope that local firms would profit from a technology 'spillover'[49].

This policy was perceived to be discriminatory towards foreign companies and came under heavy criticism in 2009, when 30 leading foreign firms publicly condemned the measures[50].

In March 2011, three key measures — including the linking of government procurement with indigenous domestic innovation firms — were suspended. The suspension was probably due to the unprecedented pressure applied on the Chinese government (and may have represented an implicit admission of failure). The EU also played an important role in having these measures revised and/or suspended[51].

In its 2013 'Trade and investment barriers' report, the Commission notes that 'elements of indigenous innovation continue to reappear under one form or another' and concludes that the progress achieved to date remains fragile.[52]

3.2. Intellectual property rights (IPRs)

Despite improvements, China is still the chief violator of European intellectual property rights.

Since its accession to the WTO in 2001, China has made a measurable effort to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement). Beijing introduced a rather complete and modern framework of laws and regulation into its legislative system to protect the intellectual property rights (IPRs) of domestic and foreign right holders.

Despite these efforts to comply with international rules, critical changes to China's legal framework are still needed in a few areas, such as copyright protection on the internet and criminal IPR enforcement.

As acknowledged by the United States Trade Representative (USTR) office

[49] Wall Street Journal, Beijing is stifling Chinese Innovation, (1 September 2011)
[50] Forbes, China Pulls Back Indigenous Innovation Policies, (7 March 2012)
[51] The key pieces of legislation linking indigenous innovation to government procurement suspended by the Chinese Government are as follows:
(a) evaluation measures on indigenous innovation products for government procurement,
(b) administrative measures on budgeting for the procurement of indigenous innovation and (c) products and administrative measures on government procurement contracts for indigenous innovation products.
[52] European Commission, Report from the Commission to the European Council on 'Trade and investment barriers' (2013).

in its annual report to the Congress on China's WTO compliance, 'effective enforcement of China's IPR laws and regulations remains a significant challenge. Despite repeated anti-piracy campaigns in China and an increasing number of civil IPR cases in Chinese courts, counterfeiting and piracy remain at unacceptably high levels and continue to cause serious harm to US businesses across many sectors of the economy'[53]. Similar considerations apply to EU exporters.

The global picture is, however, gradually improving. In fact, in the same report, the USTR acknowledged that Beijing's efforts to develop innovative industries and technologies demonstrate that China 'has an increasing stake in effective IPR enforcement'. That said, 'real progress was made, but much more work remains to be done'.

Despite its notable improvements, China is still the first source of counterfeited products seized by the EU customs authorities at European borders (85 % of the total). Seven out of ten European companies operating in China report serious IPR violations with a strong potential negative impact of up to 20 % of their potential revenues in China[54].

3.3. Public procurement

China is slowly progressing toward full GPA membership, but its procurement market remains substantially closed.

China applied to accede to the WTO Agreement of Government Procurement (GPA) in late 2007. However, its offer was deemed 'very disappointing' for the lack of genuine openness of its markets. Although the Chinese market has vast potential, it also presents sizeable obstacles — again, a lack of transparency and of a clear legal framework. Following negotiations, Beijing has agreed not to require Chinese companies to purchase of Chinese goods, although Chinese companies operating in 'sensitive' sectors continue to receive preferential treatment[55].

The US administration estimated in 2007 that Chinese accession to GPA could open as much as USD 35 billion (EUR 27 billion) of the public procurement market in the People's Republic of China (PRC). The PRC procurement market is currently far from transparent and efficient. The situation is even more opaque when it comes to regional and local public entities.

The Chinese government seems to have been inspired by restrictive US practices rather than EU legislation, which is designed to prevent 'buy national' and other restrictive practices. As stated above, procurement laws passed in China in 2003 do not impose the mandatory purchase of Chinese goods, although they do allow preferential treatment for domestic companies in certain sensitive sectors, such as informatics.

During the period of reference, operators reported an increasing recourse

[53] United States Trade Representative, 2012 USTR Report to Congress on China's WTO Compliance (December 2012).
[54] European Commission, Facts and figured on EU-China trade (May 2012)
[55] For more details on Public procurement in general and with regard to the PRC please refer to the DG EXPO Policy Department briefing note entitled Public Procurement and International Trade, 2012

to local content requirements (especially by provincial and local governments), which, coupled with murky procedures, prevented foreign companies operating in the country from competing on equal footing with Chinese companies in public procurement bids.

In December 2011, China put forward a new offer to the GPA. The EU judged the offer's content a step forward, but the US still considered it insufficient. In particular, the US complained that state-owned enterprises (SOEs) and a number of local entities were not included in the proposal.

The European Commission (EC) recently asked China to table a revised GPA offer by July 2013, along with additional market access commitments on SOEs and local entities (provinces in particular). The EC also asked that some exclusions in China's offer — mainly involving industrial policies — be removed.

The EU has devised a legislative scheme to 'increase our leverage to secure improved symmetry in access to public procurement markets in developed and large emerging economies'[56]. The original proposition for the scheme, which was due to be published in 2011, was postponed due to intense opposition from within and outside the European Commission. The proposal is still pending the European Parliament and Council's approval[57].

4. Trade irritants with the EU

As have other third countries, China has often complained about a European overemphasis on health, safety and other regulatory issues, which Beijing views as excuses to hinder access to European markets.

China is also worried that the EU may raise trade barriers more often as European prospects of growth darken and unemployment surges, in turn impacting the already-declining rate of Chinese manufactured goods shipped to the EU. This evolution, which has taken a toll on Chinese-US trade, may fuel tensions between the EU and China.

Generally displeased with the EU's trade defence measures, China has urged the EU to granted it 'market economy' status.

Anti-dumping (AD) measures applied by the EU on Chinese products have already contributed to a slowdown in the EU's imports of Chinese goods.

Beijing has expressed strong objections to the EU's insistence of defining the Chinese economy as a 'non-market economy' (NME). (*See below for more on this.*)

Finally, the proposed reform of the EU's Generalised System of Preferences (GSP), which is currently pending approval before the

[56] European Commission, Trade, Growth and World Affairs, trade policy as a core component of the EU'S 2020 Strategy.

[57] See Public procurement: access of third-country goods and services to the Union's internal market and procedures supporting negotiations on access of Union goods and services to the markets of third countries (2012/0060/COD). This legislative proposal is pending before the EP's Committee on International Trade and the Council for consideration.

European Parliament and the Council, foresees the *de facto* exclusion of China from the list of GSP beneficiaries[58].

Generally displeased with the EU's trade defence measures, China has urged the EU to grant it 'market economy' status.

4.1. Trade defence instruments

China is by far the principal target of EU trade defence measures.

On 31 January 2013, the EU had 48 definitive anti-dumping and countervailing duty measures against Chinese products (seven fewer than in 2011), affecting less than 1 % of EU trade with China[59]. In 2012, the EU initiated only seven new anti-dumping investigations into Chinese products[60] and four countervailing duty investigation. China has always criticised the imposition of trade defence measures on its products and considers the EU antidumping measures a protectionist tool.

In May 2011, the EU imposed its first-ever anti-subsidy measure against China, on Chinese coated fine paper (used mostly in brochures and magazines)[61].

In 2011, the EU applied its first anti-subsidy measures against China. Four other cases were opened in 2012.

The coated paper case goes well beyond its limited economic impact on China trade. The EU's decision is not an isolated example: the United States had already opened countervailing duty investigations against China. The EU decision marks the end of the Union's practice of avoiding anti-subsidy investigations into non-market economies (NMEs) such as China. As noted by some experts, this decision 'has left many wondering whether its first imposition of such duties on Coated Fine Paper from China was a watershed moment in EU trade defence history or merely an aberration, and if the former, just how profound of an impact these cases might have in the future'[62].

The antidumping and anti-subsidy investigation into Chinese solar panels is by far the largest ever opened by the EU.

A few months after this paper was published, the European Commission provided a partial response to the question posed by the authors. The EU initiated another four countervailing duty cases against the PRC. This may suggest that the coated paper case is not an exception, but marks a remarkable change in a previously well-established policy rule. Anti-subsidy investigations are less frequent than antidumping ones because they are more complex and politically sensitive; they target government financial support rather than unfair corporate practices. The change of attitude of the EC may be explained as an attempt to please some stakeholders and Member States. It might also suggest that EC is preparing to grant China MES status in the near future (*see below*).

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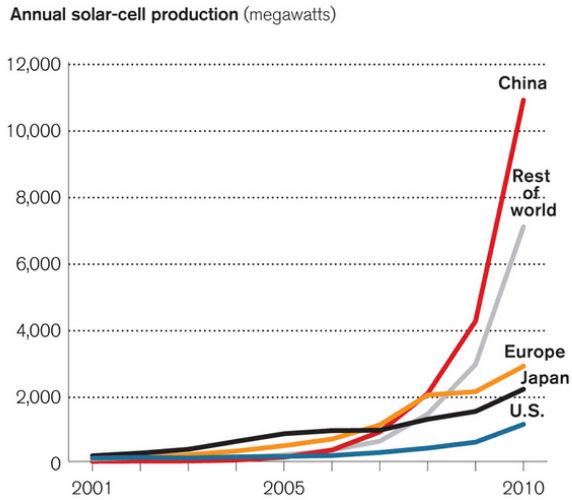
[58] Legislative Observatory, Reform of the EU GSP Schemes (recapitulative table). For more details on the proposed reform please refer to the DG Expo Policy Department briefing entitled The Reform of the EU GSP Scheme: an early impact assessment (August 2011)
[59] European Commission; Anti-dumping, Anti-subsidy, Safeguards, the first month of 2013 (March 2013).
[60] Global Trade Alert. EU-China (29 March 2013)
[61] ICTSD, EU Slaps Anti-Dumping, Countervailing Duties on Chinese Paper (18 May 2011)
[62] Oxford University, World trade Review (authors: E. Vermulst and B. Gatta), Concurrent trade defence investigations in the EU, the EU's new anti-subsidy practice against China, and the future of both (April 2012)

The most notable recent case involves anti-dumping (AD) and countervailing duty (CVD) investigations against Chinese solar panels. Started in September 2012, the investigations are due to last about 15 months. A decision on the imposition of provisional duties is expected by June 2013. This is the biggest single-product investigation ever opened by the EU. In 2011, the value of Chinese solar panels and components exported to the EU totalled EUR 21 billion. The PRC is the largest producer of solar panels (about 65 % of total world's production originates in the country). The solar panel sector — like other industrial sectors that have recently expanded in China — is almost completely driven by exports (about 80 % of the Chinese production is exported). The EC has calculated that 80 % of these exports are shipped to the EU, and 10 % is sold in the US.[63] The chart below clearly illustrates the dramatic rise of the sector.



Source: GTM Research

The decision by the EC to open an investigation against Chinese solar panels does not come as a surprise. European producers (mostly located in Germany) had repeatedly complained about the aggressive commercial practices that allowed Chinese competitors to conquer the EU and US markets in only few years. In November 2012, the US Department of Commerce and International Trade Commission ended a similar investigation by imposing heavy AD and CVD duties on Chinese solar panels exported to the US[64].

4.2. Market economy status (MES)

China's lack of market economy status (MES) is one of the country's principal points of contention with the EU. China's WTO accession protocol allows WTO members to treat China as a 'nonmarket economy' until 2016. This applies only to anti-dumping investigations, and often

[63] European Commission, EU initiates anti-dumping investigation on solar panel imports from China (6 September 2012). (See also factsheet on the parallel CVD investigation).
[64] DG Expo Policy Department, 'Duel in the sun': The US imposes punitive antidumping duties on Chinese solar panels (Policy briefing May 2012).
See also US International Trade Commission, Crystalline Silicon Photovoltaic Cells and Modules from China (November 2012).

makes it easier for the EU to impose duties and apply higher anti-dumping rates.

Despite progress, China is still not ready for market economy status.

A bilateral process was initiated by the EU to examine whether changes in China's economy allow for MES status to be granted before 2016. This process demonstrated that many aspects of the Chinese economy remain under state control and that the country therefore does not qualify for MES status.

To be considered a 'market economy', a country must have a floating exchange rate, a free market, a non-intrusive government, effective business accounting standards and, lastly, a clear definition of property rights and bankruptcy laws.

In a 2011 report, the Commission concluded that China had only fulfilled one of the five criteria required by the EU to gain MES status — the 'absence of barter trade and absence of state-induced distortions in the operations of enterprises linked to privatization'. Since the Commission's report was published two years ago, no appreciable progress appears to have been made by China in the other areas.

Yet China has often criticised the EU's persistent refusal to recognise the country as a full-fledged market economy. Beijing considers this issue a serious obstacle to the development of closer commercial relations with Europe.

5. WTO dispute settlement cases

5.1. Offensive cases

5.1.1. DS 395 – China – Measures related to the exportation of various raw materials (Procedural stage: compliance)

WTO dispute settlement cases with China are rare but often significant.

On 23 June 2009, the EU requested WTO consultations with China regarding various export restrictions on the country's exports of certain raw materials[65]. Beijing then rejected any proposals to amicably settle the dispute.

The export restrictions in question consisted principally of quotas, export duties, and/or a minimum export price system. Additional requirements and procedures were also imposed on companies wishing to export these materials from the PRC.

Consultations did not result in a satisfactory settlement, leading the EU and other WTO Members (the US and Mexico) to file requests for the establishment of a WTO panel.

On 5 July 2011, the panel report was published. The panel found that export quotas imposed by China breached the WTO provisions prohibiting quantitative trade restrictions, and that China had not fulfilled

[65] The materials in question are various forms of bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc.

the obligation it had endorsed when it acceded to the WTO (in 2001).

The decision was appealed by China. The appellate body report, circulated on 30 January 2012, substantially confirmed the main findings of the panel and concluded that China was in breach of WTO rules.

On 23 March 2012, China informed the Dispute Settlement Body (DSB) of its intention to comply with the Appellate Body's recommendations and asked for a 'reasonable period of time' to proceed with the implementation of the WTO ruling.

In December 2012, China issued its 2013 'Tariff Implementation Program' and 2013 'Catalogue of Goods Subject to Export Licensing Administration'. According to the notices, export duties on minerals that were found to be not in line with the WTO rules have been removed. Both notices entered into force on 1 January 2013.

At the DSB meeting of 28 January 2013, China claimed to have fully implemented the DSB recommendations. At the same meeting, however, the Commission expressed concern about an export-licensing requirement that was applied to all products previously subject to the export quota.

5.1.2. DS407 China - Provisional anti-dumping duties on fasteners from the EU (Procedural stage: panel)

On 7 May 2010, the EU requested WTO dispute settlement consultations with China on China's provisional anti-dumping duties on certain iron on steel fasteners from the European Union.

Consultations between the EU and China took place on 4 June 2010 in Geneva. On 28 June 2010, China imposed definitive anti-dumping duties. Since then, these anti-dumping duties — which had applied only to the sole co-operating EU exporter — were substantially lowered. The case has been *de facto* abandoned.

5.1.3. DS 425 China – Definitive anti-dumping duties on x-ray security inspection equipment from the EU (Procedural stage: panel)

On 25 July 2011, the EU requested consultations on China's definitive antidumping duties on x-ray security inspection equipment. The EU argued that these measures did not comply with the WTO Agreement on Anti-Dumping.

Consultations took place on 19 September 2011 in Geneva. On 9 December 2011, the EU requested the establishment of a panel for the case. The panel was established at the 20 January 2012 meeting of the DSB. India, Japan, Norway, Thailand, Chile and the United States reserved their third-party rights.

On 26 February 2013, the WTO Panel found that China's anti-dumping measures were in breach of WTO rules on three grounds: (a) China did not apply a WTO-consistent methodology in analysing the effects of EU exports on prices of X-ray security scanners in China's domestic market; (b) China's assessment of injury caused to its domestic X-ray security scanners producers was flawed; (c) the Chinese investigators failed to respect certain procedural requirements, notably on the transparency and motivation of decisions[66].

China is likely to appeal this decision before the WTO Appellate Body.

5.1.4. DS 432 China – Measures related to the exportation of rare earths, tungsten, and molybdenum (Procedural stage: panel)

On 13 March 2012, the EU, the US and Japan, jointly requested consultations with China on Beijing's export restrictions on various forms of rare earths, as well as tungsten and molybdenum. The restrictions are chiefly export duties, export quotas, a minimum export price system and requirements and procedures linked to quota administration and licensing.

According to the European Commission, Chinese export restrictions on rare earths are in breach of the General Agreement on Tariffs and Trade (GATT) 1947 and the commitments contained in China's Protocol on Accession to the WTO.

Consultations took place in April 2012 in Geneva but did not lead to progress. As a result, on 27 June 2012 the EU, together with the US and Japan, requested the establishment of a WTO Panel. The Panel was established in September 2012.

5.2. Defensive cases

5.2.1. DS 452 – EU Certain measures affecting the renewable energy generation sector (Procedural stage: consultation)

On 5 November 2012, China requested consultations with the EU regarding certain measures, including domestic content restrictions that allegedly affect the Chinese sector of renewable energy generation relating to the feed-in tariff programs of EU Member States, in particular Italy and Greece.

6. China's role in world trade

China is a growing world trading power with a very active FTA agenda.

China is increasingly expanding its trade and economic relations with third countries, implementing FTA agreements with partners far beyond its neighbourhood, such as Costa Rica, Peru and Pakistan.

[66] European Commission, Q&As: China's anti-dumping duties on X-ray security scanners from the EU found illegal by WTO panel (reference memo 13/137 du 26 February 2013)

Figure 17:
China's FTAs

Implemented	Under Negotiation	Under Feasibility Study
ASEAN	Gulf Cooperation Council	India
Pakistan	Iceland	South Korea
Singapore	Norway	Switzerland
Macao	Southern African Customs Union (SACU)	
Costa Rica	Australia	
Peru	Japan / South Korea	
Chile		
New Zealand		
Hong Kong		

Supplementing its already-extensive FTA network, China last year successfully implemented a new FTA agreement with Costa Rica and negotiated with five other potential trading partners[67].

An FTA announced with Japan and South Korea may have major repercussions for the EU.

Despite growing tensions related to maritime disputes between Beijing and Tokyo, China, the Republic of Korea and Japan officially announced the opening of negotiations for a trilateral FTA on 11 November 2012. If concluded, the new treaty could pave the way to the establishment of a northeast Asia FTA that could compete with the EU and NAFTA, the world's largest customs and economic unions. It is still unclear whether the new FTA will be inspired by the EU or the NAFTA model, but it is likely that the process of integration among three leading Asian economies will continue for some time before being completed. The three countries have also announced the conclusion of an investment treaty that should make cross investments in the region easier and safer[68]. The first round of negotiations took place on 29 March 2013 in Seoul.[69]

China is also a strong promoter of the annual BRICS (Brazil, Russia, India, China and South Africa) meeting. China perceives this gathering as an alternative to the G20. In the March 2013 BRICS summit held in Durban, participants announced the creation of a 'Bank of Development' — again, perceived as an alternative to the current dominant institutions, the International Monetary Fund and the World Bank. Significantly, the currency used to finance trade credits would not be the US dollar, but rather a combination of the currencies of Brazil, Russia, India, China and South Africa. China would happily become an influential contributor to this project and considers the forum an effective platform for making the renminbi a world currency[70]

[67] These figures are taken from the China FTA Network internet site
[68] The Wall Street Journal, Asia powers agree on Free-trade negotiations (14 May 2012)
[69] MOFCOM, Ministry of Commerce of China, The First Round of China-Japan-ROK FTA Negotiations Held in ROK (29 March 2013)
[70] Deutsche Welle, BRICS Summit stalls (27 March 2013)