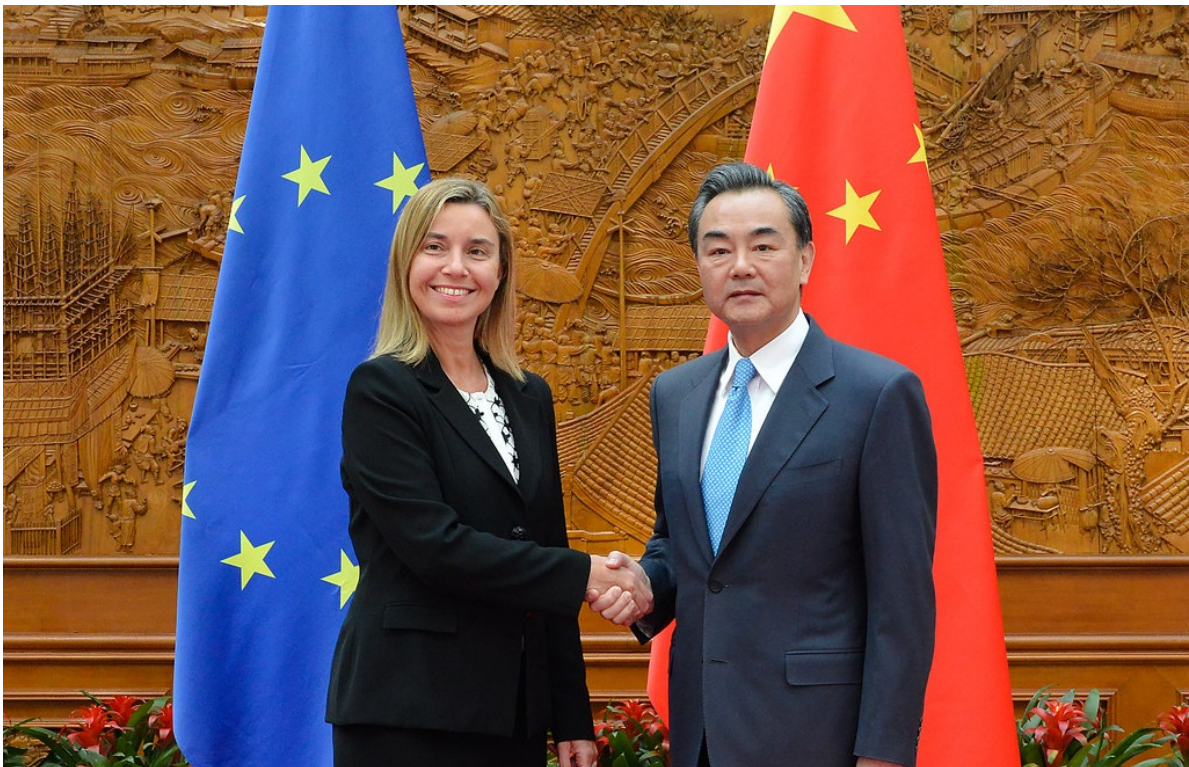


EUROPE IN THE GLOBAL CONTEXT

# China-EU Relations

## The cooperation in an uncertain world

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Federica Mogherini, European Union High Representative for Foreign Affairs and Security Policy, and European Commission Vice-President, left, shakes hands with Wang Yi, Minister of Foreign Affairs, right, at Ministry of Foreign Affairs in Beijing on Wednesday, May 6, 2015.

*'Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security'*

— John Allen Paulos

This is an era like no other. Once we were in a time when cooperation was driven by similarities in values and ideologies, but now, cooperation could be promoted by national interests which were carefully categorized. In the past 40 years, the cooperation between China and the EU experienced the peaks and troughs and either side has ever expected the complexity as it is today. The China-EU relations are at an intersection, facing the choices of cooperation, competition, even confrontation. As President Xi reiterated, the world today

faces profound changes of a kind unseen in a century [1]. In a world with uncertainty as the only thing certain, and tangled national interests, substantial cooperation based on common interests between China and the EU should be the right choice to make, and will be made.

## **An uncertain world**

With a recovered economic growth, the world economy has shaken off the economic crisis' fallout. However, a new round of rapid growth didn't come as hoped. And another wave of challenges—such as populism, protectionism, and restrictions on investment came instead. The coexistence between cooperation and competition started to change with the competition became the dominate tone between major economies.

### ***Sluggish Growth***

It took almost 10 years for the world economy to get over the fallout of the economic crisis. Unfortunately, there is no robust economic growth could be celebrated, but a broad-based slowing down worldwide. In the economic outlook published in April, IMF revised downward its global economic growth forecast to 3.3% on annual basis in 2019, 0.2% lower than the forecast number in January, due to the global trade tensions, tightening financial conditions and the increasing uncertainty in policies. According to the forecast, the world economy would pick up the momentum in the second half of 2019, and the growth would be back on track with a rate of 3.6% in 2020 [2].

Based on the outlook, the growth forecasts in Euro Zone have been revised downward to 1.3% and 1.5% in 2019 and 2020, respectively, which are 0.3% and 0.2% lower than the earlier forecasts. The economy in Eurozone slowed down and fell short of expectations as well in 2018. Beginning with the expectation of continued recovery, European economic growth slowed down all the way due to the deterioration of global trade conditions, geopolitical tensions, rising populism, and uncertainties of Brexit. To the shock of many scholars, there was a remarkable slowdown in major European economies such as Germany, France and Italy, especially the growth rate of Germany economy might only make half of the forecast at the beginning of this year.

### ***Geopolitical Tensions***

In 2018, changes in the geopolitical situation and relevant policies had an increasingly prominent impact on the world economy, which sped up the competition among major countries. The US' withdrawal from the Intermediate-Range Nuclear Forces (INF) treaty further intensified the tensions between the US and Russia, making a new arms race possible in the near future. In the high-tech field, the US exerted great pressure on its allies to block Chinese investment, further escalating the competition in the fields of Artificial Intelligence and 5G among major powers. Violent protests triggered by the Yellow Vests movement lasted for months, reflecting the severe class antagonism and wide income gaps in France. With rising populism, Europe is becoming more polarized missing the opportunity to promote reform during the stable economic recovery. With multiple vetoes

for the only possible deal made between the EU and UK government led by Prime Minister Theresa May, the possibility of a no-deal Brexit is rising. Whether the UK could leave EU in October has become one of the major uncertainties for the world economic growth. All the above geopolitical factors will heavily influence the economic prospect and market confidence in 2019 and 2020.

### ***Trade Frictions***

The world is still facing common challenges and crises: economic growth slowing-down, terrorist activities, climate change, epidemics and wealth gap, to name but a few. But more challenges ahead with a self-isolated United States, departing away from the multilateral arena. Since President Trump took the office, the United States have backed away from multiple fronts regarding global governance, such as the Paris Climate Agreement, the Trans-Pacific Partnership, Intermediate-Range Nuclear Forces (INF) Treaty, UNESCO, etc. To the US, the system of global governance built by the US and EU is in a total disorder, and a fundamental reform should be carried out immediately. In addition, the largest risk is the trade frictions initiated by the US towards major trading partners.

The majority of trade frictions and disputes between major economies were initiated by the US. After President Trump took office, he has constantly complained about the US trade deficits, which is deliberately miscalculated known to anyone who understands trade. To rectify the so-called 'unfair, unbalanced' trade relations, the Trump Administration launched a series of unilateral protectionist actions towards its major trading partners, including China, EU, Japan, etc. Since then, China-US trade tensions became the main battleground. With several rounds of negotiations between the two countries and the tearing up of tentative agreements by the US, the trade tension between China and the US continued to intensify, marking the largest-scale trade friction in history. On December 1st, during the G20 Summit held in Argentina, President Xi and President Trump had a successful meeting, reaching consensus on not imposing new additional tariffs, and agreed to instruct the economic teams of the two sides to step up negotiations toward the removal of all additional tariffs in 90 days, marking the temporary 'truce' for the China-US trade friction.

La majoria de les friccions comercials i les disputes entre les principals economies les van iniciar els EUA. Des que el president Trump va assumir el càrrec, s'ha queixat constantment dels dèficits comercials dels EUA, que s'han calculat malament deliberadament i això ho sap qualsevol persona que entengui de comerç. Per rectificar les anomenades relacions comercials "injustes i desequilibrades", l'Administració Trump va endegar una sèrie d'accions proteccionistes unilaterals envers els seus principals socis comercials, com ara la Xina, la UE, el Japó, etc. Des d'aleshores, les tensions comercials entre la Xina i els EUA han esdevingut el principal camp de batalla. Després de moltes rondes de negociacions entre els dos països i el trencament d'acords provisionals per part dels EUA, la tensió comercial entre la Xina i els EUA es va seguir intensificant, i va assolir la fricció comercial més gran de la història. L'1 de desembre, durant la cimera del G20 que va tenir lloc a l'Argentina, el president Xi i el president Trump van tenir una reunió reeixida, en la qual van arribar a un consens per no imposar nous aranzels addicionals, i

van acordar donar instruccions als equips econòmics de les dues parts perquè intensifiquessin les negociacions cap a l'eliminació de tots els aranzels addicionals en un termini de 90 dies, moment que estableix la "trevva" temporal per a la fricció comercial entre la Xina i els EUA.

Different from the China-US trade friction, the US adopted the approach of initiating trade frictions with a view to promoting negotiations with its major allies, namely the EU and Japan. The US firstly imposed indiscriminate tariffs on steel and aluminum to see the reaction; and then threatened to further impose tariffs on automobiles and auto parts to force the two to negotiate bilateral trade deals with the US and further align with the US to put more pressure on China in multilateral arenas. The economic and trade frictions between major economies already led to the sharp decline in international investment and the slowdown of global trade. Now the tensions have further extended to the WTO, and become entangled with the reform of international trade rules and the international trade system. Therefore, such tensions are expected to be the major factors jeopardizing the world economic growth in the coming year.

As long-term strategic partners, China and the EU need to promote the cooperation level with a world order challenged by protectionism, unilateralism, and populism.

On 9th April, President Trump threatened to impose tariffs on \$11 billion worth of European Union products [3], which marked an escalation over trade disputes on the subsidies provided for the aircraft manufacturers from both sides. And EU might be the next target for Trump's 'Great' trade deal, after China.

## **Uncertainty and certainty in China-EU relations**

Politically, Europe is a collective concept. With the collective and complex nature of 'Europe', we have witnessed the complex development in China-EU relations, which is in a structural asymmetry incorporated with relations in bilateral and multilateral, even regional levels. Instead of the development model China has long been learning from in the past decades, Europe has become a concept with multiple meanings for China, a teacher from one side, a potential partner from the other.

Every year since the 18th National Congress of the CPC, China brought the comprehensive cooperation proposals in a China-EU partnership for peace, growth, reform and civilization for the annual China-EU summit. However, both sides had to face the fact that tough issues on Ukraine, Greek debt, migrant influx, and Brexit out-weighed the topics as new urbanization, jointly tackle climate change, cooperation on technology and innovation, and sustainable development during the summit in a specific year. China has every reason to concern, whether the EU has shifted from the guardian for world order to the problem

solver for EU internal issues? And what is the EU's view of China now?

### ***The perception change towards China***

However, just before President Xi taking his trip to Europe, which was his first state visit in 2019, the European Commission published a joint communication, demonstrating the EU's new perception of China. In the communication, namely the EU-China - A strategic outlook report, European Commission underlined two important points about China, one is that the opportunities and challenges brought by China has shifted, and the other one is China should not be regarded as a developing country with the increasing economic power and leading technology. Based on this latest perception, EU grants China four different roles, including the cooperation partner in realms with closely aligned objectives, a negotiation partner for a balance of interests, an economic competitor for the pursuit of technological leadership, and a systemic rival promoting alternative models of governance [4]. This might be the first time for EU to describe China's position in such details. Albeit Europe Commission outlined 10 actions to take for engaging with China, the only thing touched sensitive nerves of Chinese people was that EU depicted China as a competitor, even a rival. This report has been seen as a turning point for reshaped China-EU relations.

The report reflects two significant changes. The first one, worth celebrating, is the EU will seek to promote cooperation in multilateral fora with China, taking China as an important partner in supporting effective multilaterlism and fighting climate change [5]. Besides climate change, EU also emphasized the importance of upholding the rule-based international order, commitments in global sustainable development and the 2030 agenda. Secondly, the competition between China and the EU will be intensified, and in certain areas, the EU will take a tougher stance, such as investment from China.

### ***The Rising of Economic Nationalism***

The economic nationalism is not new, but re-surfed with the global shift toward protectionism. Since 2017, the EU has tightened the screening for foreign direct investment, the cases regarding 'key technologies' especially the ones involving Chinese enterprises. In December 2018, the German federal government lowered the threshold from 25% to 10% regarding to critical infrastructure investment for screening [6]. Lately, the German government published the National Industrial Strategy 2030, advocating for an aggressive industrial policy [7]. A new Regulation establishing a framework for screening foreign direct investment, which is the first one in EU, has entered into force in April, and will fully apply from November 2020, setting an alert to the member countries that the threats posed by the investment from China in strategic sectors should be dealt with. And the political leaders from Germany and France would join forces on efforts to defend Europe's 'technological sovereignty', making a new European industrial strategy to compete with international rivals, such as the ones from China [8]. The election for the European Parliament was held between 23 and 26 May, and an upheaval of the right-wing political powers was observed. It's not hard to imagine that the Chinese investment will be more and more sensitive.

## ***Strategic partners for substantial cooperation***

In the first four-month in 2019, China's top political leaders paid significant visits to Europe. President Xi visited Italy, Monaco, and France from 21st to 26th March, and Prime Minister Li Keqiang visited Brussels for the 21st China-EU summit and Croatia for the 8th Summit of China and Central and Eastern European Countries (CEEC), which is also the first state visit of Prime Minister Li in 2019. The top two political leaders of China visited Europe within a short period of time, which is not a coincidence, of course, demonstrating the strategic importance of the EU.

Both of the visits sent a clear signal, that no matter how the international conditions change, China regards EU as the important strategic partner, putting China-EU relations on the top of China's foreign policy agenda.

The 21st China-EU Leaders' Meeting was successfully held on 9th April, and China and the EU issued a content-rich joint statement. The joint statement covers a wide range of subjects, including not only the common concern at strategic level as the bilateral relations, global governance, security, but also cooperation in specific fields such as trade, bilateral investment treaty, intellectual property rights protection, reform of WTO, 5G, industrial subsidy, fighting climate change and competition policy, demonstrating China's commitment to deepen comprehensive strategic partnership and cement the foundation for future cooperation. More importantly, the statement, published right after the summit, is the strong response to the skeptics questioning China-EU cooperation, and sort of easing the concern over the bilateral relations might be affected by the obstruction from another side of the Atlantic.

## **Cooperation in need is partnership indeed**

As long-term strategic partners, China and the EU need to promote the cooperation level with a world order challenged by protectionism, unilateralism, and populism. Divergences between China and the EU do exist, but there are more consensus. As Chinese State Councilor and Foreign Minister Wang Yi summarized China and Europe have consensus in 10 aspects, such as supporting the multilateralism, the rule-based multilateral trading system, an open world economy, peaceful settlement of the hotspot issues, implementation of the 2030 agenda for sustainable development, etc.

The bilateral relations have been upgraded all the way from a constructive partnership, comprehensive partnership to the comprehensive strategic partnership now. China and EU share common interests on political and security fields. And a more prosperous, integrated, developed Europe serves China's national interests. Economically, China is the second biggest trading partner of EU, and EU is the biggest trading partner of China. In 2018, China-EU trade volume reached \$682 billion, marking the 15th year that EU being the largest trading partner [9]. The foreign direct investment from Europe to China continues to increase as well. Looking back into the 40 years of Reform and Opening-up, the capital, technology, management knowledge from Europe promoted the modernization of China,

and China provided a large market and opportunities for European enterprises in return. The cooperation under the framework of the Belt and Road Initiative has become the highlight of the bilateral economic relations. For both China and EU, common challenges as protectionism, populism, splittism, and terrorism have threatened the world order built after the World War II. In a world with high uncertainty, neither China nor EU could cope with this situation alone. To this end, there are no better choices as managing the differences, promoting cooperation and shaping the future for both sides.

Both China and the EU reiterated the support for multilateralism. Multilateralism is one of the pillars for EU's foreign policy, and to support the current rule-based international order serves the interests of China as well. The cooperation direction is the same as that of China's further opening-up and reform. China and European economies are highly complementary. The different development experiences, models, cases are valuable for China to learn from, solving the problems like education, health care, accommodation, and elderly care.

In return, China will offer EU the world largest market and development opportunity. During China's leaders' visits in Europe, the connectivity in Eurasia in various fields through Belt and Road Initiative became the highlight point. The initiative has been doubted, questioned, observed, scrutinized, and gradually accepted in the past 6 years. The BRI will be a platform for promoting sustainable development, sharing views, building mutual trust and promoting cooperation. BRI is an economic cooperation initiative in essence, but it sometimes was granted geopolitical consideration and new attempt to rebuild global order by western media. The best way for the EU to put off doubts is to get involved and shape it with the rule of law and standards, instead of turning its back.

## Conclusion

No matter what the result of the European Parliament election is, the comprehensive strategic partnership between China and EU will continue and be enhanced, given the effective cooperation experience on low carbon emission economy and clean energy. With the determination and commitment to cooperate, China and the EU will play a more significant role in the uncertain world.

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