



# EU-China trade & FDI cooperation under stress

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# Structure

- Given China's governance structure and omni-present Party, EU lost hope > China as a **partner, competitor and systemic rival**
- **The Good**: 25+ years of *intense* EU/China cooperation, both multilaterally and bilaterally
- **The Bad**: China's superdistortive 'state capitalism' damaging both bilaterally and multilaterally
- **The Ugly**: EU disillusion about '*security*' and '*values*' of China, but I wonder, should that 'enter' EU trade policy??
- '**systemic**' issues are reasons for lopsided bilateral trade and, more forcefully, artificially low FDI stocks and falling FDI flows
- "**broken summitry**": reason for haphazard & selective cooperation, nowhere near the intensity of before 2020

# The Good: EU/China cooperation

- Too little realised how intense & positive EU/China cooperation was since late 1990s
- Weinian Hu and I published an e-book (2022) on [massive] 'green' and 'social' cooperation, all directly linked to the annual EU-China Summit
- EU/China together on sustainable development
- EU & China had **51 active Dialogues**, in the economic, trade & sustainability areas (2019) !
- Many 100s of projects, shared funding China & EU; various reforms in China; alas, very few 'made-in-China' sectors
- Also sensitive ones, e.g. on drastically reducing no. of deaths in coal-mining via H & S enforcement

# The Good, multilaterally

- It is also little realised that the EU and China cooperated multilaterally in various ways
- Very successfully in MEAs: EU and China ratified the same 12 MEAs (incl. Protocols)
- In ILO as well, but on forced labour only in 2020; no move, no word on collective bargaining and freedom to form labour unions
- In WTO, EU and China occasionally e.g. on trade facilitation, WTO reform (failure, so far), on the Appellate Body or substitute (after Trump) and, at long last, on e.g. fisheries

# The Good: shrunk, weak Summit link, mainly 'green'

- **EU/China summitry suffered** from COVID but more from mistrust, frictions (esp. after the 2019 change in EU strategy), value-issues ;
- And with it, **cooperation suffered enormously** [and the war does not help !]
- cooperation on trade and related issues has become irregular and (too often) ineffective
- The CAI originates from 2011-2013, but was finally accomplished and immediately sacrificed due to frictions over values; why not **lift sanctions together** in a single move ?

# The Bad:

- China's state-capitalism is superdistortive [read April 2024 new massive COM report of 700+ pp., much like the 2017 one]
- Endless list: numerous restrictions, bans, selected preferences, uneven access to land (at what price, if any), major direct subsidies [centrally and locally], select [both direct and indirect] tax benefits for Chinese companies, forced tech transfer via JVs, massive R & D support in 10 sectors (centrally and locally), CCP influence in 200.000+ company Boards, biased public procurement, AML not applied to mergers of large SOEs, etc.
- Plus: many hundreds of '*investment funds*' with highly dominant state influence; tricks with big foreign take-overs (Syngenta); state influence in standardisation; very late and intransparent reporting of subsidies to WTO

# The Bad: no relevant reforms

- The 2001 Protocol for China's WTO accession foresees reforms that never happened (e.g. GPA)
- Neither did China always abide by the spirit of the accession
  
- China did follow WTO rules or rulings (App. Body) where these were *unambiguous*
- EU had championed China's accession – I was even personally involved ! - , but nowadays its mixed conduct has left scars; EU still attempts to win over China to conduct properly, but is there still a point in doing so [ see previous slide]?

# The Bad: EU's new China strategy

- since 2019, EU defines new China strategy :
- Can be **partner**, **competitor** (also in 3rd markets, if distortive) and **systemic rival**
- The distortions should be (i) neutralised, (ii) countered, (iii) legally contested but more frequently and firmly, (iv) compensated by 'interventionist' EU policy [ a striking departure ]



# The Bad: examples of new EU strategy

- i. since a decade, far more ‘countervailing’ duties
- ii. A new ‘foreign subsidies regulation’, in addition to the WTO subsidies approach, here ‘protecting’ business in the EU single market [*is not WTO-dependent but based on EU law*]
- iii. various ‘partnerships’ intended to offset or counter (too) heavy distortions [read: often by China]: digital, green alliances, trade & tech councils, raw materials partnerships, the Raw materials Club, CBAM ‘climate clubs’
- iv. Links with broader EU competitiveness strategies: Chips Act, Critical Raw Materials Act, the broader EU industrial strategy (mainly subsidies for ‘green’), with the MS ; in one special instance, for Due Diligence and supply chains for EU imports, interlinked with a broader view of ‘values’ incl. human rights, based on extremely detailed checks

# The Ugly : on security and values

- In EU, security and ‘values’ were kept out of EU trade policy
- No longer
- EU now has an “economic security” strategy
- Via (a) promoting EU’s economic base [??], (b) protecting against ‘risks’, (c) partnering
- Four types of risk: a. to resilience of supply chains, b. physical + cyber security of infrastructure, c. tech security, d. risks of economic coercion. Hence, “de-risking”, not decoupling !! EU is keen to maintain trade + FDI with China

# The Ugly: linkage of EU trade policy and 'values'

- [EU] 'values' were traditionally supported via EU foreign policy
- 2009 Lisbon EU treaty interpreted as ensuring the linkage between EU trade policy with [its] values
- 2 main 'values': human rights & sustainability [= green & social]
- (severe) violations abroad may get sanctioned by EU trade policy measures
- For China, so far, on human rights: Xinjiang is seen as a major violation [with hard public evidence, alas, often not accessible in China] >> value-chains with inputs or products from Xinjiang will be blocked/sanctioned [ reaction Beijing : CAI is 'frozen']

# The Ugly: implications for EU policy

- New tools : screening of incoming FDI (from loose to ever stricter, for MS) on EU or national ‘security’ ; stricter export controls of ‘dual’ goods [not new, only tighter, in actual practice, on tech goods]; debate on screening outward FDI, a novelty, going against old EU traditions [might be dropped]
- FDI in the EU still very liberally treated, as long as there is no security or ‘risky’ vulnerability
- A new anti-coercion instrument aims at preempting others to weaponise a vulnerability

# Systemic rivalry has high costs

- It undermines the WTO in some respects;
- but even more critically, it saps most energy from attempts to deepen trade & FDI relations and [re-]intensity cooperation with China, due to a loss in credibility; politically, it gets harder all the time
- The distortions are so severe and many that the eternal [and large] EU bilateral trade deficit is beginning to be discredited ever more, and misused
- The profound concerns about technology trade and FDI come on top of all this, with multiple “de-risking”

# FDI failures

- With China's GDP being roughly the same as the EU, and bilateral trade flourishing (be it with an extreme relative EU deficit), a bilateral FDI comparison reveals a stark contrast
- In 2022 the stock of EU FDI in China was € 245 bn; China FDI stock in the EU was € 52 bn; pitifully small
- see reports of the EU Chamber of commerce, due to 'systemic' distortions, restrictive rules, practices
- EU FDI stocks in US (roughly similar GDP) in 2022 was € 2450 bn (10 x as in China) and US FDI stocks in EU was € 2650 bn (50 x EU in China): **sad failure in China**
- True, OECD FDI Reg.y Restrict.s Index for China declined from 0.6 (closed) in '97, via 0.35 in '16 to 0.2 in 2022; had little effect on inward FDI, due to 'systemic issues' hard to catch

# Undo broken China-EU summitry

- Following occasional EU-China summits, summitry ‘governance’ was agreed between China and the EU, starting in 2007
- A huge, swiftly expanding cooperation machinery was set into motion, sustaining trust (up to a point) and helping both bilateral and multilateral trade diplomacy; leaders expected results, this stimulated
- Today’s summitry is ad hoc, severely curtailed, with only some leaders, now and then, without much systematic cooperation and dialogues “under it”
- broken summitry is costly, and pre-empts trust building; addressed should be the CAI [and lift sanctions both ways tomorrow], extensive cooperation and ‘systemic rivalry’

# A few conclusions

- In 5 years, the EU/China trade and ‘economic’ security relationship has transformed at policy level
- Still, EU-China trade (goods, services) is thriving
- What is not thriving is (two-way) FDI : stocks are unexpectedly low and the trend of flows is down !
- Cooperation is weakened but far from dead
- China and the EU need each other as major economic partners, bilaterally and in WTO
- Both benefit far more if China were interested in (i) genuinely opening up in trade and FDI, (ii) reducing distortions significantly and (iii) partnering in earnest





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**THANK YOU**