

SPRING 2019

CAN COOPERATION TRUMP COMPETITION?

EVENT REPORT



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As the EU and China seek to redefine their relationship, and ahead of a key summit in April, Friends of Europe asks, “Can cooperation trump competition?” The response seems to be: cooperation and competition will co-exist. Europe and China will compete when their interests diverge but also find common ground in areas of shared interest and concern.

At the 20 March EU-China Policy & Practice Roundtable, around 40 senior European and Chinese stakeholders from the EU institutions, governments, civil society and the private sector came together to spar over familiar topics, including: market access, industrial subsidies, the 16+1 initiative’s purpose and impact, the global ambition of China’s Belt and Road Initiative (BRI) and technology transfer. They also had significant exchanges on what US President Donald Trump’s ‘America First’ policy means for global trade and on the reform of the World Trade Organization (WTO).

The briefings from Chinese and European officials were honest, frank and on message, with one senior EU official describing a growing ‘impatience’ in Brussels over talks on an ongoing investment agreement and a ‘stalled’ aviation safety deal. China’s ambassador to the EU, meanwhile, said it would be ‘far-fetched’ to talk about ‘full reciprocity’ of market access, given that China still trails Europe in terms of per capita GDP.

The issues were also covered in the second session during a robust roundtable debate held under the Chatham House rule. While all participants agreed that there is a need to boost transport, investment and infrastructure links, there were also questions about China’s human rights record and the global impact of BRI projects. As one participant said, cooperation is essential, but it is time for the EU and China to learn how to “cooperate on a different basis”.

The Roundtable took place a day ahead of an EU leaders’ summit in Brussels, which featured EU-China relations on the agenda, and two weeks before the 21st official EU-China Summit, the last within the European Commission’s current mandate.

FULL RECIPROCITY

A key issue between the EU and China ahead of the 9 April Summit remains market access. It is a message that was repeated by European Commission President Jean-Claude Juncker, French President Emmanuel Macron and German Chancellor Angela Merkel at a mini-summit with Chinese President Xi Jinping on 26 March.

That mini-summit coincided with major Chinese trade and infrastructure deals with France (to buy Airbus aircraft) and with Italy, which has agreed to take part in the BRI.

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Managing Director for Asia and the Pacific at the European External Action Service (EEAS)

SYSTEMIC RIVALS?

China is the EU's second-biggest export market and largest source of imports, while the EU is China's main trading partner on both counts. While acknowledging their important relationship, the EU has ratcheted up its diplomatic efforts to encourage China to move towards full reciprocity and has labelled China a “systemic rival” in its March 2019 communication, “EU-China – A strategic outlook”.

Zhang Ming, Ambassador of the Mission of the People's Republic of China to the EU, disagreed with this characterisation of China as a “systemic rival”. “Frankly speaking, I don't agree with that. China and the EU do have different political systems, but we do not necessarily become rivals.” He added that it was best to focus on trust and cooperation, rather than differences. “The most important thing is to increase mutual trust, view each other with an open mind, and seek solutions through consultation. It is not helpful to play up differences, point fingers at each other and turn up pressure by issuing ultimatums.”

But the EU feels that economic cooperation is stalling and has appealed to China to pick up the pace, particularly on the long-running comprehensive investment agreement – for which there have been 19 rounds of talks since negotiations began in 2012 – and specific deals on aviation and geographical indications for European products. “We have a clear will to finish negotiations – a clear expectation – if not this year, at the latest next year,” said **Gunnar Wiegand**, Managing Director for Asia and the Pacific at the European External Action Service (EEAS). “We remain fully engaged in our relationship with China but, yes, there is a certain impatience about a lack of reciprocity. Does it have to be now? Yes, it has to be now.”

But Chinese development still lags behind its European counterparts, Zhang said, making it difficult to have full reciprocity right away. “It does not make sense to force blanket reciprocity,” he said. “Absolute reciprocity is still far-fetched between China, whose industrialisation did not start until 40 years ago, and Europe. Generally speaking, China's level of development is still behind that of Europe.”

HUAWEI AND 5G

The new EU approach to relations with China comes as the United States takes a more forceful line, which has escalated into what many see as a trade war. The EU is also under pressure from the US to restrict the use of Chinese equipment in next-generation (5G) mobile networks, with a recent incident concerning Chinese mobile giant Huawei putting a further strain on relations. The EU subsequently introduced a “concerted approach to the security of 5G networks”.

But Zhang said that many of the espionage allegations against Huawei are being “fabricated” and that “some parties, who are fabricating this story, have failed to come up with any solid evidence to support their argument. We believe the EU will not make its decisions based on groundless accusations.”

STRATEGIC PARTNERS

Zhang insisted that “cooperation is the mainstay” of relations between the two sides, and highlighted 10 “major points of consensus” on issues such as multilateralism, anti-protectionism, climate change, counter-terrorism and nuclear non-proliferation. But he acknowledged, “Admittedly, there is competition between us. We won’t shy away from that. Competition is not a bad thing.” He cited the example of competition in the car industry, without which “there would not be sustained innovation”.

The EU wants and needs China as a strategic ally, and continues to underline the two sides’ need to work together on many of the 10 points mentioned by the ambassador - particularly on climate change, WTO reform and security.

But while Chinese investment in Europe has grown rapidly over the last 10 years, with deals between the Chinese and the French and Italian governments signed just ahead of the 9 April Summit, concerns remain over both the BRI and China’s interactions with Central and Eastern European Countries (CEECs).

The 16+1 initiative, which aims to intensify links between China and 16 CEECs (both EU members and otherwise) receives mixed feedback as it is simultaneously accused of aiming to divide Eastern and Western Europe and of not delivering on promises. But Zhang defended the 16+1 format, saying that it “continues to improve” in areas such as the economy, culture and agriculture, and that it can bring benefits to all EU countries.

‘SAVING THE WTO’

The EU also sees China as a central ally when it comes to WTO reform, particularly as the US increases the pressure on China with more tariffs. “We both are key to saving the WTO,” Wiegand said, “but there are others who have to be part of it.”

However EU-Chinese cooperation has somewhat faltered over industrial subsidies and the EU is looking for serious reform from China, particularly on steel. The EU wants to persuade China to

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include industrial subsidies as a crucial element of the ongoing WTO reform, as the US drags its heels and operates a more strong-arm approach to global trade.

The EU has introduced trade defence measures and a new investment screening mechanism to ensure foreign ownership of EU assets is properly examined before major acquisitions are made. Of the 135 trade defence measures in place, two-thirds concern imports from China, the European Commission said in a recent trade report. “We are just equipping ourselves in the same way as other major partners,” Wiegand said of the new tools.

MANAGING DIFFERENCES

Participants dove deeper into these themes during a robust roundtable debate following the first session. The roundtable was held under the Chatham House rule. Below are the key points of contention that emerged:

1. The 2019 EU-China summit should send strong political signals on investment and trade, and not be just a ‘feel-good’ exercise. Ideally, a joint statement between the two should include a deadline to complete the comprehensive investment agreement (by 2020 at the latest), a date for starting wider ranging trade talks, and a commitment to boost energy and transport links – including a potential new railway corridor under the BRI. Cooperation on climate change, security and WTO reform are also essential. “We need joint actions for the upcoming summit,” said one debate participant, while another cautioned that “content is more important than speed” in any future trade talks.

“There is no conflict between cooperation and competition,” said one participant. “They coexist, but are based on certain rules of engagement. We are lacking the basic fundamentals of cooperation and competition because we do not share the same values.”

2. China and the EU should create a “new basis” for relations, and China should “take seriously” the EU’s recent change of diplomatic stance. While one participant called for Europe to be more hard-nosed in its relations with China, particularly on market access and subsidies, another warned Europe not to “attack and marginalise” China, particularly at the WTO.

“Please take what’s happening in the EU seriously,” said a participant. “It is coming from business, from government - it would be a mistake from the Chinese side to dismiss it as the EU following the US. It’s not.”

3. China's status as a 'developing' country is still up for debate.

China's economy is growing fast. In 1990 Chinese GDP made up just 1.7% of global GDP, while in 2018 that figure had risen to 16%. However, several participants warned against calls for China to change its 'developing country' status at the WTO, saying that China is "still learning" from the West and lags way behind Europe in per capita GDP. One participant acknowledged this, saying that "China is a typical developing country, a developing large nation and, as a large nation, [has] responsibilities on a global scale. We need to shoulder more responsibility versus smaller nations."

4. The 16+1 format can be valuable but China should focus its attention on the EU as a whole.

One participant urged China to adopt a "one Europe" policy, criticising the 16+1 format as unfair and divisive. However, another participant pointed out that investment had increased in countries such as Serbia, Croatia and Poland, and said that the format was "very powerful" and "mutually beneficial". Despite differences, all agreed that the upcoming 16+1 Summit in Croatia on 11-13 April should benefit from the political guidance issued during the 9 April EU-China Summit.

5. Connectivity is key, and the EU-China connectivity platform, established in 2015, could provide a model for cooperation in other areas.

The EU and China hope to agree the terms of reference for a joint railway corridor study by the 9 April Summit. But while there are "real opportunities for investment" here, according to one participant who pointed to projects in Croatia and Bulgaria, "we have yet to see this type of reciprocity fully in place when it comes to EU companies bidding for projects in China."

“It’s complicated”

Shada Islam

Director of Europe & Geopolitics
at Friends of Europe

CONCLUSION

While the EU is still hopeful that it can sign bilateral deals on investment, geographical indications and aviation safety by the end of 2019, it is also making clear its priorities. “As much as we very firmly believe in good relations and close partnership, we believe in fair partnership and mutual opening because our internal market is wide open for Chinese operators,” Wiegand explained.

The debate threw up a number of interesting ideas and ways forward, despite the friendly (“systemic”?) rivalry between China and the EU. As Zhang put it, “Despite the rise of protectionism and the inclination of some parties to raise tariffs and tighten investment rules, China stands firmly and clearly for greater openness. Our commitment is here to stay and is backed by rigorous actions. The concerns of European friends will be gradually addressed. We believe the EU side will not close the door while asking China to open up its door.”

As **Shada Islam**, Director of Europe & Geopolitics at Friends of Europe, put it at the end of the debate, “It’s complicated.” But there are some general conclusions that can be drawn and rays of hope for EU-China relations:

3 MESSAGES FOR THE EU-CHINA SUMMIT:

1. 2019 is a decisive year for EU-China relations and the 9 April summit should send a strong political signal on key areas, particularly cooperation on energy markets, between competition authorities and on BRI infrastructure (particularly the feasibility of a new railway corridor).
2. China should take the EU’s new diplomatic stance towards it seriously. Cooperation and competition can safely coexist, but only as long as they are based on similar values.
3. Cooperation and the intensity of EU-China exchanges should continue, particularly on climate change, security and trade. But there needs to be progress, and soon.



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Gunnar Wiegand, Managing Director for Asia and the Pacific at the European External Action Service (EEAS)





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