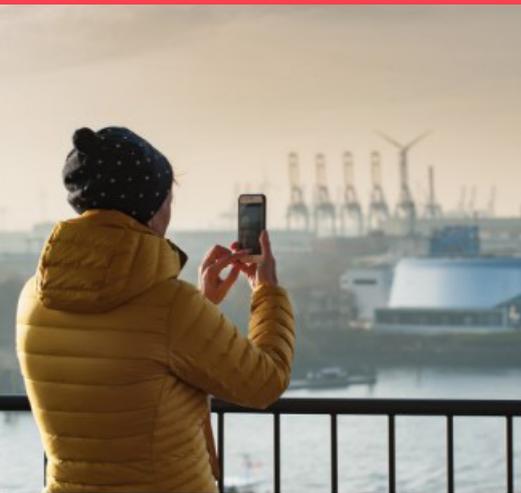


WINTER 2019

Europe-China Convergence, divergence and the vital space between

EVENT REPORT



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Despite disagreements, China and EU must pull together to boost trade, global governance

The European Union and China need to press ahead in areas of mutual benefit, such as connectivity and global governance, despite their bilateral disagreements on trade and amid an increasingly fractured global environment, speakers and participants said during heated discussions at Friends of Europe's ninth Europe-China Forum and Policy & Practice Roundtable on 18-19 November. The Roundtable was held under the Chatham House Rule.

“ In difficult times it is tempting to withdraw and retreat, as some nations are trying to do. But Europe and China have decided that is not the right approach for their citizens or for the common public good

Shada Islam, Director of Europe and Geopolitics at Friends of Europe

Europe and China are already closely linked through trade and politics – and are becoming more so through plans including China's Belt and Road Initiative (BRI) and Europe's own cross-border connectivity plans. But both Brussels and Beijing need to step up their games to reform and re-energise the rules-based multilateral trading system centred on the World Trade Organization (WTO).

The breadth of the relationship and the vast stakes – economic, political and environmental – mean that the relationship is never going to be simple. But signs are that it will remain constructive. “We agree and we disagree,” noted **Shada Islam**, Director of Europe and Geopolitics at Friends of Europe. “In difficult times it is tempting to withdraw and retreat, as some nations are trying to do. But Europe and China have decided that is not the right approach for their citizens or for the common public good.”

“We have indeed a very complex, multifaceted and differentiated relationship,” agreed **Gunnar Wiegand**, Managing Director for Asia-Pacific at the European External Action Service (EEAS). “Yes, we have a number of areas of convergence, but we also have significant areas of divergence.”

“There is good momentum in China-EU relations,” said **Wang Hongjian**, Chargé d’Affaires of the Chinese Mission to the EU. “On issues of global governance, such as regional hot spots, climate change and sustainable development, we remain in close contact working together to lend our voice to the cause of upholding multilateralism and an open world economy.”



1. **Shada Islam**, Director of Europe and Geopolitics at Friends of Europe
2. **Li Yong**, Vice-Chair of the China Association of International Trade Expert Committee
3. **Miao Lu (Mabel)**, Co-Founder and Secretary General of the Center for China & Globalization (CCG)
4. **Gunnar Wiegand**, Managing Director for Asia and Pacific at the European External Action Service (EEAS)
5. **Astrid Skala-Kuhmann**, Special Advisor on the Belt and Road Initiative (BRI)



Moving towards closer trade relations

Though much work remains to be done, China and the EU are taking important steps towards concluding a Comprehensive Agreement on Investment (CAI) by the end of 2020. “We’ve had a very good start with the deal that was struck on geographical indications between China and the EU,” said **Phil Hogan**, European Commissioner for Trade.

The two sides announced the landmark agreement on geographical indications (GI) on 6 November. Expected to enter into force before the end of 2020, the agreement will protect 100 European and 100 Chinese geographical indications, including Cava, Feta and Pixian bean paste. “This is a very modest agreement, but it’s the first agreement on agri-trade – or trade generally – that we’ve done with China,” said Hogan.

But more will be required if the two parties hope to conclude the CAI by the deadline. “We want to do an investment agreement with China in 2020, but it will take very

“ We are certainly open for business in the European Union... But when we open our market, we expect everybody else to do the same

Phil Hogan, European Commissioner for Trade

serious negotiations, hopefully starting with an ambitious market access offer,” he said. “We are certainly open for business in the European Union. We want to do business on the basis of a level playing field. We’re not afraid of competition, we’re open to it. But when we open our market, we expect everybody else to do the same.”

Wiegand noted that further progress would depend on the opening of Chinese markets to European businesses. “This is key to open up new areas in China for European investors. This is difficult but doable. We need to find the right balance of interests.” He pointed out that China had announced an aim to be a world leader in 10 key technologies by 2025. “Thank you for the challenge. We will compete. We are systemic rivals – not systematic or strategic.”

While some caution against detracting attention and effort still needed to conclude talks on the CAI, many in China are already looking towards negotiating a free trade agreement. “We should work together to start negotiations on a free trade agreement, as we talk about an investment agreement,” said Wang. “We hope Europe will maintain a forward-looking and independent policy towards China and respect China’s territoriality and sovereignty.”

Demands for a level playing field

Before looking towards a free trade agreement, however, there are still many questions to answer – including frequent demands by Europeans that further cooperation be premised on the condition that the sides treat each other's businesses in the same way. "To have opportunities, we have to have a level playing field and reciprocity," said **Peter Berz**, Acting Director for Asia and Latin America in the European Commission Directorate-General for Trade. "We don't see that in all areas with China, and we lack reciprocity and a level playing field. We have identified China as a cooperation partner but also as a systemic rival," he said, adding that this was strong language but that it reflects the reality as seen from Europe. Work on an investment protection agreement is being speeded up, he said, because of the ambitious target to conclude the negotiations by 2020.

“ Thank you for the challenge. We will compete. We are systemic rivals – not systematic or strategic

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

This is a clear priority for the EU, one European participant told the roundtable – and timelines are useful because they focus the mind. "But substance comes before timing. With the US Transatlantic Trade and Investment Partnership (TTIP) negotiations (which were launched in 2013 but ended without conclusion at the end of 2016), a series of timelines was missed. The important next step is revised offers to be exchanged by end of the year (2019). We think the EU's is more ambitious, and we hope that China will increase its ambition too."

An important topic for the EU is competition, especially the creation of a level playing field in areas where state-owned enterprises are involved. "We know those are difficult issues and the negotiators will still have to tackle them. Also, in trade or investment agreements, there is typically a chapter on sustainable development, and our parliament is quite strong on the issue."

Another European participant agreed, saying that the European Parliament's insistence on agreements conforming to the United Nations Sustainable Development Goals (SDGs) would present a challenge. "I saw this with the trade agreements with Japan, Singapore and Canada. You have ratified the Paris climate agreement, and that's a good thing. But the 17 UN SDGs – that's a little bit more."



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1. **Piritta Asunmaa**, Director-General of the Department for the Americas and Asia at the Finnish Ministry of Foreign Affairs
2. **Maja Bakran Marcich**, European Commission Deputy Director-General for Mobility and Transport
3. **Phil Hogan**, European Commissioner for Trade
4. **Jo Leinen**, Chair of the European Parliament Delegation for relations with the People's Republic of China (2014-2019)



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Trust and rivalry

Ideally, China and the EU would cooperate based on mutual trust. While this is not always possible, over time the act of cooperation itself can lead to trust. One example is the GI agreement. “This brings a warm wind to China-EU relations,” said **Wu Hailong**, Chairman of the China Public Diplomacy Association and former ambassador of the People’s Republic of China to the EU (2011-2014). “Relations are moving positively. However, Europeans have a nit-picking attitude.”

“ China has zero interest in being a world leader. We are not planning the wholesale overturning of the world system. We continue to make contributions to the world system

Wu Hailong, Chairman of the China Public Diplomacy Association and former ambassador of the People’s Republic of China to the EU (2011-2014)

Some participants said that China had not welcomed the reference to it as a “systemic rival” in the EU’s strategic outlook earlier in 2019. “Some leaders in the EU have expressed concern that China’s rapid development will overturn the world order,” said Wu. “They think this might harm European interests. But these concerns are unfounded. China has zero interest in being a world leader. We are not planning the wholesale overturning of the world system. We continue to make contributions to the world system.”

The EU and China should scope out other areas in which they can cooperate, said **Wu Shicun**, President of the National Institute for South China Sea Studies. “I think maritime cooperation would be a good area for our bilateral relations,” he said. “The potential here is in marine resources and exploration, as well as maritime biodiversity and sustainable development and ocean governance.”

Support for multilateralism

But what should be the framework for cooperation? The EU is strongly in favour of multilateralism, but this approach is being challenged by US President Donald Trump’s administration and growing criticisms of the WTO. “China and the EU are important partners for the international challenges of the times,” said Hogan. “We have benefited enormously from the multilateral trading system, but the WTO is facing an existential crisis. The global economy can only continue if we maintain predictability and stability under a global rules-based system.”

The WTO is essential because it provides a way to solve disputes other than the law of the jungle, Hogan said. “We want to have more effective and efficient decision-making, and we would like to continue the work that is ongoing in e-commerce and fishing. We have made a lot of progress, but there are not many scores on the board at the WTO. We need to bring WTO members together so that they are capable of having a fresh look. The EU cannot do this on its own. We need countries like China to play an active and constructive part.”

Tackling the climate crisis

Multilateral frameworks are particularly important in order to deal with climate change. The battle against global warming – and the EU target of carbon neutrality by 2050 – is a top priority for the Finnish Presidency of the European Union, said **Piritta Asunmaa**, Director-General of the Finnish Ministry for Foreign Affairs' Department for the Americas and Asia.

“ Young people say that the greatest threat to their future is climate change, they are not wrong

Piritta Asunmaa, Director-General of the Finnish Ministry for Foreign Affairs' Department for the Americas and Asia

Finland aims to align its climate policy with a target to limit global warming to 1.5 degrees, by achieving carbon neutrality by 2035 and then progressing to negative emissions. “Young people say that the greatest threat to their future is climate change,” she said. “They are not wrong. Common action can only be effective with multilateral institutions. These have served the world – and countries big and small – extremely well. Asia and China have been among the biggest beneficiaries. We should be open to reforms. But they should be pursued within the existing structure.”

The common aims for China and the EU can be summed up by “GROWTH”, said **Li Yong**, Vice-Chair of the China Association of International Trade Expert Committee, who called for common Goals, Relevance, Opportunities which are mutually beneficial, Will, Trust and Harmony. Through this approach, issues such as climate change and WTO reform should dominate the agenda, and China and the EU should “work to build and develop trust.”

Building new connections

One way to develop that trust is by cooperating on connectivity projects, including China's BRI, an infrastructure development strategy that aims to create a “belt” – overland routes for road and rail transportation between China and Europe – and a “road”, meaning sea routes.

For its part, the EU has always planned to boost the transport connections in Europe, and it now wants to increase the connections between Europe and Asia. “We have trans-European networks enshrined in the founding treaties of our union,” said **Maja Bakran Marcich**, European Commission Deputy Director-General for Mobility and Transport. “Now we are preparing to launch the first joint study on corridors between Europe and China. The scope is between the western borders of China and Europe and its neighbouring countries – not just the EU. There will be solutions for interoperability and measures to improve capacity and efficiency.”

The study will analyse future trade flows and examine sustainability, she said. “We believe we can define how the European transport network system can meet China

on a sustainable basis. These corridors will go through Central Asia, so they will bring key infrastructure there.” Rail will be given an especially important role. “Railways are the most environmentally friendly mode of transport. That is one reason we are supporting railways in particular.”

“ There are a good set of instruments and alliances to set up a better way of aligning BRI projects with the SDGs

Astrid Skala-Kuhmann, Special Advisor on the Belt and Road Initiative (BRI)

China has been criticised in the past over its development projects, for example over making too many loans that created debt traps, over sustainability issues and for claiming that initiatives are global but then implementing them unilaterally. However, China has taken such criticism on board, said **Astrid Skala-Kuhmann**, Special Advisor on the Belt and Road Initiative (BRI). “Now there is a lot of involvement of UN organisations,” she said. “China has joined hands with UNDP to do research and studies to develop guidelines for Chinese enterprises – not only state-owned enterprises but also Chinese private enterprises and their responsible or not-so-responsible conduct. There are now a number of alliances and initiatives between UN organisations and relevant Chinese institutions. There are a good set of instruments and alliances to set up a better way of aligning BRI projects with the SDGs.”

The financing of the BRI, too, has begun to include a number of multilateral development banks in addition to the Beijing-headquartered Asian Infrastructure Investment Bank (AIIB). For example, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have become involved. “Will this add to the bilateral implementation?” asked Skala-Kuhmann. “It remains to be seen.” She said the key signals would be more engagement from European banks – including from the private sector.

However, the BRI needs thought over sustainability and ultimate vision. “The BRI has the benefit that many people are talking about it,” said **Jo Leinen**, Chair of the European Parliament Delegation for relations with the People’s Republic of China (2014-2019). “But it was not a multilateral vision. In the beginning it was a unilateral approach, and we need to see how to improve this. Who benefits from it? The people in countries on the routes, or China? We all signed the SDGs, but are these projects sustainable in the long term? We also need to look at trade patterns. Will trade always be growing in 20 years’ time? Also, we are building infrastructure for goods, but what about services? We have to think before investing billions that someone has to pay.”

One solution, set out by Friends of Europe in a [recent publication](#), may be to multilateralise the BRI and other global connectivity projects. The three recommendations for carrying this out include: create a plurilateral Code of Conduct, laying out the rules for engaging in connectivity projects; reinforce the recently-established Multilateral Cooperation Center for Development Finance (MCDF) by increasing membership to include all infrastructure development actors to create space for dialogue and project alignment; and set up an Asia-Europe Meeting (ASEM) Connectivity Forum to allow for the participation of the private sector and civil society in conversations about connectivity



1. **Amanda Rohde**, Senior Programme Manager at Friends of Europe
2. **Frank Zhao**, Global Business Administration Exchange Student at NEOMA Business School
3. **Wang Yiwei**, Director of the Center for European Studies at Renmin University of China



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A changing global order

Major global changes are putting pressure on both the EU and China. “There is a diffusion of economic power and an intensification of the competition for economic supremacy,” said one participant from China. “We have moved away from an age of ideology last century, to one of classic geopolitical competition. Competition does not need to be negative – it can be benign. But one manifestation is the trade war initiated by the United States. This brings great uncertainty, and nobody is insulated from uncertainty.”

One result has been a hit to global growth, which has made businesses hesitant to invest. “This will have repercussions for years to come,” said the participant. “The bad news is that this economic competition is here to stay for at least two decades and probably longer. US tariffs on China specifically targeted the high-end sector in the first round. In the second round, they are targeting consumer durables. It is trying to contain China and reconfigure global value chains.”

There’s an argument that the friction between China and the United States creates an opportunity for Europe. “The China-US trade dispute started one year ago,” said one Chinese participant. “China was in a difficult period, and we did not expect so much pressure from the US. It has turned into a tech war, especially over 5G and Huawei. For Europe this is a great opportunity, because when the US does not supply high-tech parts, the supply will move to the EU. As a result, the EU and China will be more eager to reach an investment or free-trade agreement.”

But there are also major downsides. “Of course, any breakdown in relations leads to opportunities for others,” countered a European participant. “But, when one country is as big as the US, the repercussions are so big for everyone that this more than cancels out the opportunities for new markets. We should see the US-China trade war as a threat, as the US has become a rogue state in terms of multilateralism.”

“ The EU has great experience in the progressive regulation of this area, and both sides can work together to promote global governance

Miao Lu, Co-Founder and Secretary-General of the Center for China & Globalization (CCG)

The EU as regulatory superpower

One smart reaction from the EU could be simply to do what it does best. That is, use its regulatory influence to drive dialogue in various sectors. That applies particularly in the digital field, where the EU has taken the lead in some areas of regulation. “China and the EU should make joint efforts in the digital economy, in particular e-commerce,” said **Miao Lu**, Co-Founder and Secretary-General of the Center for China & Globalization (CCG). “The EU has great experience in the progressive regulation of this area, and both sides can work together to promote global governance.”

An area in which greater regulation may help is in the debate over whether or not European and Chinese telecom equipment firms have equal access to each other’s markets. “We don’t see the conditions for equal opportunities and we don’t have a level playing field of reciprocity,” said Berz of DG Trade. “Huawei is free to participate in public tenders in the EU, which is not the case for European companies in China.” But Li of the China Association of International Trade Expert Committee, disagreed: “On 5G, European companies like Ericsson are part of the supply scheme, so they will get equal treatment.”

Bringing in the EU’s regulatory strength, one roundtable participant suggested a nuanced solution. 5G has sparked cyber security concerns because it is likely to generate a sudden boom in the amount of data available online, some of which could be sensitive. “Very often from the side of Huawei or China you hear that it should be a technical discussion and that there are ways to make the technology secure,” said the European participant. “But there are no ways to make the 5G infrastructure secure.” 5G is more of a software-based solution, and because the code is constantly updated, security would require constant supervision of this code.

Huawei already provides one third of the 4G infrastructure in Europe. “If Huawei was banned from being part of developing the 5G infrastructure in Europe, it would result in a 40% increase in costs – that’s €55bn – and a two-year delay in implementing 5G in Europe. That means that for two years, European businesses would be lagging behind in developing new business models and capitalising on 5G technology. That would be a big price to pay. Those are very important questions for Europe: how to balance the economic and cybersecurity rationales – in a situation when it’s already too late.”

It would be smart of the EU to avoid binary thinking on Huawei, this participant said. Instead, “The EU has to rely on what has been its biggest strength and weakness at the same time: norms, regulations and certifications. This is the only way to avoid the political choice between the US and China and allow us a more nuanced stance on this issue.”

New approaches to spending

As technology changes, young Chinese consumers are embracing digital technology even faster than their western peers and adopting very different spending habits from their parents. “The millennials grew up with the tech revolution, but generation Z are truly digital,” said **Diego Gilardoni**, author of *Decoding China*. “This change has been more radical in China, and they are now used to a cashless society. In Switzerland, there are still shops where they don’t take credit cards. But the change in China has been radical and transformational.”

“ The American dream that every generation would be better off than the previous one is not true anymore

Diego Gilardoni, author of *Decoding China*

However, young Chinese may not be able to expect the big leap in living standards that their parents enjoyed. “The American dream that every generation would be better off than the previous one is not true anymore,” he said. “For young Chinese students, yes there is optimism – but the cost of living is an issue in major cities. If expectations are not met, young people could become angry and present a problem for China as well.”

For now, however, young Chinese are spending freely, and they don’t even need physical credit cards to do so. Instead, online payment services such as Alipay – set up by the Alibaba Group – are increasingly used, and mobile phones have taken over as a means of payment.

The new ways of spending also raise the question of whether young Chinese can learn to manage money responsibly, even if not as carefully as their parents. “Alipay is very successful, and it stimulates online sales in the Chinese market,” said **Frank Zhao**, Global Business Administration Exchange Student at NEOMA Business School. “It offers low barriers and convenience to the young generation. Taobao, Alibaba’s e-commerce website, asked me if I wanted to pay using its credit service: it was very simple to register and now I get €2,000 of credit. When I was a kid, my parents always said I had to save money. But we are turning into a consumer culture.”

A silver opportunity for the services sector

Both Europe and China are dealing with their own changing demographic profiles. Europe’s population is already declining, while China is set to reach peak population in a decade before its own population begins to shrink. “In both places, we are adapting to the challenges posed by an ageing population while at the same time adjusting to the needs of millennials and generation Z, who have come of age during a time of great technological change and are doing things differently,” said **Amanda Rohde**, Senior Programme Manager at Friends of Europe.

However, while rapid ageing is a big challenge, it is also a potential driver of further economic growth. China has more than 250 million people over 60, about 18% of



1. **Peter Berz**, Acting Director for Asia and Latin America in the European Commission Directorate-General for Trade

2. **Huang Renwei**, Executive Director of the Fudan Institute of Belt and Road & Global Governance

3. **Wang Hongjian**, Chargé d'Affaires of the Chinese Mission to the EU

4. **Diego Gilardoni**, Author of 'Decoding China'



the population, said **Yang Rui**, Vice-President of the China Institute for Reform and Development (CIRD). While that is putting pressure on the pension system, it is also generating demand for products and services for old people. “There is huge latent demand,” she said. “The total demand for these products is ¥8tn, and it is predicted to rise to ¥20tn by 2030. But the current scale of the market is only ¥3.7tn. So, there’s a lot of pent up demand, which is likely to add 1 percentage point to growth every year.”

“ There is enormous potential for cooperation in the silver economy, especially given the advanced trend of ageing in the European Union

Yang Rui, Vice-President of the China Institute for Reform and Development (CIRD)

However, Yang said, China’s development of such “silver economy” products is underdeveloped. Of the 60,000 or so old-age products worldwide, 40,000 are produced in Japan, 20,000 in Germany – but only about 2,000 in China. “The quality and range are very limited by international standards, and we are reliant on imports,” she said. “We have for example only 29.9 beds or places in care institutions for every thousand old people. That’s much lower than the international average of about 50, which is seen as a standard. There is a huge shortage of professional skills relating to services for old people: the current demand is for 10 million of such people, but only 1 million are available. So, there is a 55 to 60% shortfall in old age care at the city and community levels. There is enormous potential for cooperation in the silver economy, especially given the advanced trend of ageing in the European Union.”

Conclusion

2020 will see a ramping up of diplomacy between the EU and China. In addition to the annual EU-China Summit planned between EU and Chinese leaders in April, Germany is planning to hold an additional summit during its European Council presidency in the second half of the year. To be held in Leipzig, this will also include national leaders of EU countries, and signals the importance that Germany ascribes to this relationship.

As European and Chinese leaders prepare for the year ahead, they would do well to keep in mind the following recommendations:

1. Don't put the cart before the horse

Don't divert attention from achieving the Comprehensive Agreement on Investment (CAI) by looking towards a free trade agreement. While the former will be an important step towards the latter, it remains just that – a step. The next exchange of offers will be a good indicator of progress, as the EU has called on China to raise its ambitions. The 2020 summits will be the next two milestones, and outcomes will quickly indicate whether China and the EU can really do business in the long-term.

2. Build mutual trust

The China-US dispute is one manifestation of an economically competitive environment which is likely to last at least two decades. While competition will be the hallmark of the new global order, the challenge will be to ensure that it is cooperative and benign rather than confrontational and destructive. The EU and China could be the standard-bearers of just such an approach.

3. The EU should do what it does best

The EU should exercise its role as a 'regulatory superpower' – through norms, regulations and certifications – to drive sectoral dialogues and mitigate trade frictions for green, blue and tech issues. This will also be the best way to deal with the issue of 5G, where Europe is already losing the race. By implementing a norms-based approach, the EU will be free to pursue dialogue with both American and Chinese partners.

4. It's time to multilateralise connectivity

For long-term success and global acceptance, the BRI must be aligned with Agenda 2030 and the Sustainable Development Goals (SDGs). When the United Kingdom joined the Asian Infrastructure Investment Bank (AIIB), the focus moved to creating a 'lean, clean and green' organisation. As more European countries join forces with the BRI and other connectivity projects, the same should take place through [multilateralisation of connectivity projects](#).

5. Look to the services sector

China has a large market demand for services, yet a very short supply – particularly when it comes to tourism, health and elderly care. China's ageing population in particular will require addressing skills shortages, the growing demand for age-related products and services, and the need to support economic growth while also providing an increasing number of pensions. Europe should seize this opportunity for cooperation.

6. Cooperate to conquer the climate crisis

As the new Commission launches the European Green Deal, green growth and the circular economy will be areas for cooperation with China. Dealing with the fallout of climate change will require common action which can only be achieved by operating within strong multilateral frameworks.



1. **Wu Shicun**, President of the National Institute for South China Sea Studies

2. **Wu Hailong**, Chairman of the China Public Diplomacy Association (CPDA) and former ambassador of the People's Republic of China to the EU (2011-2014)

3. **Yang Rui**, Vice-President of the China Institute for Reform and Development (CIRD)



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