



## China-EU Relations: Post-Summit Perspectives

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*The latest EU-China summit confirmed the increasing discrepancies between the two sides. China, in protecting its own market, treats European investors unevenly. Simultaneously, the PRC is seeking unlimited access to the EU market to export products resulting from its overcapacity. The EU is concerned about subsidised Chinese exports, which may increase unemployment in Europe. There are rifts in the normative domain as well: China has not accepted an arbitration tribunal's decision about the South China Sea. The EU, in supporting peaceful means of resolving international disputes, has acknowledged the ruling. Now more than ever, the member states should take into account the European context of relations with the PRC and coordinate their policies towards China with the EU institutions.*

The latest EU-China summit (12–13 July) was held after the release of a new EU strategy towards China and coincided with an announcement by an arbitration tribunal of its decision about the South China Sea.<sup>1</sup> The new strategy is the EU's response to China's global ambitions and the increasing number of problems in bilateral relations. The noticeable differences in the topics raised by the two sides during the summit vindicates the assumption of deepening discrepancies, including asymmetry in relations at the expense of the EU.

**Differences at the Summit.** Unlike in previous years, a summit joint statement was not adopted and each side had different topics in considered important. For China, the crucial issue was to persuade the EU to grant the PRC market economy status (MES) and to launch negotiations on an EU-China free trade agreement (FTA). For the EU, the main topic was access to the Chinese market and protection from the inflow of excess Chinese production. Neither the EU nor China achieved their goals. The only step forward at the summit was a decision to set up a working group or platform to monitor and verify China's declarations to reduce the production and export of steel. The significance of this was confirmed by the EU Commission chief who stated that MES and the platform are linked. In the long term, the response to economic challenges will be the bilateral investment treaty negotiated since 2014. Only after the adoption of this agreement will the EU consider the possibility to start FTA talks.

While the timing of the summit and the tribunal ruling were a coincidence, China tried to use the presence of the EU leaders in China to create the impression that the EU supports the PRC's stance on the South China Sea disputes. China tried to hold a joint press conference without the possibility for reporters to ask questions at exactly the same time as the tribunal's announcement. Eventually, the press conference was cancelled after the EU demurred. Moreover, China failed to prevent the EU from issuing a joint declaration after the tribunal's ruling, despite initial opposition from Hungary, Croatia and Greece. Eventually, the EU adopted a very general text in which China was not mentioned. However, the Union has acknowledged the ruling and highlighted that the EU does not take a position on the sovereignty of disputed areas.

During the summit's opening remarks, the president of the EU Council mentioned human rights issues and the expected tribunal ruling. He underscored that the rules-based international order is in the common interest and both China and the EU have to protect it.

**China's Goals.** The PRC's policy towards the EU is similar to the traditional Chinese principle of yin and yang, or the balance of two contradictions. On the one hand, for economic and political reasons China needs a strong and united Europe. From the economic perspective, the EU—China's biggest trading partner—is important as a huge single

<sup>1</sup> R. Tarnogórski, "South China Sea Arbitration: Roots and Consequences," *PISM Bulletin*, no. 43 (893), 18 July 2016, [www.pism.pl](http://www.pism.pl).

market, which has been significant during China's change of economic model. The saturation of the domestic market makes China seek possibilities to use its overcapacity and send excess production abroad. This is why the EU has been included in the PRC's "Silk Road" initiative. Moreover, China needs new technologies to take its products and services to a higher level in the global value chain. From the political perspective, the EU is one "pole" in a multipolar world, a view promoted by China. The PRC believes that on particular issues the EU might speak out of sync with the U.S. The best example of this is that 14 EU countries are founding members of the China-led Asian Infrastructure Investment Bank. On the other hand, however, China's interest is in a rather weak EU. Such a European Union is less prone to make unfavourable decisions with regard to China. As a consequence, the "West," perceived as a barrier to raising Chinese influence, would lose significance. A weak EU would make it easier for China to achieve its goals by being able to pay more attention to bilateral cooperation with individual states.

With the multiple crises in the EU, China prefers the second approach. A good depiction of this view is China's assessment of Brexit. On the one hand, Brexit is bad news for China, especially economically. The PRC is concerned about losing market access to the EU via the UK, the biggest recipient of Chinese investments in Europe. There are also worries about the internationalisation of the Chinese currency, the RMB. London is the only place in Europe where offshore transactions in RMB are conducted. What is more, after Brexit, China will lose an important ally in the EU and one that advocates granting MES to China. But on the other hand, Brexit will weaken the EU and may offer a chance for China to enhance its global position. Under those circumstances, it would be easier for China to promote its own newly created rules as an alternative to the norms and institutions shaped by the West. In the Chinese discourse, the opinion prevails that Brexit is a result of the weakness of EU institutions, the idea of European integration and western democracy in general, as well as the increase in populism and separatism.

**EU's Goals.** There are also two noticeably different approaches within the EU. Although the EU is trying to work out a coherent policy towards the PRC, with the new strategy emphasizing the need to speak with one voice and to strengthen cooperation and policy coordination with the United States, the bloc's policy towards China is dominated by the interests of particular countries, which constitute the basis of EU-China relations.

The EU's policy goals towards China can be divided into economic and normative ones. From the economic perspective, China—the EU's second-biggest trading partner after the U.S.—is important as an outlet and investment market. The EU is calling on China to deregulate and liberalise its market to give European companies the same conditions as Chinese entrepreneurs already have in Europe. The PRC still maintains various barriers and does not allow European companies to take part in tenders. China also maintains high entry requirements, e.g., technology transfer or setting up joint-ventures with a Chinese partner. For the EU, those barriers are particularly acute due to the high trade deficit, which was €180 billion in 2015. This is why the EU many times has called on China to begin following the principle of reciprocity. The EU also intends to attract Chinese investment. There are also hopes of interest in the Juncker Plan.

The EU also wants to persuade China to adopt the bloc's view on protection of universal values such as human rights, international law, and the rule of law, and to take responsibility for global problems. While the idea of engaging China has been noticeable in EU policy for a rather long time, a relatively new notion is an attempt to involve the PRC in solving security problems such as terrorism, piracy, migration, the stabilisation of Afghanistan, Africa, the Middle East and Ukraine.

**Conclusions.** The problems facing both sides, especially economic ones, may increase tensions between the EU and China. The first flashpoint will be the issue of granting MES to China, which would mean loosening protection of the EU's market. The EU cannot allow the influx of cheap and subsidised Chinese imports if it means losses for domestic producers. Meanwhile, the EU hopes for liberalisation of protective measures on the Chinese market that Beijing cannot fulfil. One should not expect a trade war but there is a possibility for more actions that would be symbolically or economically coercive on the other side. An example of this is the EU's decision of 19 July to take legal action in the WTO against China's export restrictions on raw materials (e.g., graphite, cobalt, chromium, etc.), which are important for European industry. In the future, more protectionist actions from both sides might be expected.

It is difficult to reach compromise in the normative domain as well. On the South China Sea issue, the PRC's lack of acceptance of the tribunal ruling and aggravation of tensions by mulling an air defence identification zone and conducting regular patrols in disputed areas, raise the risk of an incident, including a hot conflict, which would weaken the EU's economic relations with Asia and force the bloc to take a side. Further, the EU's remarks at the latest summit about human rights will complicate mutual relations, especially after recent incidents of tougher repressions in China.

The PRC will probably intensify its lobbying on key issues, mainly at the member-state level. This is why member states facing a Chinese diplomatic offensive on various incentives such as promises of investments under the "Silk Road" label should take into account more than ever before the EU context in relations with China and better coordinate their policies with EU institutions.