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Discussion Paper

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**New Trends in EU's Economic Relations with China**

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## New Trends in EU's Economic Relations with China

*Chen Xin*

EU's economic relations with China in 2012 can be summarized in 4 points. First, the EU tried to seek China's support in order to facilitate the efforts of stabilizing market confidence and gain time for seeking resolutions of the European Sovereign Debt Crisis. Second, the EU tried to expand export toward China, but the effects have been limited. Third, the EU strengthened market defense actions to protect the European market, which led to the harsh trade disputes between EU and China. Fourth, the EU accelerated the implementation of a Global FTA Strategy with the aim to promote export and to set up new standards in world trade, which could weaken China's competitive advantages.

### Seeking China's support

There was wave after wave of turmoil of the European Sovereign Debt Crisis in 2012. The market speculated on the Greek exit from the Euro zone. Spanish and Italian bond markets bore huge pressure although their governments had implemented massive austerity measures; the market remained skeptical. The collapse of the Euro and break-up of EMU were in the headlines of Western media. As the EU's biggest trading partner, the US was still struggling with its trouble of debt and growth, the Europeans were moving their attention on China, the second largest trading partner, which is holding the biggest currency reserves in the world, in the hope of China's support.

In fact, the Europeans had already expected China's support in 2011, especially in autumn, when it became a hot topic in the world media. In September 2011, Chinese Premier Wen Jiabao had a round-table discussion with entrepreneurs during the Summer Davos Forum in Dalian in China. His statement reflected the consideration on China's support to Europe.<sup>1</sup> On 27 October 2011, French president Nicolas Sarkozy initiated a telephone conference with China's president Hu Jintao, right after the European Summit finished. Mr. Sarkozy provided information on the just closed European Summit and the European latest actions dealing with the sovereign debt crisis, and the also exchanged the views on the upcoming G20 Summit in Cannes.<sup>2</sup> The very next day after the French phone call, Mr. Klaus Regling, CEO of EFSF, flew to Beijing, trying to persuade China to get involved in leveraging the capacity of EFSF. In February 2012, soon after the Chinese traditional holiday, the Spring Festival, German Chancellor Angela

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<sup>1</sup> <http://news.cntv.cn/china/20110915/100276.shtml>

<sup>2</sup> [http://news.xinhuanet.com/world/2011-10/27/c\\_111129294.htm](http://news.xinhuanet.com/world/2011-10/27/c_111129294.htm)

Merkel visited Beijing, and 10 days later the president of the European Council Mr. Herman van Rompuy and the president of the European Commission Mr. Jose Manuel Barroso came to Beijing for the 14<sup>th</sup> EU-China Summit which had been postponed in 2011 because of the crisis. One of the topics of these visits was China's support to Europe.

Europe is China's biggest export market, and also China's biggest trading partner. As a responsible power in the world, China responded positively to the European expectations. During the Summer Davos Forum in September 2011, Premier Wen expressed that "China is willing to extend a helping hand to Europe and to boost investment in Europe".<sup>3</sup> On 14 February 2012, at the press conference after the EU-China Summit, Premier Wen announced that "China is ready to provide more involvement in combating the European Sovereign Debt Crisis, and will have a close communication and cooperation with Europeans".<sup>4</sup> Mr. van Rompuy welcomed China's position and expressed the European gratitude; he also declared that China had already contributed to solving the European crisis in different forms such as purchasing bonds issued by EU member states and by getting involved in the European stabilization mechanism. Both sides agreed to further exchange views on China's involvement and to discuss how to cooperate.<sup>5</sup> On 18 June 2012, when Chinese president Hu Jintao attended the 7th G20 summit in Los Cabos in Mexico, he announced that China would inject 43 billion USD into IMF, which showed, on the one hand, that China takes the responsibility of common actions dealing with the crisis and financial stability<sup>6</sup> and, on the other hand, that China indirectly provided help to Europe. On 11 September 2012, when Premier Wen attended the Summer Davos Forum in Tianjin, he repeated China's solid support to European integration and the development of the Euro-zone. Premier Wen said Chinese exports to Europe had been experiencing a decline because of the Debt Crisis, so "in this sense, providing help to Europe will contribute to the world, and at same time it will help ourselves".<sup>7</sup>

Unfortunately, China's well-meant gestures were not recognized fully by the Europeans. In November 2012, European Strategic Partnerships Observatory (ESPO), a project financed by Finnish and German ministries of foreign affairs, published a report, which sustained that China's help to Europe was mainly on the purpose of protecting its own Euro stock; lending political support to the Euro-area happened at a time when there was a real risk of break-up; and China's actions kept the value of the Euro high and benefited the competitiveness of Chinese products. Moreover, China's contribution to address the Euro-zone debt crisis through the IMF came alongside renewed discussion on IMF reform,

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<sup>3</sup> <http://news.cntv.cn/china/20110915/100276.shtml>

<sup>4</sup> [http://news.xinhuanet.com/politics/2012-02/14/c\\_111524302.htm](http://news.xinhuanet.com/politics/2012-02/14/c_111524302.htm)

<sup>5</sup> [http://news.xinhuanet.com/politics/2012-02/14/c\\_111524302.htm](http://news.xinhuanet.com/politics/2012-02/14/c_111524302.htm)

<sup>6</sup> <http://www.people.com.cn/h/2012/0620/c25408-111910006.html>

<sup>7</sup> [http://www.tj.gov.cn/zwgk/zwx/zwyw/201209/t20120912\\_181412.htm](http://www.tj.gov.cn/zwgk/zwx/zwyw/201209/t20120912_181412.htm)

including redistributing voting rights away from European countries to emerging economies.<sup>8</sup>

There was a turning point of the European Sovereign Debt Crisis in September 2012 when the ECB announced the Outright Monetary Transaction (OMT) and the financial market calmed down. It was very strange that along with the process of the crisis being somehow contained, the European attitude on China's involvement had changed.

China's help to Europe on fighting the Debt Crisis was mainly a strategic decision, which reflected China's strong support to European integration. And the Euro is the core and symbol of European integration. Such kind of support was in accordance with the EU-China Comprehensive Strategic Partnership. It brought benefits for both sides, and provided win-win results. As an English proverb says, a friend in need is a friend in deed. China did not follow the Anglo-Saxon media which expressed deep skepticism vis-à-vis the Euro, and provided firm support to the Euro. It is hard to imagine what a mess it could have been in Europe, and also in the world, if China would not have thought in a strategic way. It is regretful that there is a lack of such kind of strategic thinking on the European side.

## Promoting EU exports

During the debt crisis, the domestic demand weakened in the internal market, so trade could be a major driver for the Europeans to boost economic growth. Promoting export is one of the major focuses for EU.

According to Eurostat, EU exports to most of its major partners grew in 2012 compared to 2011. The most notable export increases were in two digits, such as South Korea by 16%, Russia by 14%, Japan by 13%, Brazil by 11%, and the US by 11%. As regards to imports, there was a 12% increase with Switzerland, and a 7% increase with the US, Russia and Norway respectively. The biggest declines in imports were from Japan by 8%, India by 6%, and Brazil and South Korea by 5% each. EU exports to China increased only by 6%, and imports decreased only by 1%.<sup>9</sup>

The Chinese statistics show that the EU was replaced by the US as China's biggest export market after 8 years, although the EU remained China's biggest trading partner and biggest source of imports. The bilateral trade volume was 546 billion USD in 2012, 3.7% less than the previous year. China's exports to the EU were 334 billion USD (decreased by 6.2%), and import from the EU was 212

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<sup>8</sup> Nicola Casarini, The EU and China: Investing in a troubled partnership. In Giovanni Grevi and Thomas Renard eds., *Partners in Crisis: EU Strategic Partnerships and the Global Economic Downturn*. European Strategic Partnerships Observatory (ESPO) Report 1, November, 2012. p23

<sup>9</sup> EuroStat NewsRelease, EuroIndicators, 43/2013, 18 March 2013.

billion USD (slightly increased, by 0.4%). The trade balance decreased by 15.8%, with a 122 billion USD surplus for China. By comparison, China's whole trade volume reached 3,867 billion USD, a 6.2% increase compared to the previous year. China's export was 2,049 billion USD recording a 7.9% increase, and import was 1,818 billion USD recording a 4.3% increase. Comparing with the strong increase of China's trade with Russia (11.2%), ASEAN (10.2%) and the US (8.5%), trade with the EU (-3.7%) showed lack of dynamic.<sup>10</sup>

Both data from the EU and China show that EU-China trade weakened in 2012. On the one hand, the negative impact of the European Sovereign Debt Crisis on the internal demand emerged, which produced a shock to China's exports to the EU. On the other hand, when compared with its other major trading partners, the EU's effort to promote export to China was impeded.

Actually, in order to help Europe out of the Debt Crisis, China had sent trade delegations to Europe, trying to import more from Europe. But such kind of help was not recognized by EU trade officers. Because the focus of the EU trade officers has been on the openness of China's public procurement market, on the state subsidies which, according to their views, generate unfair competition, and not on the trade delegations. The EU's concerns were not rewarded by Chinese active responses, so the EU rested its hope in strengthening trade defense measures.

## Intensifying trade disputes

There is no doubt that China has become the biggest target country of the EU trade defense system in recent years. This has not changed in 2012.

According to the European Commission DG Trade, the EU initiated 13 anti-dumping cases on 7 products, of which 4 products refer to China, which takes 30% of the cases with more than half in products. At the same time, EU initiated 6 anti-subsidy cases on 5 products, with 3 products referring to China, which makes half of the anti-subsidy investigations with 60% of the products. Furthermore, the EU initiated 14 expiry reviews of which China took 4, and concluded 12 cases with confirmation of duty of which China took 5 cases. The EU also initiated 6 cases on anti-circumvention investigation, and all 6 cases refer to China.<sup>11</sup>

Meanwhile, the EU concluded 8 anti-dumping investigations in 2012 on 6 products, among which 5 products were imported from China. The EU also concluded 7 anti-dumping investigations without duty, in which 4 products refer to China.

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<sup>10</sup> <http://www.customs.gov.cn/publish/portal0/tab1/info412938.htm>

<sup>11</sup> [http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc\\_150133.pdf](http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc_150133.pdf).

**Table 1 New Anti-Dumping and Anti-Subsidy Investigations initiated by EU during 2008-2012**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Country of origin: China</b>	6	7	10	8	7
<b>Total EU new investigation</b>	20	21	18	21	19
<b>China's share</b>	30%	33%	56%	38%	37%

Resource: [http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc\\_150133.pdf](http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc_150133.pdf).

There were 5 characteristics of EU trade defense practices toward China in 2012.

First, a new case with “gigantic” value appeared. Usually there is a common view that the value of the anti-dumping cases does not exceed 2% of the EU-China trade volume. A fundamental change happened in 2012 in this regard.

Solar World Co., a company headquartered in Germany, reached a preliminary result in anti-dumping and anti-subsidy investigations toward Chinese solar panel products in US in May 2012. After that, Solar World initiated an EU ProSun consortium with more than 20 European companies associated and requested the European Commission to start investigations on China solar panel products exports to Europe in July 2012. The European Commission DG Trade accepted the application and announced the investigation on 6 September 2012. On 26 September, EU ProSun also requested the anti-subsidy investigation. And DG Trade started the anti-subsidy investigation procedure 45 days later. As around 70% of Chinese PV products go to Europe, compared with 10% products going to the US, the Solar Panel case has a significant importance to the Chinese PV industry. If the EU would apply a punishing duty like the US, it would cause disaster for the whole Chinese PV industry. China had exported 21 billion Euro PV products to Europe in 2011.<sup>12</sup> Based on estimations, the Solar Panel case itself takes 7% of the Chinese exports to Europe.<sup>13</sup> It is the biggest trade dispute in the history of the EU-China relationship.

Second, the investigated products are moving from low added value to high technology content. EU anti-dumping investigations toward China are no longer focusing on textile products and shoes, they are now looking at the electronics and new energy products. Besides this, the steel industry is again in the focus.

<sup>12</sup> Data from <http://trade.ec.europa.eu/doclib/press/index.cfm?id=829>

<sup>13</sup> Based on the data published by EuroStat on 16 March 2012, EU import from China in 2011 was 292 billion Euro. EuroStat, NewsRelease, EuroIndicators, 44/2012, 16 March 2012.

**Table 2 New investigations initiated by product sector during the period  
2008-2012**

Product sector	2008	2009	2010	2011	2012	China
Chemical and allied	0	9	7	11	-	-
Textiles and allied	-	3	-	-	-	-
Wood and paper	-	-	2	-	-	-
Electronics	-	1	2	-	2	-
Other mechanical engineering	1	1	1	1	1	1
Iron and Steel	11	4	3	6	11	3
Other metals	5	1	-	1	-	1
Other	3	2	3	2	5	2
<b>Total</b>	<b>20</b>	<b>21</b>	<b>18</b>	<b>21</b>	<b>19</b>	<b>7</b>

Resource: [http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc\\_150133.pdf](http://trade.ec.europa.eu/doclib/docs/2012/december/tradoc_150133.pdf).

Third, anti-dumping and anti-subsidy measures are going together. EU trade defense measures toward Chinese products are no longer limited in anti-dumping measures, anti-dumping together with anti-subsidy became the new tendency in the latest investigations. EU trade defense practice becomes tougher.

Fourth, preparation for the investigation was initiated by DG Trade itself. According to the opinion of the EU trade officers, European companies would have not requested the investigation because they worried about their ongoing business in China. So the EU trade officers felt the responsibility and tried to get a stronger mandate from European leaders and legislators, in order to initiate investigations directly by DG Trade itself, based on their judgment, without an official request from European industry.<sup>14</sup> IT & Communication products are in the DG Trade's focus.

Fifth, emphasizing reciprocity, especially focusing on the public procurement market. The European Commission drafted an amendment on the Directive of Public Procurement in 2011. The Committee on International Trade of the European Parliament held 4 rounds of discussions on the amendment, and concluded a final opinion on 7 November 2012,<sup>15</sup> leaving the parliaments of the member states to decide approval. The amendment of the Directive mainly focuses on reciprocity. Based on the proposal from DG Trade, if a European trade partner does not open its public procurement market, the EU will close its own public procurement market for that trade partner. The amended Directive will affect countries such as the US, China, etc. Trade dispute tensions between EU and China will become stronger.

<sup>14</sup> Note: European Commission proposed to modernize the EU's trade defense instruments on 10 April 2013.

<sup>15</sup> Committee on International Trade, Europe an Parliament, 2011/0437(COD), 7.11.2012

## Promoting FTA Negotiations

The European Commission presented its renewed Trade Strategy in November 2010. As compared with the initial one, which had been published in 2006, the EU had a more assertive attitude. The assertiveness was not only in the determination to promote EU exports and push the main trade partners to open their markets, especially the public procurement market, but was also in the design of the new rules on investment and trade by concluding a new generation of FTAs. A notable progress had been reached in EU's global FTA strategy in 2012.

The European Parliament approved EU's trade agreements with six Central American countries in December 2012, which would be effective in the second quarter of 2013. The EU also accelerated negotiations with Canada on the Comprehensive Economic and Trade Agreement (CETA), which would be concluded, hopefully, in 2013.

Big progress was reached in preparing transatlantic trade negotiations in 2012. Europe and the US jointly presented midterm evaluation reports on transatlantic cooperation in summer 2012, and plan to start the Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations in 2013.<sup>16</sup>

Asia is one of EU's essential focal points in FTA negotiations. South Korea was the first country in Asia who signed an FTA with the EU. The EU-Korea FTA came into force in July 2011. Another breakthrough is Singapore, which reached an FTA with the EU in December 2012. The EU also started FTA negotiations with Malaysia and makes preparations with Vietnam.

Japan is the next core of the EU FTA strategy in Asia. During the EU-Japan Summit in May 2011, both sides announced they would soon prepare the FTA negotiations. The European Commission reached an agreement on the negotiation agenda in May 2012, and afterwards asked for opinions of the member states seeking the mandate for negotiations. In November 2012, the European Council agreed on the mandate for the Commission to start FTA negotiations with Japan.<sup>17</sup>

Besides, the EU takes into consideration potential FTA negotiations with China's Taiwan, and accelerates FTA negotiations with India which were kicked off in 2007.

The EU's global FTA strategy will promote EU exports, and bring employment and growth. It will also have a potential negative impact for the future development of China's foreign trade.

First, China is not listed in the EU's global FTA strategy. The EU's new trade strategy in 2010 had split focus from two countries (US and China) to six countries (US, Japan and four BRICs countries), with special focus on the US,

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<sup>16</sup> Note: On 13 March 2013, EU and US leaders decided to launch TTIP in 2013, after the trade officer at both sides approved the final report by the High Level Working Group on Jobs and Growth.

<sup>17</sup> Note: On 25 March 2013, EU and Japan announced to start EU-Japan FTA negotiation.

China, Russia and Japan. The EU had decided to start FTA negotiations with the US and Japan. Russia is the third largest trade partner of EU, and the two parties signed a Partnership and Cooperation Agreement (PCA) in 1994, and started a new round of negotiations in 2008 for updating the PCA. No agreement has been reached since then. China is the second biggest trade partner of the EU. The two parties had signed a “Trade and Cooperation Agreement” in 1985, and started PCA negotiations in 2007. The two parties also agreed in 2010 to initiate a negotiation on investment agreement as soon as possible. Up to now, there is no intention from the EU to put China on its FTA wish-list.

Second, the EU’s FTA strategy implied an option to encourage less dependency on trade with China, especially imports from China. As EU trade officers indicated on different occasions, the objectives of the EU FTA strategy are, on the one hand, to promote employment and drive economic growth and, on the other hand, to be an instrument to combat the challenges rising from emerging countries, especially the rapid growth of Chinese foreign trade.

There is a deep inter-dependency between the EU and other developed countries. And among the emerging countries, the EU still cannot get rid of the dependency from two countries, one is Russia and the other is China. From trade patterns, we can see that energy and raw materials are the two main categories in the EU’s imports from Russia, and Russia is a huge export market for EU machinery, transportation equipment, chemicals and agriculture products. Therefore, the EU’s dependency on Russia is based on energy, raw material and export market. However, the EU’s dependency on China is a different story compared with Russia. China is the EU’s largest import source, and EU’s imports from China are mainly industrial products, especially machinery, transportation equipment, and manufactured products. At least half of the imports are products coming from processing trade. EU’s exports to China are also mainly industrial products, in the same category of machinery, transportation equipment and manufactured products, with a small proportion of chemical products. Based on geographical facts, Russia’s status in the EU’s energy supply will be less likely to be replaced in the foreseeable future. However, if the locations of the processing trade were moved, the EU’s industrial products imported from China would be slightly changed, thus the dependency on China would be lowered. The EU’s FTA strategy could encourage such kind of change to a certain extent.

Third, the EU’s FTAs in Asia could irritate the growth of the China’s foreign trade. As is well known, around half of China’s exports are realized by processing trade. Manufacturers from Japan, Korea and China’s Taiwan relocated production capacities to China by investment, then exported parts and semi-products to China, produced and assembled them and sold them all over the world. Such kind of processing trade diminished the export from East Asian economies to Europe and America, and, at the same time, accumulated massive export from China to Europe

and America, which made the Chinese trade surplus increase dramatically. The processing trade became the main growth model of China's exports. In recent years, along with the increasing labour costs in China, some industries relying on processing trade have started to move from China's coastal area to South and East Asia. The EU FTAs with South East Asian countries will encourage such kind of process of industry relocation. The EU's FTAs in East and South East Asia look like a "Soft Pearl Chain"<sup>18</sup> in front of China, which would tie up China's trade development, and undermine its trade growth model.

Fourth, EU FTA negotiations with developed countries will contain the setting of new rules in international trade and affect China's trade potential development. EU FTA negotiations with Japan and the US are different from the other ongoing and concluded trade agreements. The differences hint that these negotiations are deals between developed and mature economies; the purpose of the FTAs is not only to promote bilateral trade, but also on respond to the challenges of the rising emerging countries; and the FTA agreements will set standards, rules and laws, in order to establish a new global trade environment. If the EU has been facing serious challenges from emerging countries in the round of globalization in the 21st century, the EU maintained the hope in FTAs with other developed countries, making full use of its soft power to occupy the rule-setting height in international trade.

When we entered into 2013, the EU-China Comprehensive Strategic Partnership had existed for 10 years. The economic and trade relationship was one of the three main pillars of the EU-China relationship, and it was the most important part. Compared with 10 years ago, both China and the EU have experienced dramatic changes. China became the 2nd largest economic power in the world, and soon will be the biggest trading power. China's economic growth model is experiencing a shift from export driven to domestic consumption, a market with the biggest population in the world, which indicates unthinkable possibilities for the world trade.

It was also a live drama for the Europeans in the past 10 years. Europe has finished its ever biggest enlargement with an expanded market, implemented the Lisbon Treaty which was a milestone in the European integration history. Hit by the financial tsunami in 2008, the EU lacked growth potential. The lasting Sovereign Debt Crisis has struck the weak economic recovery in Europe. And the Crisis affected EU-China trade in 2012.

We are in a world of transformation, and facing a number of strategic challenges. In a time when the Chinese economy goes up and Europe faces a downturn, and at the same time China is not on the EU FTA wish-list and absent from the rule setting on the international trade between the EU and the developed

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<sup>18</sup> Note: US takes its military alliance in East and South East Asia as "Hard Pearl Chain".

economies, it leaves the strategic meaning of the EU-China Comprehensive Strategic Partnership in a huge question. Taking into consideration that the PCA negotiations reached a dead-lock between the EU and China, negotiations on investment protection are still waiting for the start, it is worth for both sides to re-evaluate the strategic positioning of the bilateral relationship, to explore the possibility of designing a new framework for the bilateral economic and trade relations, and to promote the EU-China Relationship on a healthy and stable path.

## Conclusion

2012 is the third year of European Sovereign Debt Crisis. The Crisis struck European strategic planning and obstructed European ambitions. In the second half of 2012, the Crisis situation calmed down, and European economic governance went deeper, the Europeans started to rethink strategic issues with major partners and strategic positioning. The EU's economic relations with China in 2012 show pragmatism, a contradictory and inconsistent pragmatism, which reflects muddling through mentality and lack of strategic thinking. The EU-China Comprehensive Strategic Partnership is still a mystery for the Europeans even after 10 years.

The tendency in 2012 shows that the EU will enhance trade defense practices, trade disputes will be intensified and the demand for reciprocity and DG Trade initializing trade investigation will further increase the tension between the EU and China. EU promoting FTA strategy with major partners but China will harm the development of the EU-China Comprehensive Strategic Partnership. Both EU and China need a new framework for the next decade.