



WINTER 2018

# EUROPE-CHINA FORUM

## COOPERATION, COMPETITION AND THE SEARCH FOR COMMON GROUND

REPORT



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Co-funded by the  
Europe for Citizens Programme  
of the European Union

## EU, CHINA COMPETE AND COOPERATE AS RELATIONSHIP GAINS IMPORTANCE

The European Union's relations with China are maturing and growing increasingly significant. While new initiatives are generating concrete opportunities for cooperation, there have also been disagreements and competition, participants said during frank and lively discussions at Friends of Europe's eighth Europe-China Forum and Policy & Practice Roundtable on 27-28 November. The Roundtable was held under the Chatham House Rule.

Amid rising global uncertainties, the two-day event pointed to several key issues on the EU-China agenda: demands for continuing reform and opening up of China's markets; joint efforts in clean energy and green technology and strategies to better connect Europe and Asia – in particular, China's Belt and Road Initiative (BRI) and the EU's strategy for connecting the continents through better transport, energy, digital and people-to-people links.

While participants agreed that many opportunities already exist for greater cooperation between Europe and China – including collective work on Africa, climate change, connectivity and the UN Sustainable Development Goals – many of these areas also generate differences. Creating the conditions for greater trust between the EU and China is a prerequisite for increased cooperation and synergies.

European companies are calling for more ambitious market liberalisation and reforms in China, which has seen unparalleled growth and development since it began to open up to the world 40 years ago. European companies, despite being active participants in this growth, say they find the Chinese market difficult to enter and desire a “level playing field” when they do business there as a means to rectify this economic discrimination. The potential for strengthening the EU-China relationship is especially significant in the context of the US-China trade dispute, which has fragilised the global trading system.

“European capital and technology have contributed a lot to China, and cooperation with China has contributed a lot to European growth. There are synergies between the BRI and the EU connectivity strategy,” said **Zhang Ming**, Ambassador of the People's Republic of China to the EU. He singled out the boom in trade and investment between China and the EU, the surge in flights and the increasing use of rail links for shipping goods as developments that exemplify this progress. “Confucius said a man of 40 no longer has doubts. After a journey of over 40 years, China-EU relations have become more mature.”

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## “We compete in many fields, but the capacity to find common ground is a sign of the maturity of the actors”

### **Gunnar Wiegand**

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

While Zhang acknowledged these successes, he also contended that “It is natural for any bilateral relations to have certain problems.” “China-EU relations are no exception. We hope that the EU will relax export controls towards China and foster a more favourable environment for high-tech cooperation.”

“We certainly want to cooperate with China, and we do on many issues,” said **Gunnar Wiegand**, Managing Director for Asia Pacific at the European External Action Service (EEAS). “We compete in many fields – in high tech and over economic challenges – and we disagree over the ways societies are organised. But the capacity to find common ground is a sign of the maturity of the actors. The strong commitment of Asians and Europeans to a rules-based international order with the EU at its centre is an expression of both principles and interests.” He also emphasised the importance of making progress beyond principles on specific issues, such as Geographic Indications (GI) and the Comprehensive Agreement on Investments (CAI), which are the subject of ongoing negotiations.

## CHINA REFORMS ITS MARKETS – BUT IS IT ENOUGH?

China is undergoing a wave of reforms that is making it easier for European businesses to participate in its economy, said **Chi Fulin**, President of the China Institute for Reform and Development (CIRD). State-owned enterprises are being restructured and rules on foreign ownership of Chinese companies are becoming more and more relaxed. “There will be a lot of opportunities from the China-EU relationship, and these are bigger than the challenges,” he said. “The complementarity is bigger than the differences.”

Many European businesses disagree, however, with some drawing attention to the fact that they are not getting the access or treatment they deserve. Negotiations on an EU-China Bilateral Investment Agreement to cover both foreign investment protections and market access have been ongoing for almost five years, said **Maria Martin-Prat**, Director of Services and Investment, Intellectual Property and Public Procurement in the European Commission Directorate-General for Trade.

“You can say, ‘This happens in trade. Some deals take a long time’,” she said. “But the clear message from the European side is that we need to accelerate those negotiations and go to a different level of ambition if we want to obtain the kind of result that we were asked to deliver. The reality is that the European market is wide open to Chinese investors but the Chinese market is not open and we see our companies being affected by the difference in openness. The word reciprocity is misleading. What we are asking for is an ambitious opening of the Chinese market on a level playing field.”

It is important to go beyond basic entry to the Chinese market, however. “We are also looking into matters that are directly related

to the level playing field and market access,” said Martin Prat. “What we find is that the problems our companies face in China are not just entering the Chinese market, but also being treated in a non-discriminatory manner once they are in the Chinese market, whether this relates to conditions for registration of companies, the processes for being granted an authorisation or the possibilities or lack of possibilities to enter into public procurement. Our companies are not just interested in getting into the market, but in having a fair playing field once they are there.”

The lack of agreement has had an impact on European activities. “European investment in China has gone down in the last few years,” said Wiegand. “China is an attractive place to invest in, but we want to provide a level playing field. There is a surge of Chinese investments in Europe – you have an interest in the certainties of our market and we have an interest in the certainties of your market.”

Though China-Europe business relations are widely seen as being mutually beneficial, some European regions are feeling the impact of low-cost steel imports from China. In May 2016, the European Parliament adopted a resolution stressing that China did not meet the criteria required to qualify as a market economy. As a result, China should be careful not to upset its relationship with Europe, cautioned **Jo Leinen**, Chair of the European Parliament Delegation for relations with the People’s Republic of China. “We are interested in a strategic partnership, which should be win-win for both sides,” he said. “As a citizen chamber, we feel the effects of the dynamics back home in our constituencies. If I look at China in 2025 and it gets rockier, China could lose the game. It has already lost in the US and it could lose in the EU too.”

Despite the discontent among its partners, China is making significant moves, said Zhang. In 2018, China hosted the China International Import Expo, reputedly the world’s first national-level, import-themed exposition. There, President Xi Jinping stated that China’s imports of goods are expected to exceed \$30tn in the coming 15 years, while imports of services could exceed \$10tn. China will also accelerate the opening of its markets in areas such as health and education.

“It’s easier said than done,” Zhang said. “But we are making every possible effort to deliver. Since the start of this month, we have cut tariffs on another 1,585 items, bringing the overall tariff level from 9.8% to 7.5%, far lower than the level that China committed to upon WTO accession. Last April, we pledged to ease market access in the car industry. It was turned into action in just six months. BMW became the first foreign automaker that holds majority stakes in a joint venture.”

Services represent one area wherein the Chinese market looks promising for Europeans. “There are three things that China wants: foreign direct investment (FDI), high-end technology to strengthen Chinese industry and a diplomatic alternative to Washington,” said **Yu Jie**, Research Fellow in the Asia-Pacific Program at Chatham House.

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## “We have to see what China can offer to European companies – but it has to be followed by deeds”

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“In the EU, China is considered an opportunity in the service economy but a threat in manufacturing.” In goods, China is competing with Europe on two levels, she said: in markets and technology. “In the last 15 years, China has become a direct competitor for European companies, so we should look realistically and strategically at which sectors Europe can negotiate with China in. We have to see what China can offer to European companies – but it has to be followed by deeds.”

### BEYOND ECONOMIC RELATIONS

Amid the growing uncertainties and conflicts around the world, the EU also wants to see stability extend beyond the economic sphere. “It is not just about free and fair trade but also values in the UN Charter and the Law of the Sea,” noted Wiegand.

China will not be a substitute for the US on the world stage. Despite the significant contributions it has made towards combating climate change, among other things, some participants highlighted that China is not yet a model global citizen. “I don’t think the EU and China will be allies because China does not work through an alliance system,” a participant said at the Roundtable. “China is not going to be a guarantor of order, though it is a great power. We should engage China on climate change; we should be tough on investments; and we should continue dialogue on human rights. The EU has also set up a working group with China on reform of the World Trade Organization (WTO).”

The success of cooperation between China and the EU will be at least partly determined by the business community, observed **Arnaldo Abruzzini**, CEO of the Association of European Chambers of Commerce and Industry (EUROCHAMBRES). “‘Transparency’, ‘predictability’ and ‘non-discrimination’: those challenges are not related to geographical borders in Europe or China. Those are challenges we are facing globally as a business community. We are looking for a WTO environment that would be more conducive to a better business environment around the globe.”

One major challenge that needs to be confronted by both business and policymakers is global warming. “Climate change does not know borders,” said Abruzzini. “Climate change knows the planet. In every region of the planet we have businesses that are challenged by climate change. What strikes me is the difference of opinion between the business side and the political side. We need a result because we know that if our businesses are to survive the next decade, they have to survive certain challenges.”

## THE SIGNIFICANCE OF THE BELT AND ROAD INITIATIVE

With its commitment to connect two of the most dynamic regions in the world, the BRI could potentially spread prosperity throughout countries that are struggling economically. Most importantly, it is a pro-globalisation project at a time when the pendulum has been swinging back towards nationalism in many countries.

However, the BRI means different things to different people. “I have never before seen a policy initiative produce so much global debate,” observed one Roundtable participant. “This is not just among academics but also entrepreneurs – all countries have different ideas about it. The UK sees it as a financial platform, for example. The Belt and Road is in line with the Chinese character: it is fluid and opaque in its nature.”

But this opacity is just what concerns Europeans, who want to see increased transparency and more clearly defined rules – particularly when it comes to BRI project tenders. “China likes to say ‘win-win,’ but we have to look at the projects to see what the win is and where,” cautioned another participant. “We should not adopt the same language as the Chinese side, but instead deepen understanding on what needs to be done. There is a lack of transparency. You can only compete for a tender when you know there will be a project and a tender.”

European scepticism is manifest in their suspicion of China’s true motives. “I hear in Europe that China wants to take over the world through the BRI,” said a participant. “In China, people laugh at that. People in China who are critical say that what is lacking is a strategy. In Europe, we expect clearly defined objective and guidelines. In China there is a different attitude – a pragmatic approach and more flexibility. This goes back to the problem of trust.”

Another reason for European wariness of the BRI is that many of the institutions that underpin it will fall outside of the current multilateral global order. “China is building a new world order with the BRI,” said **Astrid Skala-Kuhman**, Special Advisor on BRI and Former Country Director for China at the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). “The new institutions such as the new development bank and an arbitration system are located in China. China is implementing the BRI bilaterally and it looks like the BRI is not embedded in the current multilateral system.”

But not everyone is in agreement. “Many friends misunderstand the BRI,” a participant noted. “It is not requesting other countries to work together. It is about how they can incorporate the BRI into their domestic agendas. In this regard, how can we connect these bilateral schemes together to understand that the BRI is not a geopolitical tool but an economic growth tool?”

But despite disagreement over the BRI’s structure and underpinnings, there is no doubt that it represents a major new step in China’s

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## “China-EU cooperation needs to centre on standardisation and norms, because connectivity concerns infrastructure and technical issues”

**Jiang Ruiping**

Vice-President of China Foreign Affairs University

engagement with the world. “Forty years ago, China was isolated,” one participant said. “Look where we are now. Eighty countries in the world have signed up to it. This is not just about doing China a favour but rather engaging with wider international cooperation. Win-win cannot just be China winning twice. We have to consider the wider benefits for others.”

“The first centre of the modern economy was Western Europe, starting from the UK – and then it spread to North America,” said **Jiang Ruiping**, Vice-President of China Foreign Affairs University. “After the Second World War, the biggest change has been that East Asia has become a third centre of economic development. We have three centres now. The fourth centre might be created by the BRI. So, both Western Europe and China need to take some benefits from this fourth economic centre.”

Better economic relations mean cooperation at a deep level, Jiang said. “China-EU cooperation needs to centre on standardisation and norms, because connectivity concerns infrastructure and technical issues. In the overall planning of the BRI, infrastructure has been given priority.”

Though the BRI concerns all kinds of overland and maritime transport, it should especially be a boost for railways and train operators. In September 2015, China and the EU signed a memorandum of understanding on establishing a connectivity platform with the aim to create synergies between EU policies and projects and the BRI, particularly through cooperation on infrastructure, financing, interoperability and logistics.

“We are building on our connections, and our emphasis is on the quality of connectivity,” said **Maja Bakran Marcich**, European Commission Deputy Director-General for Mobility and Transport. “We need to have sustainable connectivity and we are looking forward to sharing our experiences of the trans-European network. We want to build strong partnerships and we are ready to activate our significant financial framework. We have substantial experience: we already have a network that covers the Western Balkans and will extend to eastern partner countries. Cooperation should abide by the shared principles of market rules and established international norms and standards. We will also work with our friends from China to plan hubs and corridors. We have agreed to work on the terms of reference for the study.”

### 16+1: DIVISIVE OR COMPLEMENTARY?

Given that it enters Europe from the east, the BRI represents a great opportunity for Chinese cooperation in Central and Eastern Europe. “We have to try to merge our transportation strategies,” said **Andrejs Pildegovics**, Latvian Permanent Representative to the UN and Foreign Affairs State Secretary (2013-2018). “We are



interested in developing our networks, and we have moved close to realisation at the political level. Now we need to converge and move into pen-based discussions. It is important to engage the countries in between, such as Ukraine and Belarus. People-to-people contacts are really fundamental. Latvia is a country of 3 million people, but there are three universities in Beijing offering Latvian language studies.”

But China's engagement in the region has raised eyebrows over the last years, with divisions emerging in Europe over the utility and purpose of the 16+1 initiative, which aims to intensify links between China and Central and Eastern European states (both EU members and otherwise).

Some welcome the initiative, defending it as a framework meant to reinforce the existing EU-China relationship: “For us, the 16+1 is a great laboratory. It provides the opportunity for interactions with Chinese counterparts, and we can exchange ideas with the Chinese side,” noted Pildegovics.

But not everyone is convinced and many have highlighted the disillusionment of the 16+1 states who interpret the framework as a failure. One participant noted that while it may seem like the heads of 16+1 states are embracing the initiative on a superficial level, in reality, they are doing so as a means to show their domestic audiences that they are engaging on the world stage. Using Hungarian Prime Minister Viktor Orbán as an example, the participant conjectured that his pro-China stance may be purely political – by pledging his support to China, he loses nothing but gains an ally.

## CHINA AND THE WORLD

Indirectly, the BRI is having an impact on wider issues relating to China's place in the world. “Japan, India, the US and the EU are coming up with their own connectivity projects mostly as a reaction to the BRI,” said one participant. “The BRI intends to instil a more development-oriented mindset. It is not just about infrastructure, but it is intended to stimulate growth and to remodel global supply chains. Also, this is a region that does not see itself as a region, so efforts to connect it tend to come from outside rather than within. There are some potential positive outcomes.”

Another indirect impact could take place in maritime security, where there are a number of disputes between ASEAN members and China. While the BRI may redirect attention away from these disputes, it could also change the regional power balance in the long term. “The BRI erodes the US security role, so it could fuel polarisation in the South China Sea,” said the participant. “What arrangements will be made over time remains to be seen. On a more positive note, the Indian Ocean is not very well connected within the region, so the BRI and other endeavours should help to open up this region and bring new economic opportunities. You could say the BRI to-date

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## “China played a vital role in securing the 2015 Paris Agreement. Environmental degradation comes at a very high price”

**Karmenu Vella**

European Commissioner for Environment, Maritime Affairs and Fisheries

is a combination of possible positives and also latent negatives.”

The BRI could also support the pursuit of international projects, such as the UN Sustainable Development Goals and the institutions that are backing them. “There could be a link between the BRI and the SDGs,” said Skala-Kuhman. “Most of the SDGs will only be implemented if we have good infrastructure. Yes, the majority of the BRI is financed by Chinese sources, but we have now increased the involvement of multilateral development banks. Six have formally agreed to support the BRI,” including the Asian Development Bank and the European Bank for Reconstruction and Development.

Development, sustainability and connectivity are all closely linked, noted **Koen Doens**, European Commission Deputy Director-General for International Cooperation and Development. “Connectivity is at the heart of what countries need to do to achieve the SDGs. If we want to contribute to a country’s economy, the sustainability aspect is unavoidable. We must involve local communities, education and human development, as well as consider the environmental and human impact.”

To assist countries with achieving their development goals, the EU is considering the best means of support, Doens said. “That’s why we have been engaged strongly with different countries, including China, with the different banks involved – the investment banks and the development banks – to see how cooperation can take place between them, the EU and the member states. We are at the start of an engagement, but there is an obvious and very clear openness from the different partners to engage with us on this. This is what we will be pursuing over the coming months and years. This agenda will move to Africa too.”

### CLIMATE CHANGE: A COMMON OUTLOOK?

Climate policy is one area wherein China and the EU are in broad agreement. “China played a vital role in securing the 2015 Paris Agreement,” said **Karmenu Vella**, European Commissioner for Environment, Maritime Affairs and Fisheries. “Successful policymaking is about taking a holistic approach. Environmental degradation comes at a very high price: there is a massive cost for companies and for human health and wellbeing. Smart environmental policy is also an opportunity for growth and investment. We avoid degradation and boost competitiveness and generate jobs. In dealings with China, we work together to protect our environment and it makes sense that we address these same problems together, constantly talking to each other and learning from each other.”

China is notable for being one of the first major countries to place emphasis on the environment, even at the development stage. “We need to pay attention to the costs of development and one of these is the environment,” said **Chang Xiuze**, Professor at the

National Development and Reform Commission's (NDRC) Academy of Macroeconomic Research. "So we are developing a society that is environmentally friendly and resource-friendly. This is not just about material wealth, it is also about safeguarding the Paris Agreement."

China had a number of expectations for the next UN climate change conference, said **Wang Yao**, Director General of the Central University of Finance and Economics' International Institute of Green Finance. One would be the implementation of the Paris Agreement. "Most countries have their own commitments," she said. "By 2030, China will reach the peak of its emissions." Other expectations included discussions of each country's efforts and the difficulties they are facing, as well as contributions on climate finance. "Now is the time to kickstart implementation of funds for developing countries. We have a huge gap for addressing climate change. How can we leverage the private sector?"

The different political structures in Europe and China have an effect on the ways in which climate policy may be implemented. "We shouldn't need coal anymore, but we do in parts of Europe because of the legacy and history," said **Dörte Fouquet**, Partner at Becker Büttner Held. The Chinese economy is more controlled. "If the central party wants to do something it will be done. Many state-owned enterprises said they face strict requirements from the government and that there are always still more demands."

Green technology is costly, however, and money spent on developing new technology, such as for carbon capture is money that could otherwise be spent on schools, said **Xi Liang**, Director of the Centre for Business and Climate Change and Senior Lecturer in Energy Finance at the University of Edinburgh. "In reality, China is still a developing country and needs support from OECD countries for climate finance and development. The current priority is to develop guidance and standards for climate finance. Chinese climate finance investment will need to focus on quality."

## SEARCHING FOR COMMON GROUND

The stakes are high for EU-China relations. "We know that this world is changing and a lot of what we see is negative," said **Shada Islam**, Director of Europe and Geopolitics at Friends of Europe. "The US is withdrawing from its multilateral commitments on climate change and Iran. That creates instability all around the world. But this is a moment of opportunity as well. It shines the spotlight on Europe and Asia and in particular what Europe and China can do together."

Overall, the relationship between China and the EU has growing potential, due to their mutually beneficial economic relations and their interest in maintaining a rules-based international order. "China has realised that bilateral cooperation with the EU is very important," said Chi. "We are using this opportunity to reinforce domestic reform."

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**Chi Fulin**

President of the China Institute for Reform and Development (CIRD)

## TOP RECOMMENDATIONS

China and Europe should:

- 1.** Work together to revamp and reform multilateral global frameworks in an inclusive manner, with a special focus on commitments made on global trade and climate change.
- 2.** ‘Multilateralise’ the BRI to increase its normative and sustainability impact by using the new EU connectivity strategy as a rulebook for projects worldwide.
- 3.** Make renewed efforts to create more strategic trust and confidence, including through increased transparency across the board to show that China and Europe are committed to this partnership.
- 4.** Ensure that EU-China cooperation on economic, security and people-to-people issues is not impacted by ongoing competition in US-China trade, technology and security.
- 5.** Cooperate to step up the pace of China’s reforms – with China walking the talk on further opening up and reform – and the EU being careful to use its new investment screening mechanism in compliance with WTO rules.
- 6.** Ensure the transparency of 16+1 initiatives, including BRI projects, so they align with EU rules and regulations.
- 7.** Speed up negotiations on an EU-China investment agreement to ensure better access and protection of two-way investment flows.
- 8.** Reinforce people-to-people ties, including contacts and exchanges among students of all ages.
- 9.** Increase cooperation on renewable energies, climate change and green growth, as well as the circular economy and ocean governance.
- 10.** Despite disagreements, keep an eye on the bigger picture by prioritising the need for continued engagement between Europe and China in a troubled and turbulent world.



**Yu Jie**, Research Fellow in the Asia-Pacific Program at Chatham House



**Peter Potman**, Director of the Asia and Oceania Department of the Dutch Ministry of Foreign Affairs



**Richard Ghiasy**, Researcher and Project Manager at the Stockholm International Peace Research Institute (SIPRI)



**Iana Dreyer**, Founder and Editor-in-Chief of Borderlex



**Zhang Ming**, Ambassador of the People's Republic of China to the EU



**Chi Fulin**, President of the China Institute for Reform and Development (CIRD)



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



**Maja Bakran Marcich**, Deputy Director-General, Investment, Innovative & Sustainable Transport at the European Commission Directorate-General for Mobility



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