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Analysis of Economic and Trade Relations between China and the EU—Taking the China-EU Comprehensive Agreement on Investment as a Perspective

Zhang Yunlong

University of Macau, Faculty of Social Science, Macau 999078, China

Abstract: *In the post-epidemic era, the completion of the China-EU Comprehensive Agreement on Investment (CECAI) negotiations as scheduled brings a successful conclusion to China's foreign trade and economic cooperation in 2020. As a high-level international economic and trade agreement, the CECAI brings the two markets and civilizations of China and Europe closer together through effective institutional arrangements, which will have an important and positive impact on the economic landscape of both sides and the world as a whole. This article will use the CECAI as an entry point to analyze and evaluate the economic and trade relations between China and the EU by reviewing the background and process of the agreement. It will help China and the EU to build a new model of economic cooperation driven by the twin wheels of 'trade' and 'investment', which is in line with the needs of China's economic development strategy and will also help the EU to break away from the economic decline, achieve strategic autonomy and promote the diversification of the world economic landscape.*

Keywords: *CECAI, Economic Development, Investment*

1. Introduction

Since the 21st century, the world has seen rapid development of multipolarization, economic globalization, social informatization and cultural diversification. China is the largest developing country in the world today, and its economic achievements are attracting world attention and increasing international influence. The European Union is the world's most integrated and strongest association of countries in terms of comprehensive strength. 'Both China and the EU are important participants and shapers in the process of multipolarization and economic globalization in the world' and share many common interests in maintaining world peace and promoting common development. The EU has been China's largest trading partner for 15 consecutive years. China has also been the second largest trading partner of the EU for many years, and the development of relations with the EU has always been one of the priority directions of China's diplomacy.

In the seven years since China and the EU launched the China-EU Comprehensive Agreement on Investment (CECAI) negotiations in 2013, the world political and economic situation has undergone many changes. Many changes have taken place in the world political and economic situation. In particular, the unilateralism and trade protectionism pursued by Donald Trump since his election as President of the United States have greatly increased the uncertainty in the world. Combined with the impact of the new crown epidemic in 2020, the global economy is facing the biggest challenge since the Great Depression in the 1920s. The conclusion of the China-EU investment agreement negotiations is a useful attempt to find certainty in the midst of uncertainty. This article compares and reviews the background of China-EU investment agreement negotiations, explores the game and demands behind the agreement, and elaborates the significance of signing the agreement.

2. The Background of China-EU Comprehensive Agreement on Investment

Since China's accession to the WTO in 2001, its economic and trade relations with the EU have become increasingly close, with bilateral trade volume rising from USD 76.63 billion in 2001 to USD 559.1 billion in 2013, showing a good development trend, and both sides have become important economic and trade partners of each other. However, in contrast to the fast-growing trade volume, the bilateral investment volume between China and EU has been growing slowly during this period and is far from the proper scale, and there is a large potential for development and expansion in the investment field.

2.1 Low level of bilateral investment between China and EU

As of 2013, when the negotiations were launched, the EU has been China's top trading partner for 10 consecutive years, while China has remained the EU's second largest trading partner for 11 consecutive years. Although China-EU trade has shown a good development, the level of bilateral investment is low and extremely unequal to the trade volume and economic volume of both sides. According to the statistical bulletin on outward foreign direct investment of the Chinese Ministry of Commerce, China's direct investment flows to the EU amounted to USD 4.524 billion in 2013, accounting for only 4.2% of China's total outward direct investment flows. During the same period, bilateral trade between China and the EU amounted to $559.1 billion, accounting for 11.9% of China's total foreign trade in that year. Similarly, the actual amount of EU investment in China is also low, with the EU's actual investment in China amounting to USD 6.52 billion in 2013, accounting for only 5.3% of China's actual use of foreign investment. The bilateral investment volume between China and Europe is clearly out of balance with the bilateral trade volume and is at a low level.

2.2 Both sides have the need to drive economic development with investment cooperation

For China, since it replaced Japan as the world's second largest economy in 2010, the stage of economic development has changed profoundly. The economy has entered a critical juncture of gear shifting and efficiency increase, transformation and upgrading. China urgently needs to change its mode of economic development and seek high-quality development. The introduction of more advanced technologies, standards and management experience from Europe can be a catalyst for the structural adjustment and transformation of China's economy. Although China has concluded a number of bilateral investment agreements with EU member states, they have been concluded over a long period of time, with limited content, lacking a uniform legal framework and some treaties no longer adapted to today's development environment. It is necessary for China to sign a comprehensive investment agreement with the EU that is aligned with high level international economic and trade rules to bring in more high-quality European investments.

For the EU, the 2008 US subprime mortgage crisis and the subsequent European debt crisis have severely impacted the regional economy. Although the EU introduced a series of bailout measures to tide over the most difficult period. However, the overall economy of the EU is still in the doldrums and urgently needs to expand the space for economic development. China is the world's second largest economy with a huge domestic market and a large amount of capital and strengthening cooperation with it in the field of investment can provide a new engine for the EU to reverse the economic downturn.

2.3 The multilateral system represented by the WTO has suffered a setback

The World Trade Organization (WTO), established on January 1, 1995, is an organization used by member governments to solve trade problems faced by each other and has effectively promoted the development of global trade. However, with the slow innovation of multilateral trade rules, the stagnation of multilateral trade negotiations, and the repeated crises of dispute settlement bodies, the WTO has suffered from the compression of its functions, and it is difficult to meet the interests of member countries.

First, the existing WTO rules system has certain limitations. Innovation is slow in the core areas of trade in goods, trade in services, anti-dumping, countervailing and new trade issues. There is a certain degree of disconnection with the reality and trend of international economic and trade development. This has prompted WTO member countries to go beyond the multilateral trading system and seek bilateral trade cooperation instead. Secondly, there are large differences in interests among WTO member countries. The 'Doha Round' negotiation has been a cycle of contradictions and controversies among countries, and it has been difficult to make a breakthrough as it has repeatedly reached an impasse. The much-anticipated Investment Facilitation Agreement (IFA) was aborted in the Doha Round of collective negotiations, which hindered the process of world trade and investment liberalization and triggered a boom in the signing of bilateral agreements. It is against this background that China and Europe launched the negotiations on the China-EU Investment Agreement in order to promote investment facilitation and liberalization and strengthen bilateral economic and trade cooperation.

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3. Contributing factors to the China-Europe Investment Agreement

Since 2019, the speed of China-EU investment negotiations has accelerated, and in 2020 it is overcoming the impact of the epidemic to carry out intensive discussions on controversial issues, and both sides have shown a strong willingness to negotiate, which is the result of the comprehensive consideration of the international situation and their own interests by both sides.

3.1 The EU and the United States economic and trade cooperation has regressed, hoping to ride the fast train of China's development

First, since President Trump took office, he has put the interests of the United States first and practiced unilateral trade protectionism, which is contrary to the EU's long-standing emphasis on multilateralism in international relations. The U.S. withdrawal from the Paris climate agreement, suspension of the Transatlantic Trade and Investment Partnership (TTIP) negotiations, sanctions on the Nord Stream 2 gas pipeline project and a series of other actions have led to a rift in economic and trade relations and even strategic relations between the EU and the U.S., prompting the EU to start thinking about how to take its own route to better protect its own interests.

Secondly, in recent years, the EU has been emphasizing economic and technological sovereignty, and has been embroiled in a digital tax dispute with the US, which has strained the relationship between the EU and the US, and the US-EU relationship is not as close as it was during the Cold War. Finally, against the background of the growing trade friction between China and the US, the EU sees an opportunity to further enter the Chinese market and establish deeper and more stable bilateral economic and trade relations with China, which will undoubtedly enable European companies to occupy a larger share of the continuously booming Chinese market.

3.2 The signing of the RCEP agreement stimulated the EU's sense of crisis

15 November 2020, ten ASEAN countries, as well as China, South Korea, Japan, Australia, New Zealand, fifteen countries, officially signed the Regional Comprehensive Economic Partnership Agreement (RCEP), marking the formal conclusion of the world's largest volume of free trade agreements. After the agreement comes into effect, more than 90% of the regional trade in goods will eventually achieve zero tariffs, and the agreement will implement regional rules of origin accumulation. That is, the product origin value components can be accumulated in the region of 15 member countries, the value components from any party to the RCEP will be taken into account, so as to enjoy the RCEP preferential tariffs. This has given the EU a serious sense of crisis, especially Japan as a member of RCEP, its auto parts can enter the Chinese market with zero tariff and low tariff, which has an impact on the EU, especially the German auto industry's exports to China. The Chinese market is of vital importance to the German automotive industry, and the early completion of the China-EU investment agreement negotiations is of special significance to Germany. Germany, as the economic engine of the EU, has the will and the ability to push for the fastest possible conclusion of the CECAI negotiations during its EU Presidency.

3.3 The transition period of the transition of power in the United States to reduce interference in the negotiations

The 7-year-long China-EU Comprehensive Agreement on Investment negotiation process has been repeatedly interfered by the U.S. government, and the Trump administration has gradually lost the EU's confidence by pursuing U.S.-first and advocating unilateral trade protectionism. The EU hopes to get rid of the U.S. obstruction and establish a more stable economic and trade cooperation relationship with China. In order to exclude the US interference as much as possible, the two sides seized the window of the US power transition and stepped up the completion of the China-EU investment agreement negotiations.

3.4 The EU needs to hedge against the impact of the UK's exit from the EU

on December 24, 2020, the UK and the EU announced a post-Brexit trade agreement, and the UK officially left the EU on December 30. The UK's exit from the EU will have a greater impact on the overall strength of the EU and will be a heavy blow to the European integration process. The EU urgently needs to deepen economic and trade cooperation with other countries to hedge the impact of the UK's

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exit and to boost the confidence of the world in the EU economy and the EU's internal solidarity. This has to a certain extent promoted the acceleration of China-EU investment agreement negotiations.

4. The significance of the CECAI for the future economic and trade development of China and the EU

The China-EU Investment Agreement is aligned with high-level international economic and trade rules and provides a high-level, unified legal framework and institutional arrangements for bilateral investment between China and the EU.

4.1 Strengthen China-EU investment cooperation to achieve 'trade' + 'investment' double-wheel drive

As the second and third largest economies in the world, China and Europe have made great achievements in trade cooperation. However, the level of bilateral investment cooperation is much lower than that of bilateral trade, which is extremely disproportionate to the economic volume and the position of both sides in the international economic system. This mismatch reflects both the current lack of depth in economic and trade cooperation between China and Europe and the huge potential for future cooperation between the two sides. Sino-European economic cooperation with only a trade dimension is thin and fragile. Deeper investment cooperation will bind China and Europe more closely together, and the integration of interests and economic integration between the two sides will be more solid.

Although China has signed 25 BITs with the EU, the existing agreements are very fragmented. In terms of coverage, depth of cooperation and strategic value, they are far less than the China-EU investment agreements. For example, most of the existing agreements are related to investment protection only and are lacking in the more critical areas of market access or dispute settlement. At the same time, there is also a huge gap between EU investment in China compared to EU investment in the US. The conclusion of a unified investment agreement between China and the EU will provide both sides with a balanced, high-level and mutually beneficial framework for investment cooperation. This will significantly enhance the level of bilateral investment liberalization and facilitation and enable Chinese and European enterprises to gain more opportunities in each other's markets.

4.2 Fits the needs of China's economic development strategy

The signing of the China-Europe Investment Agreement (CEI) marks the rising level of China's openness and has positive symbolic significance. In the context of the new era, China has started to build "a new development pattern with the domestic cycle as the main body and the international and domestic cycles promoting each other". In recent years, the Chinese government has repeatedly stressed and promised that the door of China's opening will not be closed but opened wider and wider. The completion of China-EU investment agreement negotiations is another powerful proof of this solemn commitment. The agreement is a higher level of openness in terms of the areas of investment liberalization and the level of liberalization, which is in line with the international high-level economic and trade rules and focuses on institutional liberalization and covers areas far beyond the traditional bilateral investment agreements. The Chinese side will certainly further promote trade liberalization and investment facilitation, and all countries in the world will benefit from the increasingly open Chinese market.

The impact of the COVID-19 epidemic has made many developed countries start to pay attention to the security of the industrial chain, worrying that transferring too many manufacturing links to China will affect their own economic security. The China-EU investment agreement will provide more institutional safeguards for investments from both sides, and the security and predictability of the EU's economic and trade activities in China will be significantly improved. This will effectively reduce the insecurity of the European side, but also help to dispel the 'security concerns' of other countries about China.

The China-EU investment agreement will help China transform and upgrade its industrial structure and promote domestic reforms. First, the adjustment of market access commitments will definitely provide more opportunities for EU capital to enter the Chinese market. By introducing higher quality investments in sectors such as automotive, finance, health care and information services, more advanced technologies can be brought to China. The spillover of advanced technologies through backward and forward industrial linkages and personnel mobility will increase competition in related domestic industries, prompt domestic enterprises to increase research and development (R&D) investment and improve the overall development quality of these industries.

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Secondly, for industrial security and competitiveness reasons, the EU has in recent years strengthened the strategic review of extraterritorial acquisitions in Europe. Such as the restriction on the acquisition of German 'Leifeld Metal Spinning AG' by China's 'Yantai Taihai Group' in 2018, which will inevitably compress the space for Chinese enterprises to make mergers and acquisitions in the EU market.

4.3 Contribution to EU economic growth and 'strategic autonomy'

The EU has been suffering from unbalanced internal development and uneven distribution of integration benefits. For example, there have been differences in fiscal and monetary policies and the size of government debt between the export-oriented economies represented by Germany and the Netherlands in the north and the domestic demand-oriented economies represented by France and Italy in the south of the EU. According to the European Commission's Autumn Economic Forecast 2020 report released on November 5, 2020, the 19-nation eurozone economy is expected to contract by 7.8% in 2020, while the EU-27 economy is expected to contract by 7.4% in 2020. For Europe, there is an urgent need to find new sources of economic growth. China, the only country with positive economic growth in the post-epidemic era, is the best choice. The removal of explicit and invisible barriers in China's automotive, health care, information services and financial sectors will give many large multinational companies in Europe a new round of growth and will likely help Europe reverse the economic decline of recent years.

The CECAI will help strengthen the EU's internal solidarity and help Europe achieve 'strategic autonomy'. Due to ideological and value differences, the EU has always had a mistrust of China and has been divided in its policy towards China. In recent years, China's economic engagement with many Central and Eastern European countries and the G7 country Italy based on the 'Belt and Road' initiative has even led to suspicions within the EU that 'China is dividing the EU'. The disagreements over the handling of the refugee crisis since 2015 and the slow response to cooperation in the fight against the new epidemic in 2020 have raised questions about the EU's internal solidarity and ability to collaborate to deal with external shocks. The UK's exit from the EU is a heavy blow to the EU integration process. The formation of a unified policy toward China at the EU level, such as the China-EU investment agreement, would facilitate the realization of the EU's 'common investment policy', reduce fears of Chinese fragmentation of the EU, and strengthen the EU integration process.

The EU has been striving for greater autonomy in recent years, including at the diplomatic, defense and political levels. Since World War II, the U.S. has been playing a major role in European affairs and exerting various influences, such as frequently pressuring European allies on the Nord Stream 2 gas pipeline project between Russia and Europe and lobbying some EU member states to drop Huawei in 5G construction. The finalization of the investment agreement with China, ahead of the US and despite the US warning, will be a landmark event. It shows a further increase in the EU's integration and sense of strategic autonomy, which will help strengthen the EU's internal solidarity and help Europe achieve 'strategic autonomy'.

5. Conclusion

A multipolar world is in the interest of China and most countries. As the three major global economic forces, China, the United States and Europe, their cooperation and games determine the direction of the international economic order and the evolution of the world economic landscape. With the relative weakening of the U.S. economic power and the implementation of the Trump administration's America First Doctrine, the relations between China, the U.S. and Europe have undergone tremendous changes. This provides a historical opportunity for the conclusion of the China-EU investment agreement negotiations on schedule.

The conclusion of the investment agreement negotiations between China and the EU is a positive attempt to explore the search for consensus between the socialist market economy system and the capitalist economic system, and between developed and developing economies. It shows that different economic systems, different ideologies and different stages of development do not naturally constitute obstacles to in-depth cooperation between the two sides. With full consideration of the needs of both sides and appropriate compromises, more in-depth and extensive economic and trade cooperation arrangements can be reached. The completion of the CECAI negotiations shows that even though there are differences between the two sides in many areas such as market access, fair competition, the role of state-owned enterprises and labor rights, constructive engagement can be effective. There is enough room for a 'balanced' institutional arrangement to achieve a 'win-win' situation. Only by strengthening communication and cooperation, engaging in healthy competition under bilateral or multilateral rule

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systems, embracing globalization, and insisting on free and open global cooperation can bring more long-term benefits to both sides.

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