Explore the Economic and Trade Potential for Win-win Cooperation between China and the EU

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In 2020, the EU's GDP was USD 15.2 trillion and China's GDP hit USD 14.7 trillion, indicating that the two economies are similar in total economic output. This signifies the hope for China and the EU to prosper together. Therefore, it is only right for both China and the EU to seize the opportunity and join hands to revitalize the whole Eurasia continent. To this end, I would like to share a few thoughts.

**1. Four observations on China-EU trade. First, the trade between China and the EU is increasing in volume but slowing down in the trend of growth.** From exceeding USD 100 billion in 2003 to breaking USD 600 billion in 2014, the China-EU trade volume grew by USD 100 billion every 2 years and 2 months, while the increase from USD 600 billion to USD 700 billion took 5 years and was realized late in 2019. **Second, China's position in the EU's trade in goods has risen, while the EU's position in China's trade in goods has fallen.** In 2020, China replaced the United States as the EU's top trading partner for the first time. EU-China trade in this year amounted to EUR 586.737 billion, accounting for 16.1% of the EU's total foreign trade, while EU-US trade totaled EUR 556.23 billion, taking up 15.3% of the EU's total foreign trade. On the other hand, the EU's position as China's top goods trading partner was taken over by ASEAN in 2020. According to data released by China Customs, China's trade with ASEAN in 2020 reached RMB 4.74 trillion, while China's trade with the EU in the same year was RMB 4.5 trillion. **Third, trade in services holds great potential.** In the past 10 years, China-EU trade in services has been growing each year with big increases. The service trade between China and the EU grew nearly 2.5 times from EUR 36.9 billion in 2010 to EUR 93.9 billion in 2019. The EU has always run a surplus in its trade in services with China, and the surplus has been constantly widening from EUR 2.3 billion in 2010 to EUR 23.1 billion in 2019, an increase of more than 10 times. The volume of China-EU trade in services constitutes only about 10% of China-EU trade in goods, while the volume of trade in services accounts for more than 19% of the EU's entire foreign trade. **Fourth, the development of China-EU trade was driven by the increase in their economic volumes.** This rise was achieved against the background of China's rapid economic growth and the expansion of EU membership, while the quality of China-EU trade has not been improved, mainly subject to the limit in the investment fields. A specialized investment agreement is needed to boost mutual investment, which is the original intention of the China-EU Comprehensive Investment Agreement.

**2. Three perceptions of China-EU mutual direct investment. First, the amount of China-EU mutual direct investment is not proportional to their respective economic volume.** According to data provided by the Economic and Commercial Office of the Mission of the People's Republic of China to the EU, the EU's net outbound foreign investment stock exceeded EUR 8750 billion by the end of 2019, while the outbound FDI stock in China (excluding Hong Kong) was EUR 69.3 billion, accounting for only 0.7% of its total outbound FDI stock. According to statistics of China's Ministry of Commerce, China's outbound FDI stock reached USD 2.2 trillion by the end of 2019 while its outbound FDI stock in the EU as USD 102.1 billion merely accounted for 4.6% of China's total outbound FDI. From the data of mutual FDI flows between China and the EU from 2011 to 2019, we can see that the amount of Chinese investment in the EU (around USD 73.3 billion) exceeds that of EU investment in China (around USD 64.7 billion). The mutual investment between China and the EU is not commensurate to their respective economic strength statisctically. **Second, FDI flows between China and the EU are mainly concentrated in the manufacturing industry.** According to statistics of China's Ministry of Commerce, among China's outbound FDI in the EU in 2019, manufacturing industry accounted for 53.2%. In the same year, the proportion of manufacturing industry in the EU's outbound FDI in China was also as high as 58.2%. China’s outbound FDI in EU's information transmission/software and information technology services sector accounted for 7.9% of its total direct investments in the EU in 2019. But EU’s investment in information transmission/software and information technology services in China in the same year was barely seen. **Third, both China and the EU have made efforts to improve the investment environment and achieved certain results.** Sincethe China-EU Agreement on Cooperation on, and Protection of, Geographical Indications officially came into force on March 1, 2021, the first batch of 100 geographical indication products from both China and the EU have been protected in each other's market. The negotiation process of China-EU Comprehensive Agreement on Investment (CAI) was completed on December 30, 2020 after 35 rounds of negotiations over 7 years. The agreement better addresses the concerns of the EU including those about "lack of transparency, industrial policies and non-tariff measures that discriminate against foreign companies, state-owned enterprises' access to subsidies and cheap financing through government intervention, and inadequate intellectual property protection and law enforcement". However, its ratification process has been delayed by the European Parliament due to "political differences".

**3. Progress has been made in financial cooperation.** There are various ways of China-EU financial cooperation, and new contents have been constantly added in. As of the end of 2018, 18 European banks have set up 23 branches in China; a number of European insurance companies have established 19 insurance companies and four reinsurance companies in China; a total of 99 European financial institutions have obtained the qualifications to China Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII).

The People’s Bank of China and the European Central Bank renewed their bilateral currency-swap deal in 2018 and 2019. Member states of the EU have actively participated in the China-proposed Asian Infrastructure Investment Bank (AIIB), while China has joined the European Investment Fund (EIF) and the European Bank for Reconstruction and Development (EBRD). China has been holding European government bonds and euro foreign exchange; while the European Central Bank, the Central Bank of the Federal Republic of Germany, and the Bank of France have all included RMB in foreign exchange reserves and invested in Chinese government bonds as well. These measures have played a positive role in expanding the use of local currencies between China and Europe, stabilizing financial markets, and facilitating trade and investment.

**4. Scientific and technological cooperation has achieved productive results.** So far, the EU has been China’s largest supplier of technology and equipment. As of the end of 2018, the EU had exported more than 56,000 items of technologies to China, with a total contract value of more than USD 215 billion. For EU companies, they have actively participated in the construction of major projects such as the Daya Bay Nuclear Power Plant and the Shanghai Maglev Train. In the field of remote sensing technology, the two parties have made cooperation in the third phase of the “Dragon Program.” From 2013 to 2018, the Chinese-European Food, Agriculture and Biotechnology Flagship Program implemented 16 scientific research projects, with a total investment of EUR 120 million.

**5. The China-Europe Railway Express has played a boosting role in the economic and trade cooperation between the two sides.** Since the launch of the first China-Europe train (Chongqing-Duisburg) on March 19, 2011, 73 routes to more than 160 cities in 22 European countries have been opened and are in service. Although the rail freight volume only accounts for about 5% of the cargo circulation between China and Europe, the trains are welcomed due to their flexibly-arranged and on-time transportation.

**6. China and the EU need to explore new areas in economic and trade cooperation.**

**6.1 The green economy can be a new momentum for China-EU cooperation.** **In the field of green finance,** China and Europe have issued the report of “Common Ground Taxonomy: Climate Change Mitigation” during the 26th United Nations Climate Change Conference (COP26) and put forward common financial taxonomy covering six major categories, namely energy, manufacturing, construction, transportation, solid waste and forestry. And the formation of this “standardized language system” for green finance that is widely accepted worldwide, will effectively reduce the cost of green transactions. **In the field of green technology,** China and the EU can conduct R&D cooperation in green technologies to advance energy conservation and emission reduction, develop circular economy, facilitate industrial transformation and upgrade, and cultivate green lifestyles. **In the field of green market,** the EU has formulated a greenhouse gas emissions trading program with the transaction volume and value steadily increased. At present, there are seven carbon emission exchanges in China which has so far dealt with more than 13 million transactions. To form a standardized and unified market for carbon emissions trading in the international arena will become a new momentum for China-EU economic cooperation.

**6.2 The digital economy should be a new focus in China-EU cooperation.** In recent years, the digital economy has become a major force in reshuffling global resources, reshaping global economic structure and competitive landscape. More cooperation in cross-border e-commerce, the Internet financial platform, the construction of electronic infrastructure and other areas should be boosted.

**6.3 High-quality infrastructure construction may become a new highlight of China-EU cooperation.** Since 2013, China has signed more than 200 cooperative papers with 140 countries and 32 international organizations under the framework of Belt and Road Initiative (BRI). The trade volume between China and countries along the route has accumulatively reached US $10.4 trillion, with a non-financial direct investment exceeding US $130 billion. On December 1, 2021, the EU officially announced the global infrastructure plan - the “Global Gateway,” which will invest EUR 300 billion (approximately USD 340 billion) in developing countries from 2021 to 2027, and the money will be preferentially used in the fields of digitalization, health, climate, energy, transportation, and education, and also in the infrastructure construction of fiber optic cables, clean energy transmission lines, and transportation channels. Both China’s BRI and the EU’s “Global Gateway” highlight infrastructure. The BRI can align with the Global Gateway through jointly conducting planning, financing, regulation, and third-party cooperation in the field of infrastructure construction.

**7. Deepening China-EU economic and trade ties requires a global and long-term perspective**

With the advancement of science and technology, the improvement of communication and transport facilities, and the continuous improvement of people’s education, globalization is an objective process that is not subject to human will. The EU benefits from and promotes globalization. In spite of some setbacks in globalization, the trend of history is unstoppable.

**First of all, a community with shared future for humankind is not just an ideal or a vision, but an wise choice in the face of global challenges.** In the history of human civilization, wars never stop. The introduction of mass destruction weapons such as nuclear weapons contributed to a subtle balance between major powers. However zero-sum games or local conflicts never cease. What’s worse, modern technologies may further amplify and intensify those conflicts. We should realize that human beings have benefited from the Earth in terms of living and producing, but are also destroying the mother Earth on which we live. We are living in a community with a shared future for humankind and for the nature as well. For the sake of the future of humanity, China and EU should work together to change the law of the jungle where strong eat the weak, and make concerted efforts in avoiding man-made disasters.

**Secondly, the EU’s politicians need a better understanding about China.** The history of China, especially the modern history, has a close connection with Europe. The Chinese Communists learnt Marxism from Europe and advanced it with China’s context, thus embarking on a unique path for Chinese revolution and construction. More than 40 years ago in particular, the Chinese people combined the Europe-advocated principles and rules of market economy with the characteristics of China’s economic development stages, and made tremendous economic achievements. But China is still a developing country facing numerous problems. It strives to meet the need of the people’s pursuit of a better life, and there is unbalance and insufficiency in its economic and social development. In this regard, the EU member states have much to offer. However, some EU politicians with zero-sum mentality have treated China as competitor and imposed some inappropriate EU standards to China who is still on the way to catch up.

**Thirdly, it is hoped that China and the EU can respect each other and treat each other as equals.** The EU should accept a rising China by strengthening the partnership with China and changing the mindset of “setting rules and regulations for China.” No problems cannot be put forward and discussed. I hope that some politicians in the EU can understand that their condescending attitude cannot prevent China’s progress and growth, but may rather push an ever-stronger China to the opposite side.

**Finally, I hope that the EU can accurately grasp China’s future and form a sense of urgency for the cooperation with China.** ASEAN has become China’s largest trading partner, and China is the largest investor of foreign direct investment (FDI) of ASEAN. The Regional Comprehensive Economic Partnership (RCEP) which will come into effect soon is expected to become the world’s largest free trade agreement (FTA). China has also successively announced its applications to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA). On November 4, 2021, President Xi Jinping announced at the opening ceremony of the 4th China International Import Expo (CIIE) that China will further shorten the negative list for foreign investors, expand the opening of service sectors such as telecommunications and medical care, and adopt a positive and open attitude to participate in negotiations on digital economy, trade and environment, industrial subsidies, and state-owned enterprises. These opening-up measures won’t be stopped because of the temporary delay of the ratification process of the CAI. We sincerely hope that more European companies can enjoy China’s development fruits.