

Informal Expert Group on Trade and Investment Relations with China

Report of the 3rd Meeting, Brussels, 9 July 2013

Representatives of all 28 Member States participated in the 3rd meeting of the informal expert group, with 16 Member States sending capital-based experts.

Discussions followed the agenda as circulated prior to the meeting. The meeting was chaired by Mauro Petriccione, Director Asia and Latin America, (for the first point) and Peter Berz, Head of Unit Trade relations with the Far East.

Point 1 – The EU’s overall trade and investment strategy towards China

In his introductory remarks, Mr Petriccione addressed both long-term trajectories and present concerns of EU-China trade and investment relations. A strategic discussion on China within the Council has been limited so far by a focus on the irritants which have characterised the relationship in recent months, and on the resulting risk of a trade war.

The possibility of trade disputes was predictable – and China had been warned of the inherent risks in pursuing its current course of action. The roots of the current disputes are ultimately traceable to the fact that for years China has ignored the impact of its policies on its foreign partners, taking Western markets for granted. The solar market, in particular, saw a fall in Western demand accompanied by a massive policy-induced overcapacity in Chinese production of solar panels. As a result of these dynamics the EU and China risked a trade war, and such a risk is still present. On the other hand, a positive outcome of this crisis is that it may have helped our Chinese counterparts to realise that their policies cannot continue to ignore the needs of their commercial partners. Furthermore, it may show that trade disputes can be solved through negotiation and compromise.

While stressing that we cannot lose sight of the short-term irritants, Mr Petriccione also encouraged the group to look at the long term. In this perspective, the negotiations on the investment agreement will be crucial to consolidating the relationship between the EU and China. The Chinese leadership has been pursuing a policy of “growth above all”, with negative implications for China’s partners, for example as a result of its attempts to acquire foreign technology. The EU needs to remain vigilant to avoid short-term irritants, but in the long term we need to expand the scope of our relationship beyond trade and economic cooperation, by including other dimensions as well. Innovation and urbanisation are good examples of areas in which we could pursue further cooperation in the future.

Mr Petriccione also commented on the Chinese proposal of a cooperation package. He noted that the proposal had come unexpectedly, and extensive consultations were required in order to elaborate a reaction. The Chinese proposal is a challenge to look at the depth of our relationship and to take it to a higher level. While it may be difficult to determine whether China acted in good faith, their proposal nevertheless calls for a European response. The mention of a feasibility study for an FTA has drawn strong reactions from several Member States, but it is necessary to reflect about this possibility for the long term and to give China a well-reasoned and constructive reply.

Several national experts raised questions and comments in response to Mr Petriccione's introduction. The experts' contributions focused on a range of diverse topics, such as the implications of China's political system, China's reform process, the possibility of an FTA, Europe's economic model, the difference between trade disputes and trade wars, and the need for Member States to provide a united front in negotiations with China.

On China's political system, a concern was raised regarding the difficulties of negotiating with a country that operates in such a radically different way from the EU. Mr Petriccione replied that China must also adapt to our political system and learn about our legal procedures, as evidenced for example in the solar panels case. One expert also challenged the view that China's goal is still "growth above all", pointing to other concerns such as social inequalities and environmental protection which are characterising the Chinese reform process, and called for the EU to have a role in promoting such reforms which are in line with our objectives.

Some national experts insisted on the importance of consultations with Member States following a bottom-up approach in the formulation of the EU's China policy. In this regard, some criticized that the wording "FTA" had been retained in the EU's response to China's cooperation package proposal. Mr Petriccione reminded that – particularly in light of the TTIP negotiations – the possibility of an FTA in the long term could be used as potential source of leverage towards China.

One expert commented about what he saw as a potentially dangerous evolution of the European economic model, which risks to become more and more imbalanced towards the services sector and to lead to an overall loss of competitiveness compared to China. However, Mr Petriccione pointed out that the EU is still to a large extent a manufacturing economy, maintaining high levels of exports in spite of the crisis, and characterised by a deep integration of EU and Asian supply chains.

On the difference between trade disputes and trade wars, Mr Petriccione explained that a trade war is the result of a series of escalatory moves, and that it is a positive sign that China has been careful to avoid the escalation of the solar panels dispute. Both the EU and China have been making efforts in good faith to reach a negotiated solution, which is also a positive sign showing that even the most controversial issues can be discussed rationally.

Several experts flagged the need to act with more coherence and unity to prevent China from using "divide and rule" tactics among the Member States. In this regard, it was also noted that media leaks from Member States risk undermining the EU's negotiating position.

Point 2 – Building a more coherent message towards China

Mr Berz introduced the discussion by pointing to the recent update of the key market access barriers list and the drafting of common reference lines which could help the Member States in preparing their bilateral meetings. He encouraged the Member States to provide their feedback. Mr Berz also mentioned the network of Member States Consulates in China, and

suggested that these could be used more actively to share information at the local level, for example regarding public procurement calls in the Chinese provinces. Mr Berz expressed his hope that interaction between the EU Delegation in Beijing and the local representations of the Member States could be deepened further. In this context he also introduced Mr Francisco Pérez Cañado, who will be heading the trade section of the EU Delegation in Beijing from late July.

Ms Rebecca Fabrizi, Head of the China, Hong Kong, Macao, Taiwan and Mongolia Division in the EEAS, also expressed interest in joined activities with the Member States. She reminded the Member States that on many issues the EU cannot achieve impact if not working together, for example in the area of market access. She also stressed the importance for the EEAS of receiving information from the Member States on their activities and bilateral contacts with China.

Ms Fabrizi described the reference lines as a flexible and non-binding instrument which national experts could use for their briefings to ensure more coherence in the messages that China receives from the EU, and encouraged Member States to provide the EEAS with feedback on their use. One national expert confirmed that the reference lines are indeed used at the national level for the preparation of bilateral meetings with China but also admitted that it is not an established practice to inform the EEAS and the Commission on the outcome of bilateral contacts with China.

Coming back on the cooperation package some experts mentioned the scarce level of cooperation between the TPC and COASI, possibly due to administrative separations at the domestic level in Member States between Ministries of Commerce and Ministries of Foreign Affairs. In this regard, Ms Fabrizi remarked that the EEAS relies on the ability of national officials to coordinate action at the domestic level and with their respective capitals. Given the strong link between politics and trade in China, it is necessary that the EU and Member States should coordinate the commercial and political dimensions of their policies as well. Ms Fabrizi also noted that the cooperation package was in fact discussed in the TPC, and will be further discussed in all its stages. Mr Berz reassured the national experts that the TPC will play a major role in the consultations which will take place after we receive China's reply on the cooperation package.

It was suggested by one Member State that the meetings of the Informal Expert Group should ideally take place quarterly instead of twice per year, since discussions at either COASI or TPC tend to be too event-driven.

Point 3 – Coordination initiatives: dialogues and planning

Ms Fabrizi introduced the inventory of EU-China dialogues that was compiled by the EEAS as an instrument to achieve more impact and complementarity, achieving a positive interaction between the dialogues which may help us to build momentum towards high-level meetings and to use our resources more effectively. Mr Berz noted that 23 Member States hold economic dialogues with China, while 16 Member States have Joint Committees. Both

COM and EEAS encouraged the Member States to provide information regarding high-level bilateral meetings.

Several national experts undertook to provide updates and feedback on the inventory of EU-China dialogues, and some envisaged the possibility of transmitting to the Commission the non-confidential parts of reports on bilateral meetings which are normally drafted for their national Ministries. Mr Berz reminded the national experts that the EU Delegation is normally debriefed on bilateral meetings taking place in Beijing, but there are no established channels of information regarding meetings occurring in the national capitals.

Mr Berz updated the national experts on the recent and upcoming meetings between the EU and China, focusing in particular on the High Level Economic and Trade Dialogue (HED) which should take place between late September and early October in Brussels.

Point 4 – The 16th EU-China Summit Outlook: Green Growth

Ms Fabrizi updated the national experts on the preparations for the 16th EU-China Summit, which should take place at the end of November (our Chinese counterparts have not yet provided feedback on the dates). China has emphasised its will to hold a substantive and constructive Summit, also in view of the fact that this will be the first EU-China Summit for the new Chinese leadership, and it will mark the 10th anniversary of the EU-China Strategic Partnership. Ms Fabrizi noted that the Summit is also useful as a stimulus for China's line ministries to make progress on their respective agendas. She mentioned that DG AGRI aims to reach an agreement on GI this year, possibly before the Summit; DG MOVE hopes to have a letter of intents on cooperation on aviation and to resume consultations in that field; DG TAXUD would like to achieve further progress on IPR enforcement. She also flagged the Mission for Growth which will be led by Commissioners Tajani and Potocnik this month.

Holding the HED and the Strategic Dialogue would be important to prepare the groundwork for the Summit. China has insisted on the issue of green growth, which the EU has proposed as the theme of the Summit. The EU-China Partnership on Urbanisation as well as the EU-China Innovation Dialogue could also be effectively integrated within this theme. The Innovation Dialogue should be scheduled around the same time as the Summit, which would be positive in order to build momentum. Several Commissioners are expected to participate in side activities of the Summit, together with the two Presidents. Mr Berz signalled that investment negotiations could be officially launched by the Summit provided the Council could reach an agreement on the mandate in time.

The theme of green growth was positively received by the national experts. One Member State commented that the EU should also be more active on the issue of green trade liberalisation, on which the United States seems poised to take the leadership in the WTO. Mr Berz agreed that the EU needs to reflect on how to become more involved in this area, mentioning in particular the APEC initiative on the liberalisation of environmental goods. Another national expert raised the issue of food security and agriculture in China, suggesting the possibility that the EU and China could also cooperate in the area of ageing and health

care. Mr Berz noted that food security is a focal point of concern of a report of the EU Chamber of Commerce that will be released in September, and is also addressed in the chapters on Prosperity and Sustainable Development of the EU-China 2020 Agenda for Security, Prosperity and Sustainable Development. One national expert enquired about the possibility that cooperation on sustainable development may involve also third countries, particularly in Africa. Ms Fabrizi commented that the EU is interested in a more substantive dialogue on donor issues and development cooperation with third countries, in view of the fact that China is emerging as a major donor of foreign aid, as mentioned in the chapter on Security of the EU-China 2020 Agenda. Mr Berz noted that trade and investment are also fundamentally important from a developmental perspective.

Point 5 – Presentation by François Godement: *What is changing in Xi's China ?*

In his presentation Professor Godement give his assessment of the new leadership under Party Chairman and President Xi Jinping. He described a situation where underneath the formal five-year planning processes there is a lot of pragmatism, short term perspectives and factional power struggles.

Whereas one year ago many if not most pundits expected that China was preparing for serious economic reform (with the World Bank / DRC "China 2030 report" as main flagship) the political situation is now entirely different: Xi Jinping has emerged with more power than any of this predecessors ever had when coming in to office, and seems to have done away with the traps of 'collective leadership'. He seems to have managed to use the Bo Xilai affair to emerge as the new strong man who is asserting a way of political authoritarianism at the top. He is no longer speaking of reform (the mantra since 1979) – but only of "continuous development" – and seems to be rehabilitating the first 30 years of the PRC, openly quoting Mao. He has managed to tone down the nationalist left by rationalising China's foreign policy, and at the same time has the strong backing of the conservatives – making political liberals much less visible today than they were one year ago.

As far as economic reform is concerned Professor Godement is of the view that the speculation and high expectations for announcements at the third Party Plenum are overblown. Premier Li Keqiang may be allowed to make some technical reforms but it is not likely that Xi will take on State Owned Enterprises (SOEs) or vested interests. Much in line with Zhu Rongji's policies, Xi's policy seem to be about restoring the central role of the state, and bringing things back under control. He is stimulating mass movements in his anti-corruption campaign, but this is targeted at lower level party cadres at provincial and local levels. This is the kind of corruption that ordinary citizens experience most – and the lower level cadres are easily expendable. But he is not taking on the ruling elites in Beijing. The engineered and much-hyped liquidity crunch was an example of hitting at the excesses at the local and provincial level – but the big SOEs were unaffected.

In the ensuing Q&A session, questions were raised on TTIP (Prof Godement saying that we should not underestimate how China still needs the EU, both as a big market but also as an alternative to the USD) and TPP (while CN and Korea are gaining ground, Japan is losing and

currently getting isolated – so the Professor took the view that TPP is very much about Japan, rather than China). He believed investment provided the most promising area for future cooperation, while also on procurement the EU would be well-advised to welcome more involvement from China into Europe.

Report written by Salvatore Finamore