



EU-China Economic Cooperation: a legal approach

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EU-China Economic Cooperation: a legal approach

Abstract

EU-China economic relations are one of the most significant bilateral economic relations in the world. The two sides have gone through more than 40 years together from building diplomatic relations to the present comprehensive strategic partnership. This process cannot be separated from the development of China and the continuous integration of the EU. China has grown from an initially poor and backward developing country to an emerging economy with rising economic and political influence. The EU has experienced several expansions, becoming the most integrated regional organization in the world, from nine member states in the beginning to 28 member states now.

The achievements of EU-China cooperation today are not achieved overnight, but a long-term gradual and cumulative process. Therefore, the article reviews the course of China's opening up and the development of the EU, especially focuses on the change of EU and China's foreign trade policies over the time. At the same time, it analyzes almost all the important EU policy documents on China and China's policy documents on the EU. These important documents are some road signs for us to understand why EU-China relations evolved this way, so that we can clearly see the cognitive renewal and adjustment of both sides in the process of interaction.

Then, after reviewing the evolution of China- EU economic ties in three stages and analyzing some restrictive factors of current economic and commercial cooperation between EU and China, the article concludes that EU-China economic relations have come to a new stage and it will maintain the coexistence of cooperation and competition for a long time. Therefore, the two parties need to strengthen dialogue and communication, constructively handle the differences.

List of Abbreviations:

AIIB Asian Infrastructure Investment Bank
AIIB Asian Infrastructure Investment Bank
ASEAN Association of Southeast Asian Nations
CAI Comprehensive Agreement on Investment
CECIF EU-China Co-Investment Fund
CPC Communist Party of China
EAEC European Atomic Energy Community
EBRD European Bank for Reconstruction and Development
EC European Community
EEC European Economic Community
EIF European Investment Fund
EIF European Investment Fund
EU European Union
FDI Foreign Direct Investment
GI Geographical Indications
GSP Generalized System of Preference
GSP Generalized System of Preferences
IDA International Development Association
IFC International Finance Corporation
IMF International Monetary Fund
IPR intellectual property rights
M & A merger and acquisition
MFN most-favored-nation treatment
NATO North Atlantic Treaty Organization
NPC National People's Congress
PRC People's Republic of China
S&T Science & Technology
SDR Special Drawing Right
SEZ Special Economic Zone
SRF Silk Road Fund
UNCTAD United Nations Conference on Trade and Development
WB World Bank
WTO World Trade Organization

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1.Introduction

As two of the three biggest economies in the world, China and EU are increasingly interdependent and have much interests in common, with the EU being China's top trading partner and China being the EU's second largest trading partner (except the United States). Therefore, the in-depth analysis of EU-China economic and commercial relations is of great theoretical and practical value.

After the introduction, the paper offers some background information on every phase of EU-China economic and commercial relation in order to have an overall view of how it evolved. Therefore, a brief illustration of China's opening up policy and EU's integration process is provided in the article along with the evolution of EU and China's policies on foreign trade.

Also, we need to understand the policy frameworks set up between two sides in the process of cooperation. That's why the third part of the paper analyzes the EU policy on China and China's policy on the EU. Then, this article reviews the evolution of EU-China economic and commercial relations in three stages by explaining the background, characteristics, achievements and challenges of each stage along with the statistics.

At last, the article analyzes the restrictive factors that hinder Sino-EU economic relations under the new situation and offers some countermeasures and suggestions about the challenge.

2.Review of China's opening up and EU's integration

EU-China economic cooperation has never been carried out in a vacuum. Instead it has always been carried out under the influence of the political reality and economic development. These political and economic factors constitute the forces that cannot be neglected in the analysis of Sino-EU economic and commercial relations.

EU and China built diplomatic relationship in 1975,back then China didn't implement reform and opening up yet and the EEC just had 9 members,the Inner Six as well as Denmark, Britain and Ireland joined in 1973.The last 45 years witnessed not only China's remarkable economic achievement but also deepening integration process of the EU.The economic and commercial relations between China and the EU are constantly deepening and adjusting in the process of China's opening up and EU's unification. Therefore, in the discussion below, the article will review the course of opening up in China, and the formulation of policies and laws related to foreign trade; also discuss the EU's integration process and its foreign trade policy.

2.1 China's opening up process and foreign trade regulations and policies

2.1.1 China's opening up process

China's opening to the outside is a gradual process. It took almost 40 years for China to engage in global economy step by step and China is still striving for further opening up. In general, there are three main phases as follows¹:

(1) Phase I (1978-2000): Opening-up of the coastal areas first, then the coastal areas(along the Yangtze River), the border and inland area

In the first stage of opening to the outside world, it has very strong regional characteristics. According to the actual process of regional opening up, this stage can be divided into two periods: the early stage of reform and opening up before 1992 and the further expansion of opening up after Deng Xiaoping's talk in 1992. From 1979 to 1992, coastal areas took the lead in opening up with intensive introduction of a series of related opening-up policies. In 1992, marked by Comrade Deng Xiaoping's southern talk and the 14th NPC of the CPC, China's regional opening expanded along the Yangtze River, along the border and inland areas (see Annex 1).

(2) Phase II (2001-2012): Fitting into the global system

After China's entry into WTO, China has made full use of the complete legal regulation and open market system under the framework of WTO to speed up the improvement of socialist market economy system. In this new decade of gold development, foreign trade has achieved 40 years of leap-forward development, while driving rapid economic growth. By actively attracting foreign investment and vigorously developing processing trade, China has become a "world factory" by producing and exporting products to developed countries like Europe and the United States. During this period, China's foreign trade in goods developed very rapidly. From 2001 to 2008, China's total trade imports and exports rose rapidly. Influenced by the global financial crisis in 2009, the level of foreign trade shrank, but recovered rapidly in 2010, and by 2015 the trade surplus had reached a peak of nearly \$600 billion (see Annex 2).

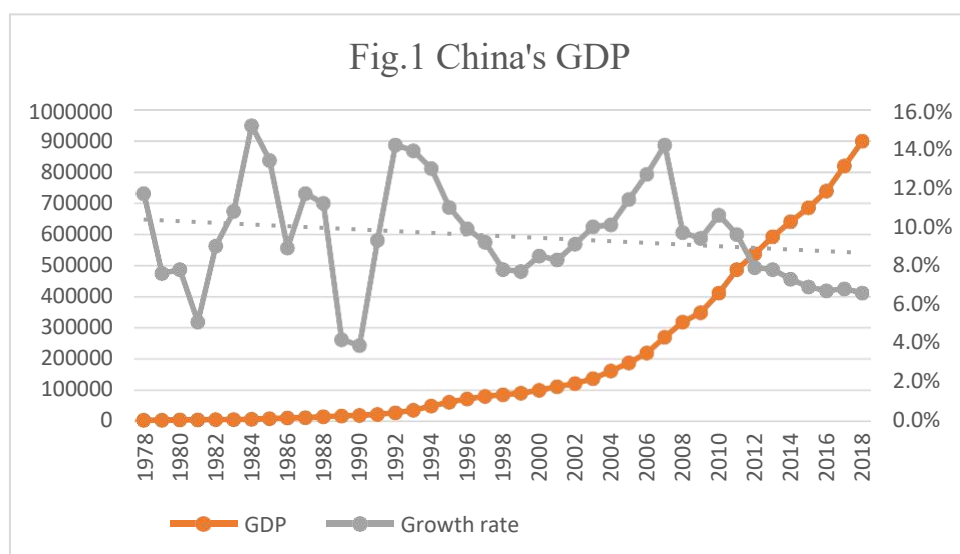
(3) Phase III (2013-now): Comprehensive opening up

The proposal of One Belt and One Road in 2013 provides a new opportunity for the development of China's foreign investment. A large amount of Chinese capital has gone out and China's FDI achieved a substantial increase, overtaking Europe and Japan for the first time in 2014 and becoming the second largest foreign investment country after the United States. Another change during this period was China's trade structure, the service trade increased rapidly and overall trade structure began to be optimized, China has grown into a big investment country from a big trading country, a capital export from the commodity export, two-way utilization of foreign capital

¹ National Development and Reform Commission of China, *China's opening-up to the outside world*, People's Publishing House, 2018.

Available at: http://pdf.nlc.cn/pc/index.html?bid=94_16&curpage=0&token=CJViloJFnLCLHTcuhuew
(Last visited May 18th, 2019)

from the one-way development. We can see that the global industrial layout is a consideration of China's opening-up during this stage, by integrating global resources through FDI and cooperating in international production capacity and equipment manufacturing, China actively fit into the global economy (see Annex 3).



Unit: hundred million RMB yuan

Source: State Statistics Bureau of China

In short, China's economic and social development has made historic achievements that attract worldwide attention since opening up. China's total economy has come to the second place in the world. In 2010, it surpassed Japan as the world's second-biggest economy. We can see from the figure 1, China's GDP has experienced unprecedented growth, from ¥367.9 billion (RMB) in 1978 to ¥90030.9 billion (RMB) in 2018, almost increased 244 times, with average growth rate of 10 % per year.

Major changes have been made in the economic structure, and the sustainability of development have been significantly improved. In 2017, the share of the service industry jumped to 51.6%, an increase of 27% over 1978. It increased by 30.4 percentage points. Economic growth has shifted from secondary industry to the tertiary industries. In 2017, the proportion of China's urban residents over the population was 58.52 %, an rise of 40.6% over 1978, with averaging increase of 1% each year.

Great achievements have been made in foreign economic development, and a new pattern of all-dimensional openness has gradually taken shape. In the very beginning of opening up, China's foreign economic activities were very limited. In 1978, the total foreign trade of goods was only 20.6 billion US dollars², ranking 29th in the world. In 2017, the total foreign trade of goods reached 4.1 trillion dollars, an increase of 197.9 times over 1978. The annual growth rate on average--14.5%

²The Information Office of the State Council, A white paper titled "China's Foreign Trade", 2011

Available at: <http://www.scio.gov.cn/ztk/dtzt/66/2/Document/1061091/1061091.htm>

(Last visited June 6th,2019)

ranked the fastest growth in the world. The scale and fields of foreign investment continue to expand.

2.1.2 China's regulations and policies on foreign trade

In the process of opening up, China has formulated and revised a series of regulations to promote foreign trade, committed to reducing trade barriers, administrative intervention and rationalizing the government responsibilities in the administration of foreign trade. The gradual adoption of international trade practices is a proof of Chinese government to create a more open, fair and transparent business environment. In particular, after China's joined the WTO, China has actively complied with the general trend of deepening the global industrial division of labor, giving full play to its comparative advantages, undertaking international industrial transfers, vigorously developing foreign trade and actively promoting two-way investment.

Here are big events of legislation about foreign trade in China.

1979	China published The Law of the PRC on Sino-Foreign Equity Joint Ventures ³ , which ushered in a new era of China guaranteeing opening-up through legislation.
1980s	Law of the People's Republic of China on Economic Contracts Involving Foreign Interest ⁴ , the Law of the PRC on Wholly Foreign-owned Enterprises (in 1986) and the Law of the PRC on Sino-Foreign Contractual Joint Ventures (formulated in 1988) were issued one after another.
1986	China issued the Regulations on Encouraging Foreign Investment ⁵ , which gives more preferential treatment to foreign-funded enterprises, especially advanced technology enterprises and export enterprises in terms of taxation, production and business conditions.
1987	Customs Law of the PRC ⁶ was passed.
1990	Copyright Law of the PRC ⁷ was passed.

³Available at: http://www.law-lib.com/law/law_view.asp?id=99135(Last visited Apr.25th,2019)

⁴The Law of the People's Republic of China on Economic Contracts Involving Foreign Interest was issued in 1985. Then it was abolished and replaced by Contract Law of the People's Republic of China in 1999.

Available at: https://wiki.mbalib.com/wiki/Law_of_the_People%27s_Republic_of_China_on_Economic_Contracts_Involving_Foreign_Interest(Last visited Apr.27th,2019)

⁵Available at: http://project.mofcom.gov.cn/1800000121_23_69881_0_7.html
(Last visited Apr.28th,2019)

⁶Customs Law of the PRC came into force on July 1, 1987

Available at: http://english.gov.cn/archive/laws_regulations/2014/08/23/content_281474982987400.htm (Last visited May15th,2019)

⁷Copyright Law of the People's Republic of China came into effect on June 1,1991

Adapted version of 2010 can be available at: http://english.gov.cn/archive/laws_regulations/2014/08/23/content_281474982987430.htm (Last visited May16th,2019)

1994	The official and market-regulated exchange rates of China's currency (RMB) were combined as one and the restrictions on foreign exchange for trade were lifted. The Chinese government abolished all financial subsidies for exports ⁸ . In May the first ever Foreign Trade Law of the People's Republic of China ⁹ was officially formulated. As a basic law of China's foreign trade, it is an important cornerstone of the legal construction of China's foreign trade.
1996	The current account convertibility for the RMB was possible. At the same time, the tariffs and the non-tariff measures in China (quotas and permits) were cut down a lot.
2001	China joined the WTO as the 143rd member. Since then, China has expanded its opening degree and sped up trade and investment liberalization and facilitation.
2004	According to the revision of the Foreign Trade Law of the PRC, the abolition of application for approval from the Chinese government for the foreign trade dealers was applied, which facilitated foreign trade and promoted the diversification of China's foreign trade entities.
2005	China has eliminated import quotas, import licenses and designated bidding measures for 424 tariff lines but only retained license management on import controlled products of importance in the life safety and the environment protection in accordance with international conventions and the rules of the WTO ¹⁰ .
2019	Foreign Investment Law of the People's Republic of China ¹¹ was passed in March the 15th ,2019, which will come into force in January 1st,2020 and replace the three related laws. In Foreign Investment Law of the People's Republic of China, more explicit provisions on some particular concern of foreign businessmen are made, such as investment examination and approval, IPR, technology transfer and so on. For instance, the Law on Foreign Investment gives a direct response to technology transfer, so the clause of "The state encourages the establishment of foreign-funded enterprises with advanced technology" no longer exists. The chapter on investment promotion not only provides for pre-entry promotion measures, but also provides for the fair treatment enjoyed by foreign-invested enterprises after admission.

We can see the initial reform of China's foreign trade system was mainly about the transformation of planned management system by decentralizing the management rights of foreign trade, implementing the foreign exchange retention system²¹ and a foreign exchange coordination market. Later on, China issued some regulations to protect the legitimate interests of foreign businessmen in order to enhance the credibility of the state's opening-up policy and to attract foreign investment. The three laws issued in 1080s laid the legal foundation for foreign investment in China.

Then, China adopted the foreign trade responsibility system, gradually replacing the mandatory

⁸The Information Office of the State Council, "China's Foreign Trade"

⁹Available at: <http://www.chinalawedu.com/new/23223a23228a2010/20101221shangfl15142.shtml> (Last visited Apr.28th,2019)

¹⁰Seen as "China's Foreign Trade"

¹¹Available at: <https://baijiahao.baidu.com/s?id=1628685105101326356&wfr=spider&for=pc> (Last visited May 17th,2019)

plan with the guiding plan. In line with the general rules of international trade, an export tax rebate system was established.

These reforms have led China to establish a management and regulation system of foreign trade on basis of market economy and give full play to the economic leverage of exchange rate, taxation, tariff, finance and so on. Compared with 15.3% of 2001, China's general import tariffs dropped to 9.8% in 2010--"15.2% in the case of agricultural products and 8.9% in the case of industrial products"¹². By 2010, China has opened up 100 sub-sectors of services trade and offered far-ranging market access chances for overseas service providers. The degree of openness almost reaching the average level of that in developed countries¹³.

2.2 Integration of EU and the EU's Foreign Trade regulations and policies

2.2.1 Integration of EU

EU is the most influential regional integration organization that also serves as political and economic union. Its origin can be traced back to the formation of the European Coal and Steel Community in the beginning of 1950s. After going through development stages like the Customs Union, the Unified Market, and the Economics Union, its diplomatic, defense, trade and social integration have progressed. The number of member states in EU increased from only 6 to 28, the economic and monetary union was established with the successful circulation of euro, the EU is becoming more coordinated than ever in terms of foreign, defense and trade. The total economic volume and trade volume account for 25% and 35% of the world respectively¹⁴. Though the EU is not only faced with the debt crisis, refugees crisis, Brexit dilemma, the EU has never changed the direction of integration and remains committed to advancing reform, meeting challenges and playing a vital role in the regional and international affairs. Here are the major events of the EU's integration¹⁵:

1)The beginning of cooperation (1945-1969)	
1951	France, Germany, Italy, the Netherlands, Belgium and Luxembourg signed the European Coal and Steel Association Treaty and set up the European Coal and Steel Community
1957	The Treaty of the EEC and the Treaty of the EAEC were signed in Rome. The Rome Treaty centered on building a customs union and a common agricultural market. The two treaties were collectively referred as the Rome Treaty.
1965	The Brussels Treaty was signed and the three communities were merged as the European Community.

¹² Seen as "China's Foreign Trade"

¹³(there are 160 sub-sectors of services trade according to WTO)

¹⁴China's first policy paper on EU in 2003. Available at:

http://www.gov.cn/gongbao/content/2003/content_62478.htm (Last visited May16th,2019)

¹⁵Available at: <http://eu.mofcom.gov.cn/article/ddfg/f/201601/20160101230175.shtml>

2)The first enlargement (1970-1985)	
1973	EEC experienced the first enlargement of Britain, Ireland and Denmark
3)The Single Market (1986-1990)	
1986	<p>The Single European Act was signed. The Act stipulated the complete free movement of people, goods, capital and services by the end of 1992; reformed the voting mechanism in the community on the internal market. In addition, the Act created a chapter on European Diplomatic Co-operation, initiated EEC's political cooperation and laid the foundation for the subsequent enforcement of the EU's common foreign and security policy.</p> <p>It is a major leap forward for the European Community in promoting the formation of internal markets and strengthening cooperation in the political field. It extends the jurisdiction of the Community to the entire economic, social, scientific research, technological development and environmental protection fields, which established the legal basis of the internal market.</p>
4)The birth of EU (1991-2000)	
1991	The Maastricht Summit of the EEC adopted the Treaty of the EU .The Treaty sets out the basic objectives of political union (The Treaty of Political Union) and the ultimate objectives of the economy and currency (The Treaty of Economic Union).
1993	<p>The Maastricht Treaty entered into force and the EEC was officially upgraded to the EU, which marked EU was officially born.</p> <p>Treaty of Maastricht is a milestone in EU's integration, indicating that the European Community will move towards an economic, political, diplomatic and security complex with a combination of functions.</p>
1995	The Schengen Convention entered into force, the purpose of which was to cancel the border to allow free movement and indefinite living between the member states.
1997	The signing of the Amsterdam Treaty marked a new phase in the development of EU. The EU put forward the goals of developing economic and monetary union, expanding eastward and meeting more international challenges.
1998	The European Central Bank was established.
1999	The EU officially launched the euro on January 1 and the Amsterdam Treaty entered into force on May 1.
2000	The Nice Treaty was adopted, the main contents of which included the reform of the internal institutions of the EU, and the admission of 12 Central and Eastern European countries as new member States since 2004. And the seats held by member states in the EU's executive body (European Parliament) after the EU was expanded to 27 countries. At the end of the same year EU adopted Charter on Fundamental Rights. All of above greatly "reinforced the EU's Common Foreign and Security Policy and the European Security and Defense Policy as well as its Justice and Home Affairs policy and other policy".
5) Further enlargement and challenge(2001-now)	
2004	The EU experienced the biggest enlargement when 10 countries joined the EU. Political differences between Eastern and Western Europe have finally declared been healed.
2007	Bulgaria and Romania were admitted.

2009	The Treaty of Lisbon came into force, which offers the EU modern institutions and more efficient working approaches.
2013	Croatia became the 28th member of EU.

2.2.2 EU Foreign Trade regulations and policies

2.2.2.1 The EU's exclusive competence on custom and trade

EU is a supernational entity, with state members ceding some sovereignty to the EU in matters of diplomacy, defence and guaranteeing the fairness of the single market. In terms of custom and trade policy, EU has exclusive competences. With the advance of the integration of the EU, the competence on trade has been continuously expanded.

According to article 113 of the Treaty of Rome (in 1957)¹⁶, the exclusive competence of EU institutions on trade policy include only tariffs, anti-dumping and subsidies. Article 228 of the Treaty of the European Communities (today, article 300) grants the EU the right to enter into trade agreements with third countries.

In 1968, European Community established Customs Union and "Common Foreign Trade Policy" also officially launched, such as common preferential trade, the common agricultural policies and fisheries policies. Customs Union means that the customs authorities of all EU countries work together as if they were one. Member states not only removed trade barriers among themselves without applying tariffs internally, but also established uniform external tariffs by applying the same tariffs to goods imported into EU from the rest of the world. The customs union is the base of the EU and the fundamental element of the operating of the single market.

The Amsterdam Treaty¹⁷, extended its coverage to most trade in services. The Treaty of Nice¹⁸ in February 2003, extended it to all trade in services and trade-related IPR. The Treaty of Lisbon¹⁹ of December 2009 focused further on the area of FDI. In the future, foreign direct investment (FDI) will formally be brought into the EU's common trade policy. The EU can negotiate investment agreements abroad on behalf of its member states, including access to the investment market and investment protection. However, investment promotion and security reviews remain within the purview of member States, which can formulate and implement investment promotion policies

¹⁶Main information about the Treaty of Rome can be accessed at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:xy0023>((Last visited May 26th,2019)

¹⁷Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:11997D/TXT>
(Last visited May 27th,2019)

¹⁸<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12001C/TXT>
(Last visited May 27th,2019)

¹⁹<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:C:2007:306:TOC>
(Last visited Jun.7th,2019)

according to their own circumstances.

2.2.2.2 EU's multilateral and bilateral trade policy

The EU is the main advocate of the new round of multilateral negotiations, supporting further liberalization of trade in goods, services and investment; strengthening the existing rules of the WTO and promoting the formulation of new rules; advocating that developing countries should fully participate in multilateral decision-making processes and developed countries should help them fit into the world economy. In terms of product market access, the EU advocated full liberalization rather than liberalization in specific areas; multilateral negotiations should help developing countries' products enter into developed countries; developing countries should slash their trade barriers. In agriculture, it advocates cutting tariffs on imports of agricultural products, reducing agricultural subsidies, and eliminating export subsidies for products of interest to developing countries. At the same time, it is emphasized that non-agricultural concerns and better protection of geographical indications should be considered in agricultural negotiations. As for trade in services, the EU has submitted to the WTO more than 100 recommendations requiring third countries to further open their markets and its own 14 commitments.

The EU advocates full market openness to the least developed countries, differential and special treatment, and trade-related technical assistance to developing countries to help them better fit into and participate in the multilateral system. In terms of trade relief measures, the EU advocates strictness and transparency of the rules and calls for improved trade facilitation rules²⁰.

2.2.2.3 Generalized System of Preferences

The EU GSP²¹ classifies imported products into sensitive products and non-sensitive products and the vast majority of agricultural products belong to sensitive products. Sensitive products in industrial products mainly include textiles, clothing, carpets, shoes. Under the framework of the GSP, non-sensitive products in beneficiary countries are duty-free, and sensitive products enjoy a reduction of 3.5% of the normal tariff or 30% of ad valorem taxes. However, the tariff preference for products (mainly textiles, clothing) involving GSP chapters 50-63 is 20%. For more information, we can take a look in the chart below.

Fig. 2 Tariffs and Imports: Summary and Duty Ranges

Summary		Total	Ag	Non-Ag	WTO member since		1995	
Simple average final bound		5.0	11.9	3.9	Binding coverage:		Total	100
Simple average MFN applied	2016	5.2	11.1	4.2			Non-Ag	100
Trade weighted average	2015	3.0	7.8	2.6	Ag: Tariff quotas (in %)			13.2
Imports in billion US\$	2015	1,721.6	122.0	1,599.6	Ag: Special safeguards (in %)			23.0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV in %
		Tariff lines and import values (in %)								
Agricultural products										
	Final bound	31.4	10.7	17.4	14.1	11.7	9.2	2.7	0.7	31.7
	MFN applied	31.7	10.7	18.2	13.5	11.7	8.0	2.4	0.6	32.1
	Imports	44.5	12.5	15.9	9.0	8.5	5.0	1.5	0.0	20.3
Non-agricultural products										
	Final bound	28.9	36.4	26.9	6.7	1.0	0.0	0	0	0.6
	MFN applied	26.4	37.6	27.1	7.3	1.5	0.1	0	0	0.6
	Imports	55.8	24.9	11.9	6.3	1.1	0.0	0	0	0.6

Source: WTO

Beginning from 1971, the EU introduced GSP preferences for the entry of developing country products into their markets. Since 1980, the EU has granted China a GSP tariff reduction for some of China's export commodities (except textiles). But the GSP tariff reduction of China's export to EU has been cancelled since 2015 because China was rated as high-income or middle-income countries by the World Bank. The current GSP programme, which began on 1 July 2005, is guided by efforts to simplify and harmonize governance, strengthen social, labour and environmental standards, effectively combat drug trafficking and smuggling, and provide special preferences to the least developed countries. At present, the EU GSP benefits 143 countries and 36 regions.

3. Political basis of EU and China trade cooperation

Over the four decades, the EU and China have strengthened mutual political trust and improved the cooperation mechanism, the most important ones being annual EU-China Summit and the three pillars of political, economic and people-to-people exchanges. In 1998 annual EU-China summits were initiated, most recently in April 2019. So far, a number of policy mechanisms to ensure bilateral and multilateral dialogue and cooperation have been established, involving more than 80 sectoral dialogues that deal with issues affecting the full range of bilateral relations, from trade affairs to energy, environment, space exploitation, education, culture and so on. What's more, two senior-level forums were launched in order to strengthen wider and deeper cooperation. One is the High-level economic and commercial Dialogue (beginning in 2008) which aims at promoting EU-China trade, investment and coordinating projects and research in key areas. As the highest level of regular consultation mechanism between EU and China in the economic and commercial field, it serves as a channel to solve trade conflict and deepen cooperation. Another one is the High-level Strategic Dialogue (beginning in 2010) which focuses on issues from climate change and nuclear non-proliferation to regional security.

An overall picture of important policies issued by EU and China can be found in Annex 5 and Annex 6.

3.1 Analysis of important papers of EU on China

EU didn't pay much attention to EU-China relation until in the mid 1990s when China's economy

²⁰<http://eu.mofcom.gov.cn/article/ddfg/h/201601/20160101230191.shtml>

(Last visited Jun. 1th, 2019)

²¹Available at: <http://eu.mofcom.gov.cn/article/ddfg/e/201706/20170602591081.shtml>

(Last visited May 27th, 2019)

took off and made great achievements. In 1995, the EU adopted the first strategic document of "A long-term policy of EU-China relations"²² with hope to "chart a long run course" for EU-China relations in the 21st century, which emphasized the comprehensive development of political, economic and commercial relations with China, and preliminarily established the strategic policy framework of EU toward China. But the cooperation is still limited since EU just decided to take "constructive engagement" with China.

Later on the policy paper "Building a Comprehensive Partnership with China"²³ endorsed by European Commission (1998) was the biggest breakthrough. It is proposed to raise the EU-China political relations to the same level as that of EU towards other major international partners like the United States and Japan by annual EU-China Summits, top-level meetings and EU-China Political Directors' meetings. This not only included upgrading the level of political dialogue between the two sides, but also indicated the necessity to institutionalize. Compared with before, the approach of "comprehensive engagement" with China took the place of "constructive engagement", which reflects the further importance the EU attaches to China.

Since then, specific areas of cooperation have been further expanded and deepened. The attempts to expand cooperation with China including economic and political relation reached a peak in 2003, when the fourth policy paper was issued--"A maturing partnership: shared interests and challenges in EU-China relations"²⁴. In this document, the EU re-examined EU-China relations from a strategic point of view and put EU-China relations in an unprecedented position in history, and stressed that the two parties should actively seek common interests and face common challenges on the basis of the new "mature partnership". It was in the same year that the EU established a "comprehensive strategic partnership" with China, ushering the best period of EU-China relation in history. This transformation is the result of the continuous adjustment and benign interaction between the EU and China, indicating that in EU-China relations, political and strategic objectives have become the main consideration.

However, bilateral relationship cooled down a little after 2006, which can be seen in the EU's communication "EU-China: Closer Partners, growing responsibilities"²⁵. It stressed that China should assume "more responsibility" "commensurate with the benefits". As for bilateral trade and economic relations, EU held "China's yet incomplete implementation of WTO obligations and new barriers to market access" are obstacles for truly reciprocal trade relation, therefore EU will require openness and fairness in Chinese market. Along with it, EU's first policy on trade and investment with China--"EU-China trade and investment: Competition and Partnership"²⁶ was issued.

²²Available at: <http://aei.pitt.edu/2784/> (Last visited May 17th,2019)

²³Available at: <https://eur-lex.europa.eu/LexUriServ/>

[LexUriServ.do?uri=COM:1998:0181:FIN:EN:PDF](https://eur-lex.europa.eu/LexUriServ.do?uri=COM:1998:0181:FIN:EN:PDF) (Last visited April 16th,2019)

²⁴Available at: [http://aei.pitt.edu/38105/1/COM_\(2003\)_533.pdf](http://aei.pitt.edu/38105/1/COM_(2003)_533.pdf) (Last visited April 16th,2019)

²⁵Available at:[http://aei.pitt.edu/38107/1/COM_\(2006\)_631.pdf](http://aei.pitt.edu/38107/1/COM_(2006)_631.pdf) (Last visited April 12th,2019)

²⁶Available at: <http://ec.europa.eu/transparency/regdoc/rep/1/2006/EN/1-2006-632-EN-F1-1.Pdf> (Last visited April 13th,2019)

Although the main tone is still constructive, it clearly reflects EU's disappointment and dissatisfaction toward China's failure to create a fair business playing ground for EU business. In general, these two policy documents issued by EU in 2006 are more critical than ever, in which serious prerequisites for the further development of bilateral economic relations was put forward, reflecting the EU's worry about the rise of China. What's worth mentioning is the changes in the EU's economic policy towards China: EU began to take a tough attitude on bilateral trade issues, accuse China of "unfair competition", urge China to further open its markets and threaten to take more anti-dumping measures. This shows that the EU sees China not only as a "strategic partner", but also as a potential competitor and a rising power. From then on, EU's attitude toward China can best be described as "Partnership and economic competition go hand in hand".

In June 2016, EU issued its seventh strategic document on China--"Elements for a new EU strategy on China"²⁷, which required China to "promote reciprocity, a level playing field and fair competition across all areas of cooperation and investment relationship". Moreover, the EU expressed the hope that China can assume responsibilities in accordance with the benefits it gains. When engaging with China, "comprehensive approach" should be taken, which means all EU member states should respect EU laws, rules and policies. And EU policy-making toward China should fully consider the EU's relationships with the US and other partners. It is not difficult to see the EU's increasing misgiving and worry toward China.

The latest policy--"EU-China--A strategic outlook"²⁸ was adopted in 2019, which explicitly views China as "an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance", along with a cooperation and negotiating partner with aligned objectives and a balance of interests. The paper pointed out "the balance of challenges and opportunities presented by China has shifted" and "China can no longer be regarded as a developing country". So EU calls on China to take greater responsibilities and translate reform ambitions into actions.

In short, the "honeymoon period" of bilateral relation is gone. "Despite steadily improving relations, the EU and China remain divided over core political values, geopolitical interests and priorities, and conceptions of world order"²⁹. The EU's attitude towards China is becoming increasingly elusive. On the one hand, the EU wants to strengthen its relationship with China since "building a strategic partnership with China would show that Europe could pursue an independent role in world politics"²⁹; on the other hand, "China is seen as the fast-rising economic powerhouse which could potentially threaten European interests"³⁰. Therefore "EU and China acknowledge each other as strategic partners, but as it stands they have failed to add a genuine strategic dimension to their

²⁷Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1555920162701&uri=CELEX:52016JC0030>(Last visited April 9th,2019)

²⁸Available at: <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf> (Last visited April 9th,2019)

²⁹Richard Mather, "The elusive EU–China strategic partnership", *International Affairs*, 2016

³⁰Reuben WONG, "China's Rise: Making Sense of EU Responses", *The Journal of Contemporary China Studies*, Vol.2, No. 2

relationship"³¹. However, EU are more friendly to China than counterparts like USA and Japan, since "Europeans tend to see issues in shades of gray, rather than in black and white"³², which is the bases for Sino-EU cooperation.

3.2 Analysis of China' policy paper on EU

Back in 1975, China's economy was on the edge of collapse and the social situation was chaotic. For China, EEC was a force that can be united in its diplomatic goal of opposing international hegemony, especially Soviet. The impact of the international strategic environment is far greater than the willingness and ability of China to develop relation with EEC on its own. Therefore, bilateral economic relations was not broadened and deepened to the extent they should and the degree of mutual attention is obviously insufficient, because political relations were the main consideration. Even in the beginning of 1990s, China 's cooperation with EC were more of consideration to get rid of isolation in the international society. Meanwhile, EC tended to patronize China and not accept China as an equal player due to the huge gap between both sides in terms of economic power.

It was not until mid1990s when EU issued a series of papers toward China that EU began to realize the big potential of Chinese market and China began to see itself as an emerging economy with more confidence. Therefore, China responded positively by building a comprehensive Partnership with EU. From then on, China began to take EU as a long-term economic partner and adopt more proactive approach toward EU. In 2003, the Chinese government put forward China's Policy towards EU³³. This is the first time that China issued a policy document for a particular region or country, showing the importance of EU in China's foreign strategy.

Along with the rising economic power and global influence, China became more proactive in world stage. "Under the leadership of Chinese president Xi Jinping, China has proposed a series of diplomatic initiatives."³⁴"One Belt One Road" is a good example that China desires to exert influence in global stage. Likewise, China wants to be treated as an equal player in EU-China relation. EU does matter as the most important trade partner from China' perspective but on the condition of not intervening China's domestic issues. We can see the baseline increasingly clearly in China's second and third policy paper toward EU.

As in 2014, China published the second policy paper toward EU³⁵, China explicitly stated that differences and frictions on ideological issues and commercial issues should be "properly handled

³¹Gustaaf Geeraerts, "EU-China Relations", *The Plagrave Handbook of EU-Asia Relations*, 2013,pp. 492-508

³²Stanley Crossick, "The Rise of China and Its Implications for the EU", EAI Working Paper, 2006, no. 132

³³Chinese version can be accessed at:

http://www.gov.cn/gongbao/content/2003/content_62478.htm (Last visited April 9th,2019)

³⁴Jinghan Zeng, "Does Europe Matter? The Role of Europe in Chinese Narratives of 'One Belt One Road' and 'New Type of Great Power Relations' ", *JCMS* 2017 pp. 1–15

³⁵Available at: http://www.china.org.cn/chinese/2014-04/02/content_31981279.htm

(Last visited May 13th,2019)

through dialogue in the spirit of equality and mutual respect". Compared with first EU Policy, China was more specific and practical on its own interests, not only hoping to build a community of interests and achieve mutually beneficial and win-win cooperation but also expresses its own concern that EU can improve, for instance, opening the markets to China's financial industry and support Chinese financial institutions in doing business in the EU.

Also, we can find it in the third policy document towards the EU³⁶(2018), which points out China's concern about EU's regulations on trade and investment, hoping that EU effectively maintains an open, fair market and eliminates the doubts and worries of Chinese enterprises. However, the cooperation with EU is the mainstream, China never changed the idea of deepening the partnership and enhancing bilateral ties. The reality is that China always put high value on its ties with EU and regards China-EU relation as a vital hedging strategy against the unstable China-Japan and China-US relations.

4. The evolution of EU-China economical and trade cooperation

4.1 The beginning and rapid development stage (1975-2000)

In the first 15 years of cooperation, bilateral trade increased slowly. Entering into 1990s, China's economy took off and saw exponential increase. The great market potential and favorable policies regarding foreign trade stimulated the EU-China economical and trade cooperation. EU issued three policy papers on China after 1995 and established Comprehensive Partnership with China. All favorable conditions contributed the bilateral relations.

During this period, there were frequent exchanges of visits and close political consultations between senior leaders of China and the EU. Great progress has been made in the breadth and depth of bilateral relations, especially economic and commercial cooperation has increasingly become the basis and core of EU-China relations. The bilateral economic and commercial relations cooperation was slow at first and then experienced fast growth, entering a stage of rapid development.

4.1.1 Policy foundation for bilateral economic and commercial cooperation

After negotiation, China and the EEC agreed to establish formal relations in May of 1975, which is the very beginning. Three years later, Trade Agreement EEC-China³⁷ signed, Trade Commission was established, in which the two sides agreed to grant MFN treatment to each other in terms of customs duties and other aspects. It was in the same year that China decided to reform and open up. In 1978, China's total volume of foreign trade was only \$26 billion³⁸, accounting for 1% of the world's total trade. A decade after opening up, China's foreign trade totaled \$81.6 billion, 3.8 times

³⁶Available at: <http://cz.china-embassy.org/cze/xwdt/t1623321.htm>

³⁷Annex 4: A list of important agreements between EU and China

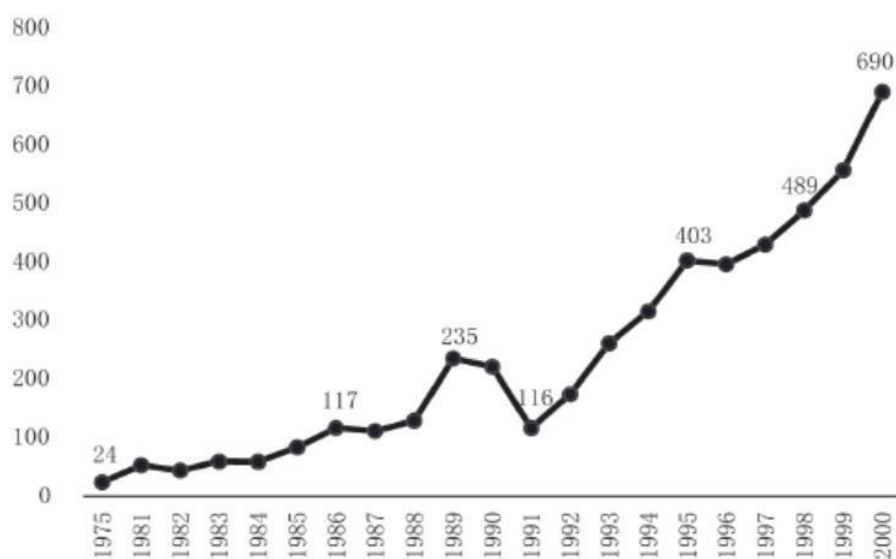
³⁸Available at: <http://history.mofcom.gov.cn/?specialtwo=ggkfyldwmyyfqh> (Last visited Jun. 6th,2019)

as much as in 1978, and trade between developed and developing countries expanded by 3.43 times and 2.92 times respectively. In the 1990s, especially after Deng Xiaoping's Southern talk in 1992 and the 14th NPC of the CPC, China established important principles and policies for building a socialist market economic system, thus entering a new period of opening up. China's GDP increased significantly from ¥367.9 billion(RMB) to ¥10028 billion(RMB) in 2000, ranking the 6th in the world. China rose as an emerging economy that develops extremely rapidly from a poor and backward developing country. In 2000, China's foreign trade exports totaled \$249.2 billion, taking up 6% of the world's total foreign trade. Meanwhile, in 1995, the EU published its first strategic document on China, which advocated strengthening EU-China relation in an all-round way. In 1998, through the document "Building a Comprehensive Partnership with China", it was proposed to raise EU's relations with China to the United States, Japan and Russia at an equally important level. In the same year, EU-China leaders held their first meeting and signed a joint statement, announcing the establishment of a "long-term and stable constructive partnership".

In short, the formal birth of the EU and China's opening up stimulated further development of bilateral commercial relations. On the one hand, China's reform and opening up provided EU with potential markets and broad prospects for cooperation. On the other hand, China obtained the capital and technology needed for rapid economic development.

4.1.2 Rapid increase of bilateral trade since the 1990s

Fig. 3 China's Trade with EU



Unit: hundred million dollars

Source: China Custom

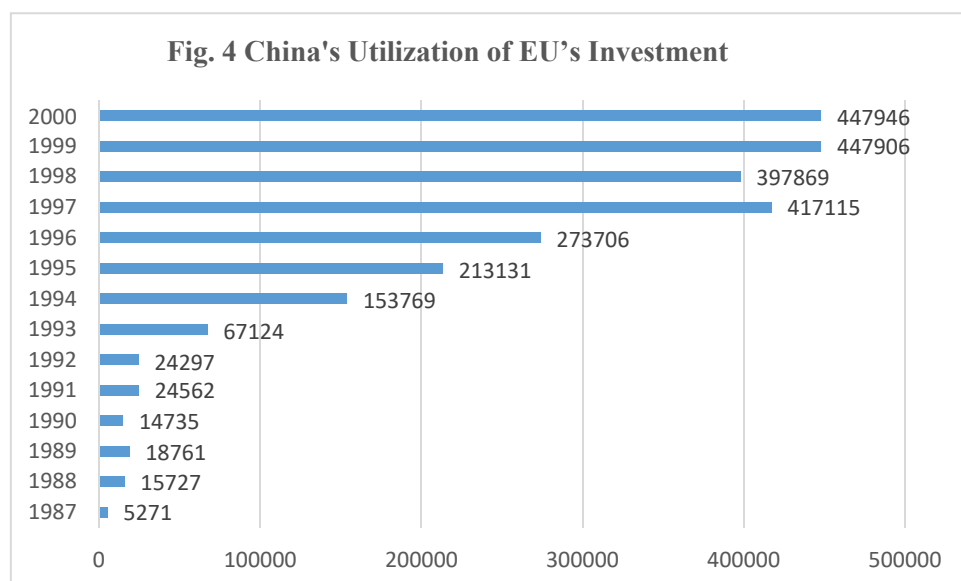
As the line chart above, starting from \$2.4 billion in 1975, the total volume of trade between the two parties exceeded \$10 billion, claiming at 11.7 billion in 1986. A drop in 1990 and 1991 can be seen with a decrease of 6% and 48% respectively when the EC decided to freeze its relations with China and imposed arms embargo and a series of other sanction measures on China in 1989. The

EU-China relationship was seriously harmed. One year later, the EC decided to lift most of the sanction measures on China except the arms embargo. The high-level exchanges of visits between the two sides and the cooperation in various fields began to return to normalcy.

In 1995, the total trade volume between the 15 EU countries and China broke through \$40 billion and climbed to \$48.9 billion in 1998. Throughout the 1990s, the annual average trade growth rate between China and the EU remained at more than 35%. By 2000, the total bilateral trade reached \$69 billion, taking up 15% of China's total foreign trade, more than 28 times as much as in 1975. The EU has become the third largest trade partner of China.

4.1.3 Benefits from EU's investment in China for both sides

From 1979 to 1982, the total number of foreign investment in China was \$5 billion, which remained at an average annual level of \$4.5 billion throughout the 1980s. On this basis of China's favorable treatment to foreign investment (particularly advanced technology enterprises and product export enterprises), foreign investment in China accelerated. In the 1990s, foreign investment in China began to increase significantly and EU enterprises became the main target of attract foreign investment in China. China's utilization of EU's investment witnessed dramatic rise since the mid-1990s, amounting to \$4.48 billion in 2000 with an increase by \$4.42 billion, almost 85 times larger than that in 1987 (seen from Fig.4).



Unit: ten thousand dollars

Source: China Foreign Investment Statistics 2016, Ministry of Commerce

Meanwhile, the proportion of EU investment companies in China rose sharply. By 2000, these two percentages were 2.8 times and 4.8 times higher than those in 1987 respectively. Through direct investment in China, EU enterprises avoided China's relatively high import tariffs at that time, greatly reduced corporate costs and improved the competitiveness of European products in the Chinese market. Meanwhile, it also won a large market share and high profits. For China, the invested enterprises gained funds and technologies. The introduction of technology and capital

not only directly promotes the research and development of China, but also promotes the upgrade of China's industry.

By 1991, the cumulative number of foreign-invested projects reached more than 40,000, and the number of large and medium-sized projects with foreign fund of more than \$10 million began to increase⁴⁰. However, China's investment abroad was mainly window companies, trading companies or a small number of primary processing industries with an annual total investment of no more than \$1 billion before 1991, which is basically in a spontaneous state with small scale of a single project as well as single and narrow investment field. In 2000, the 15 EU countries invested \$4.48 billion in China, surpassing the \$4.38 billion of the United States and \$2.92 billion of Japan, accounting for 11% of China's total foreign investment the whole year.

4.1.4 Economic and technological cooperation

The EU is the largest supplier of technology imports for China. Since the 1980s, technology imports from the EU have accounted for half of China's total technology imports every year. It increased significantly to 939 contracts in 1995 while in 1994 there were only 149 contracts. In 2001, the number of contracts rose to 1050, with contract value of \$4.422 billion, which accounted for 48.95% of the total technology introduction in China that year. By the end of 2001, China had imported 13495 technologies from EU member states, with a contract value of \$67.17 billion. Also, China and the EU have carried out extensive cooperation in the fields of training, science and technology, and assistance. After 1996, EU-China economic and technological cooperation has been gradually institutionalized. Under the mixed Commission, China and the EU have set up five working groups on a wide range of fields. The degree of institutionalization of cooperation has been continuously strengthened.

4.1.5 EU's anti-dumping and other trade frictions against China

In 1979, the EU launched its first anti-dumping against China, the first lawsuit China has suffered in the world. In the next 20 years, the EU's anti-dumping has shown a downward trend on the whole. However, the EU's anti-dumping measures against Chinese products rose with the amount of over \$3 billion dollars in the following two decades. The amount of cases filed ascended from 29 in the 1980s to 55 in the 1990s. In 1999 alone, the EU launched as many as 13 anti-dumping against China³⁹, making China the largest number of foreign anti-dumping cases and investigations in the EU. Moreover, the demonstration effect expanded to other countries, most of the products charged with anti-dumping by EU faced charge by other countries. For key export products of China like iron and steel, mechanical and electrical, chemical and textile, EU conducts anti-dumping investigations and imposes retaliatory anti-dumping duties on them to limit the price competitiveness of these products in the EU market, increasing bilateral disputes and frictions.

³⁹Source: Ministry of Commerce of China, *China's Foreign Investment Statistics 2016*

4.2 Deepening cooperation and adjustment stage (2001—2012)

At this stage, EU-China economic and commercial relations have made rapid progress. With China's admission into WTO in 2001 and the EU's eastward expansion in 2004, the EU began to become China's largest trading partner for 16 years in a row, and China also became the EU's second largest trading partner. At the same time, the EU continued to maintain one of the most important sources of foreign investment and technology introduction for China, which laid a solid foundation for the sustained and healthy development of the two sides. But after the sixth EU's policy toward China, EU-China entered a period of adjustment with the Dalai Lama issue. Then during the global financial crisis (2008) and the European debt crisis (2012), the economic ties between China and Europe have become close again.

4.2.1 Mature mechanism of EU-China cooperation

Marked by China's entry into WTO, China's opening up came to a new stage of all-dimensional, wide-ranging and multi-level. During this period, China's national economy continued to grow rapidly and its interaction with the world economy increased, while the EU issued the fourth, fifth and sixth policy documents on China in a row. Among them, the fifth document, "A maturing partnership: shared interests and challenges in EU-China relations"(2003), emphasizes that the two sides have entered the stage of "mature partnership". In 2003, the Chinese government issued its first EU policy document and a "comprehensive strategic partnership" was set up between EU and China, indicating that China and the EU are strategically important to each other. In the sixth document of EU toward China, "EU-China: Closer Partners, growing responsibilities"(2006), proposes that closer and stronger strategic partnerships are consistent with the interests of both sides but China need to bear more responsibility and further the openness.

At this stage, China and EU have gradually improved cooperation mechanism. In addition to the establishment of annual EU-China summits (1998) and the EU-China High-level Economic and Commercial Dialogue Mechanism (2008), many consultation and dialogue mechanisms in the main fields have been established and flourished. In 2012, the two sides also initiated a high-level people- to-people exchange mechanism, which has become the third pillar of EU-China relations after politics, economy.

4.2.2 Steady growth of the bilateral trade in goods along with the emerging services trade

The sustained and remarkable growth of China's economy has resulted in considerable benefits to the EU. Meanwhile, as the largest developed economy, the broad market and advanced management experience of the EU are also indispensable in the process of China's economic development. In 2004, the EU became China's largest trading partner, with a total trade volume of \$177.29 billion, an increase of 33.6% over the last year. And China has become the second largest trading partner of the EU, only second to the United States. In 2006 China overtook the United States as the EU's largest source of imports and in 2007 the EU surpassed the United States and Japan as the largest markets for Chinese products.



Unit: hundred million dollars

Source: China Customs

EU-China bilateral trade was on rapid rise from \$76.63 billion in 2001 to \$546.04 billion in 2012, an average annual compound growth rate of 19.8%, keeping pace with the average annual growth rate of China's overall foreign trade over the same period. Among them, China's exports to the EU jumped more than seven times from \$40.91 billion to \$333.99 billion, with an average annual compound growth rate of 21%. With the rising volume of bilateral trade, the share of China and EU in their respective trade and exports reached a new high in 2008. The share of China's total trade with the EU in China's overall foreign trade accounted for 16.6 % with Chinese exports to the EU taking up 20.5% of China's total foreign exports. In terms of EU exports to China, the importance rose year by year, from 4.9% of China's total imports in 2005 to 6.6% in 2008 and 7.5% in 2009, making China as the EU's second largest export market.

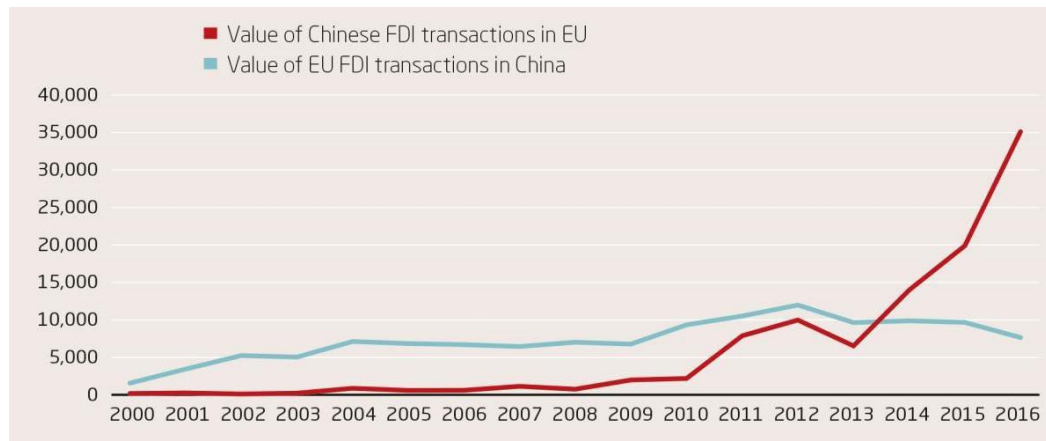
From 2001 to 2008, China's processing trade ushered in the second round of rapid growth, when China's main processing goods gradually changed from labor-intensive products to capital and technology intensive ones. At this stage, China's processing trade began to seek further transformation and upgrading, constantly extending to the independent R & D industrial chain. The share of trade in high-tech products ascended from less than 20% in 2001 to about 28% in 2013. Meanwhile, the emerging service trade industry has grown significantly, for instance, insurance, communications and financial services even though traditional service trade still dominated the bilateral service trade. Transport and tourism occupied an important position in the traditional services trade, accounting for more than 50% of the total EU-China service trade⁴⁰. As the main body of bilateral goods trade between China and EU, manufactured goods took 90% of the total goods trade. Machinery and transportation equipment are the main goods imported by the EU from China despite of a drop due to the global financial crisis.

⁴⁰Jing Bi, "Review and Reflection on Sino-EU Economic and commercial Relations in the past 40 years of Reform and Opening up", International Trade, Volume 10, 2018

4.2.3 China's "going global" strategy and rapid growth of Chinese investment in EU

In 2001 China put forward the strategy of "going global" for the first time, and the 17th NPC of the CPC in 2006 proposed to speed it up. In 2010 China called for the deep enforcement of the "going global" strategy, and the significance of FDI in China's economy constantly increased.

Fig.6 Chinese FDI and EU FDI



Unit: billion euros

Source: Rhodium Group

As Chinese enterprises began to have capital and technological advantages in international competition, China's FDI flows ascended sharply, which set a record of \$107.8 billion in 2013, making China the third biggest investor in the world. After the eastward expansion of EU, China's investment in EU entered a phase of rapid development. Chinese FDI in the EU covered 27 EU member states for the first time in 2010 and overtook that EU's FDI investment in China in terms of FDI transactions for the first time in 2014 (seen in Fig.6). China's FDI in EU rose dramatically from 2008 onward despite a drop in 2013 while EU's FDI in China ascended stably. From this period on, M & A has become the main way for China to invest in EU⁴¹. On the one hand, the rapid growth of Chinese investment in the EU reflects the growing strength of Chinese enterprises. On the other hand, it is due to the rare opportunities offered by the European debt crisis. After 2008, China's direct investment stock in the EU has almost doubled every year, which played a positive role for European enterprises to get out of the debt as soon as possible.

4.2.4 Intensified bilateral commercial frictions

With the deepening of commercial relations between the two parties, the economic frictions continued to escalate. According to statistics of WTO, the EU did a cumulative total of 91 anti-dumping investigations against China only from the establishment of WTO in 1995 to 2009,

⁴¹Thilo Hanemann and Mikko Huotari, "Chinese FDI in Europe in 2017--Rapid recovery after initial slowdown". More information can be found: <https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe> (Last visited Jun.1,2019)

becoming one of the regions that did most anti-dumping investigations against China in the same period. The proportion of anti-dumping launched by the EU against China also increased in the whole year. More than half of them were initiated in 2007 and 2010.

The textile dispute between China and the EU in 2005 aroused the pressure of public opinion through media hype that the EU economy was threatened by cheap imports from China. The abolition of global textile quotas in 2005 once triggered a textile dispute between China and EU. In July of the same year, the EU imposed an anti-dumping duty of 16.5% on Chinese leather shoes. This tax rate has forced many Chinese shoe companies to abandon the EU shoe market, leading to a sharp drop in exports.

At the same time, the EU canceled all preferential arrangements since May 1, 2004, which means that the EU ended the unilateral preferential treatment granted to Chinese products, therefore tariffs on Chinese products entering the EU market have been greatly increased. In addition, because the new members admitted in the eastward expansion of the EU were originally in deficit with China, the trade deficit between China and the EU has further widened and the number of trade frictions has increased year by year.

4.3 Co-existence of competition and cooperation stage (2013-now)

At this stage, bilateral trade remains stable and cooperation deepens whereas trade frictions are becoming more and more frequent. Meanwhile, Chinese investment in the EU grew rapidly and large mergers and acquisitions emerged, but EU countries' worries and concerns rose, as a result, the government in some countries blocked some mergers and acquisitions and then investment screening framework was introduced this year. For one thing, EU tried to promote strategic cooperation by aligning Juncker plan with "One Belt One Road". For another, the EU showed doubt and mistrust about "16+1" and required all countries to consider the overall interests of the EU in their engagement with China. As a result, EU-China economic and commercial cooperation has entered a stage of co-existence of competition and cooperation.

4.3.1 The steady institutional progress of bilateral relations

"One Belt One Road" proposed by Chinese President in 2013 received positive response and provided new opportunities for EU-China economic cooperation. Also, the Chinese government issued two policy documents towards EU in 2014 and 2018, mapping out the goals towards the EU in the new period.

From EU's side, two strategic documents on China were issued. In the seventh strategic paper on China (2016), it emphasized strengthening EU-China relations while posing more pressure on China to take more responsibilities and ensure level playing ground. Apart from cooperation, EU was more inclined to stress its own interests and values. In the latest communication, EU views China as "an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance". Ten action proposals are very specific and targeted at the most concerned and controversial issues, reflecting that "China's rise and mounting influence are not only

affecting Europe's position in the global distribution of forces, it also constitutes a challenge to Europe's very identity" (Geeraerts 2013).

Though the EU-China relations became strained than before, the summit mechanism (established in 1998) served as a good channel for the leaders of the two sides to promote mutual trust and handle differences in a constructive way, therefore ensuring the continuity of bilateral relations. China and EU jointly issued the EU-China 2020 Strategic Agenda for Cooperation in 2013, which determined the goal of bilateral relation and tried to offer strategic guidance for the all-round development. According to the joint statement⁴³ of the 17th EU-China summit in 2015, the EU and China agreed to promote alignments between China's "One Belt One Road" and the Juncker plan⁴² and "build connectivity platforms, strengthen cooperation between the AIIB and multilateral development banks, and jointly promote an open world economy and a fair, transparent, rule-based trade and investment environment".

4.3.2 Connecting "One Belt One Road" with the Juncker Plan

China and EU leaders positively promoted the alignment of the "One Belt One Road" with the Juncker Plan and reached a consensus on project-level cooperation under the EU-China Co-investment Fund (CECIF). After three years of negotiation and consultation, Silk Road Fund (China) and European Investment Fund (EIF) finally agreed⁴³. Jointly sponsored by SRF and the EIF, CECIF was formally established in 2018 with €500 million.

Also, large banks from China and EU have set up branches or offices in each other's regions to provide customers with a full range of financial services, including deposit and loan, settlement, trade financing and investment banks. After the establishment of the AIIB, which was initiated by China on December 25, 2015, Britain was the first EU country to join AIIB. Since then, France, Germany, Italy and other countries have followed⁴⁴. In 2016, China became the 67th country to join the EBRD, which not only further promoted cooperation between the EBRD and the AIIB but also strengthened bilateral cooperation in third parties, such as the joint development of African and Latin American markets. At present, China and the EU have established a multi-level coordination of monetary and financial policies. The innovation of dialogue mechanism, especially in financial science and technology, financing methods and so on, has further promoted the cooperation of financial institutions between the two sides.

What's more, China and EU countries conduct various forms of economic and commercial cooperation through the alignment of development strategies. In addition to cooperation of "Made in China 2025" with "German Industry 2025", "New Industry France", "Made in the United

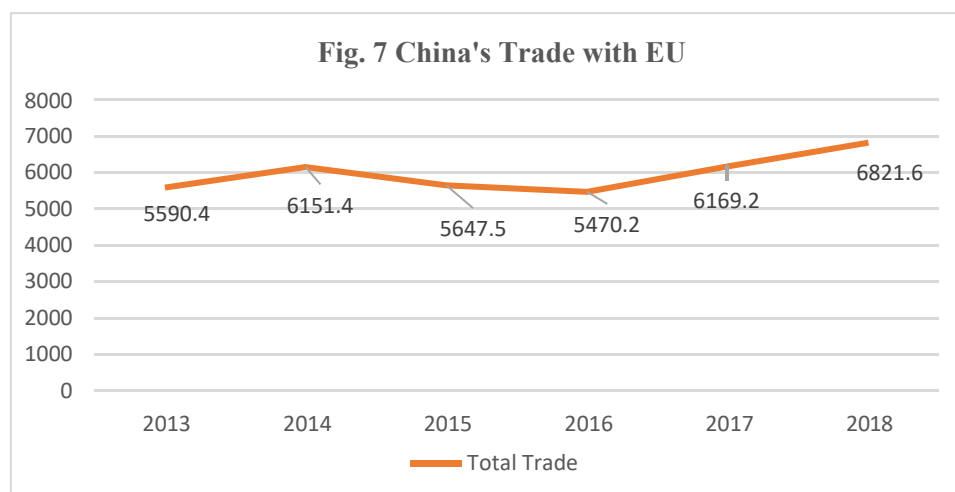
⁴²Available at: http://ec.europa.eu/research/iscp/pdf/policy/icd-2_joint_statement-29jun2015.pdf
(Last visited Jun. 6th,2019)

⁴³Available at: <https://www.portseurope.com/eib-cooperates-with-china-with-new-e500-million-silk-road-fund-equity-investment-initiative/> (Last visited Jun. 8th,2019)

⁴⁴Available at: <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>
(Last visited Jun. 9th,2019)

Kingdom 2050". China also cooperates with Southern Europe, Central and Eastern Europe. Under the background of One Belt and One Road, China intensified and expanded economic interaction with 11 EU Member States and 5 Balkan countries by the "16+1" mechanism. On 12 April 2019, "16+1" mechanism will upgrade into "17+1" with Greece's accession.

4.3.3 Stable bilateral trade with increasing trade frictions



Unit: hundred million dollars

Source: China Customs

In 2013, China's foreign trade totaled more than \$4 trillion, overtaking the United States to become the largest trading country in goods all over the world. Against the above background, EU-China trade continued to grow steadily from 2013 to 2017, with the exception of 2015 and 2016. In 2017, the amount reached \$6.17 trillion, an increment of 12.8% over the same period. China's exports to EU reached \$372.4 billion and \$244.87 billion, up 97 % and 17.7 % respectively. Simultaneously, China's surplus with the EU fluctuates on a small scale, at about \$10 billion (see Fig.7).

Over the same period, China had a trade surplus with the 28 EU countries of \$200.69 billion in 2017, an increase of 3.5%, and bilateral trade friction intensified. The EU has become more and more radical in protecting the interests of European producers and workers through protection measures. In 2015, the EU's anti-dumping and anti-subsidies survey toward China accounted for 43% of all investigations. In the first three quarters of 2016, it reached 67%. The issue of steel dumping was the core issue of trade disputes between two sides in 2016. EU accused China of dumping in the EU market through subsidies, resulting in market distortions and threatening the development of the European steel industry. In addition to imposing huge penalty tariffs, the EU further eliminated the "low tax principle" of punitive tariffs in December 2016, allowing the EU to raise tax rates significantly. In 2017, tariffs of 18.8% to 79.3 % were imposed on electric bicycles imported from China⁴⁵ on the grounds that they benefited from unfair subsidies.

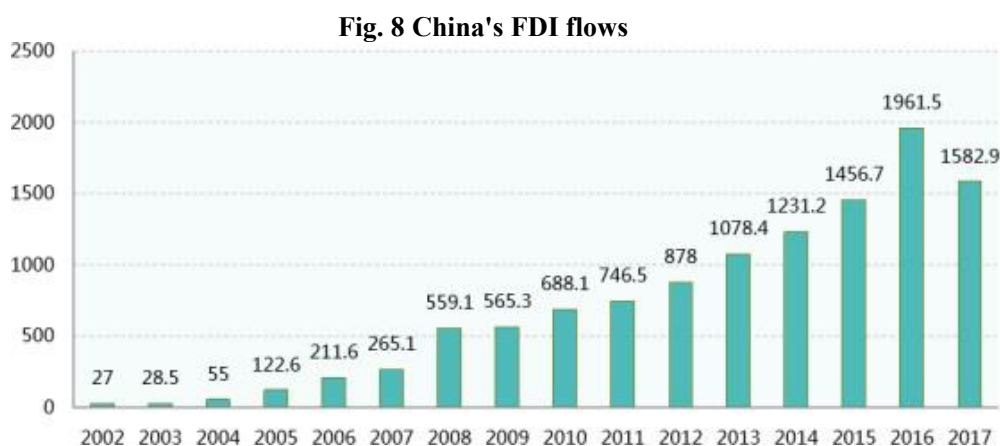
⁴⁵Available at: <https://www.energiat6.com/the-eu-to-impose-new-tariffs-on-chinese-electric-bikes/?lang=en> (Last visited Jun. 10th, 2019)

As for the market economy status, the EU chose to ignore China's rights under 15 articles of the Treaty on China's entry into the WTO when the deadline came. Recently, the EU proposed to change its anti-dumping law. According to the proposal, in the future, the EU will determine penalty tariff rates by the degree of market distortion instead of distinguishing whether it is market economy country or not, which will give the EU more room to take trade protection measures.

4.3.4 M & A Chinese enterprises in EU and FDI screening framework

4.3.4.1 Rapid increase of Chinese FDI flows

In 2015, China ranked second in FDI flows in the world for the first time, accounting for nearly 10% of the world's total. Simultaneously, China's outward FDI exceeded the level of China's inward FDI in the same period, more than \$10 billion higher than inward FDI. The net output of capital under direct investment is now in the ranks of net exporters of capital. In line with it, China's share of global outward investment flows continued to rise from 7.6% (\$107.84billion) in 2013, falling back to 8.7% in 2017 after hitting a high of 13.5% in 2016(\$196.15billion). In 2017, since the Chinese government reimposed administrative controls on the overheated outward capital outflows, the market became more rational and mature. In that year, China's FDI showed the first negative growth, down 19.3% from the same period last year, but still ranked third in the world with \$158.29 billion (seen in Fig. 8), taking up 4.4%of the total stock of foreign investment, second only to the United States and Japan. Chinese FDI in the EU continued to decrease in 2018, with the finished FDI transactions of € 17.3 billion, which represented a drop of 40% from 2017 levels and over 50 % from the 2016 peak.



Unit: hundred million dollars

Source: Ministry of Commerce of China, National Bureau of Statistics, State Administration of Foreign Exchange, 2017 China Foreign Direct Investment Statistics Communique

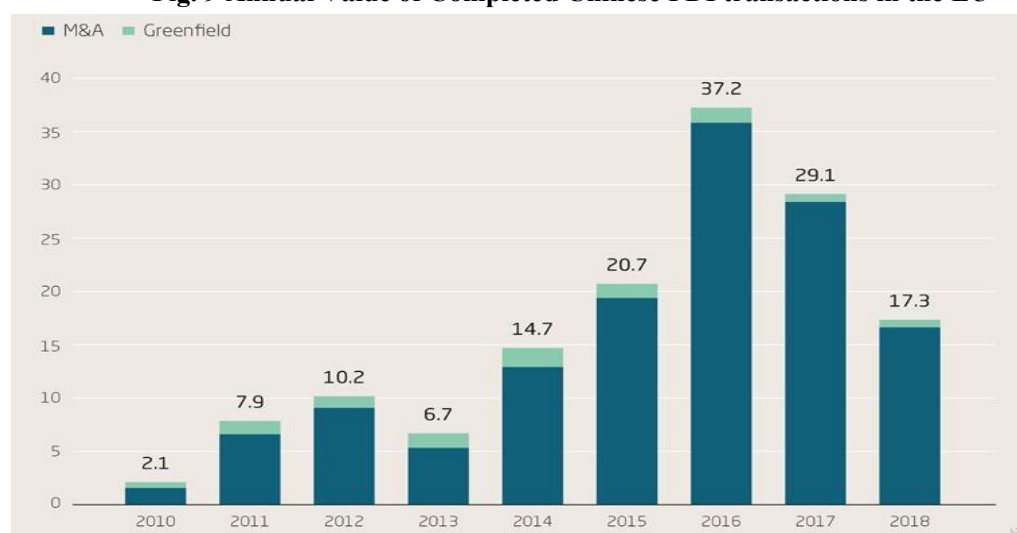
As for China's investment flows in the EU, it continues to expand, jumping from \$4.524 billion in 2013 to \$9.994 billion in 2016 despite of a contraction in 2015. Judging from the distribution of investment industries in EU, the three most active areas, accounting for nearly 70% of the total investment in EU, are information and communication technology; transportation, public utility and

infrastructure; industrial machinery manufacturing. According to the Ministry of Commerce of China, China is the third largest investment destination and the eighth largest source of investment in the EU. The EU investment stock in China (including Hong Kong) was 328 billion euros in the end of 2017, accounting for 4.4% of the total foreign investment stock, second only to the United States and Switzerland⁴⁶.

4.3.4.2 M& A of Chinese enterprises in EU and the response of EU

During this period, China's economy was in a critical period of transformation from export-led growth to one increasingly driven by consumption and services. Large mergers and acquisitions of Chinese enterprises appeared, which took a dominating share of the completed Chinese FDI in EU (seen in Fig.9). The M& A of Chinese enterprises turned to the fields of technology, brands, channels, and so on, , for instance, Sinopec’s acquisition of the world's fifth-largest tire maker-Pirelli (Italy), Fosun International’s acquisition of Club Med Bali(Club Med (France), Orient Securities’ acquisition of a stake in Imagina Media (Spain), Cosco Group’s acquisition of Piraeus Port Pier(Greece),SARI’s acquisition of NMS Group (Italy).

Fig. 9 Annual Value of Completed Chinese FDI transactions in the EU



Unit: billion euros

Source: Rhodium Group

In the face of the rapid growth of Chinese investment in EU, the EU is increasingly worried and wary that Chinese investors distort market competition. 1) the EU believes that this wave of Chinese investment in EU is a strategic action launched by the Chinese government on the basis of national interests and political factors, the main investors in EU are state-owned enterprises and private enterprises supported by the government; the financing channels for M& A of Chinese enterprises are not transparent. 2)the EU is concerned that the merger and acquisition of Chinese enterprises will damage the long-term competitiveness of the European economy, particularly in the high-tech

⁴⁶Available at: [Http: //www.mofcom.gov.cn/article/i/jyj1/m/201812/20181202821816.shtml](http://www.mofcom.gov.cn/article/i/jyj1/m/201812/20181202821816.shtml)

(Last visited Jun. 5th,2019)

industry. EU believes that the transfer of advanced technology will not only weaken the ability of the European economy to seize future growth opportunities but also expose European companies to fierce competition from Chinese companies. 3) the EU accuses China of not giving equal treatment to European companies investing in China. The EU believes that the decline of EU investment in China year after year is partly due to China's restrictions on foreign investment, including access restrictions for important industries, shareholding restrictions, technology transfer requirements and lack of intellectual property protection.

Thus the EU and governments of the members have shown an unprecedented attitude of strong intervention. In October 2016, for example, the German government withdrew the merger (\$740 million) of German semiconductor maker Isiqiang from the Chinese enterprise on the grounds of protecting key technologies⁴⁷. February 2017, the economic ministers of Germany, France, Italy and other countries sent a joint letter to the Council of the EU calling for strengthening the supervision and restriction of foreign direct investment and giving member countries stronger intervention power in their own mergers and acquisitions to avoid the loss of key technologies. Some governments of member states in EU updated or established their FDI screening regimes in 2017 and 2018, and some more are in the process of doing so.

A regulation about framework for the screening of foreign direct investment⁴⁸ that may affect security or public order was formally adopted by EU in March 2019 and will take effect on October 10, 2020. The regulation makes it clear that member states can legally prevent the foreign acquisitions of critical infrastructure, technology, raw materials and sensitive information.

5. The present challenges of EU-China economic cooperation

Since 2016, the tide of anti-globalization has had a great impact on the world multilateral trading system. In this context, the EU has issued Elements for EU Strategy on China, that constantly accused China of not having offering reciprocity and fair competition across all areas of cooperation and investment. Recently, EU is increasingly using international trade rules to suppress China's trade. Some pessimists see "an impending downward spiral in Sino-European ties"⁴⁹ and cannot go back to the honeymoon period⁵⁰. Though "a sense of cautious optimism perhaps best reflects the reality in China-EU relations"⁵¹, deep-rooted contradictions and divisions can't be ignored.

⁴⁷Available at: <https://www.nytimes.com/2016/10/25/business/dealbook/germany-china-technology-takeover.html> (Last visited Jun. 10th,2019)

⁴⁸Available at: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=2006> (Last visited May. 10th,2019)

⁴⁹Mingjiang Li, "China-EU Relations: Strategic Partnership at a crossroads", China: An International Journal, 2009, pp. 27-254

⁵⁰David Shambaugh, "The 'China Honeymoon' is Over", International Herald Tribune, 26 Nov. 2007

⁵¹Available at: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=2006> (Last visited May. 10th,2019)

Firstly, the global economic environment is not optimistic, and the world political and economic pattern has undergone profound evolution. 2019 marks the eleventh anniversary of the international financial crisis. The aftermath of the financial crisis is still there, the hidden dangers of the crisis are far from being completely eliminated, and the structural reforms and accelerated innovation called for by the IMF have not been put in place. After seven consecutive years of downturn in world trade, it is still difficult to return to the rapid growth momentum before the crisis. The development of Sino-EU economic and commercial relations is also inevitably affected.

Moreover, EU faces serious and complex challenges itself since great pressure from Brexit, refugees and immigration, terrorism, populism and the rise of independent forces makes the prospect of EU uncertain. It is of significance for EU to strengthen the. Though France and Germany reached a consensus on promoting integration and strengthening the construction of the EU, progress was slow due to various factors. It is difficult for the EU to form a unified and strong force to exert its influence on the world stage. Under the new situation, the EU needs to further integrate its member state around the core Europe and the Euro zone. In this context, the EU has doubts about the deep cooperation between China and the European subregions, like "16+1" format, fearing that economic and commercial cooperation will one day translate into China's political influence in the sub-region.

Thirdly, the Donald Trump pursues the "American priority" policy, aggravating geopolitical conflicts in hot spots, and challenges the process of economic globalization and the international multilateral trading system. The EU and the United States have always attached great importance to the alliance, but the implementation of "American priority" policy, differences with the EU on NATO military spending and economic and commercial issues mean that the alliance relationship between EU and the United States has suffered twists and turns. As European Parliament put, "EU-US trade relations have deteriorated significantly, divergences in several areas have led to doubts about the durability of transatlantic relations"⁵². Therefore, the sense of isolation and insecurity of EU has increased, as the loss of an American alliance means that it will face Russia in the east on its own geopolitical basis. Economically, it will face the challenges of emerging market countries, including China. So when dealing with EU-China relations, EU's attitude is tougher than before and a more radical approach will be taken, which can be seen in issues of intellectual property rights, trade disputes, two-way investment, human rights etc.

At last, some changes have taken place in the economic power of China and the EU after the international financial crisis. In the past, the EU generally had a sense of superiority due to the gap especially in the high-value industries and technology between two sides. It was believed that China was at the middle end or even the low end of the industrial chain while EU dominated the high end. However, the gap between two sides in terms of capital and technology have narrowed rapidly and some of Chinese technologies are close to the advanced technology level in EU with the rapid development of China's economy. The rising economical power and political influence of China poses great pressure on the EU and makes it difficult to adapt in the short term. Hence,

⁵²State of EU-US relations, Plenary-September 2018.

Available at: [http://www.europarl.europa.eu/RegData/etudes/ATAG/2018/625167/EPRS_ATA\(2018\)625167_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2018/625167/EPRS_ATA(2018)625167_EN.pdf) (Last visited Jun. 1st, 2019)

it's not difficult to understand that EU adopts approach of defense, prevention, and even exclusion due to the anxiety and ambivalence caused by the China's rapid rise and inability to balance.

6. Conclusions

Despite some twists and turns, in the course of 44 years of bilateral economic trade and political exchanges, the overall trend of cooperation between China and the EU has been increasingly deepening, booming in all directions both in terms of quantity and quality. The EU has been China's largest trading partner for 15 years in a row since 2004, and China has also become the EU's fastest-growing export market and source of imports.

The period of the past four decades is not only the 40 years that witnessed China's reform and opening up and the rapid rise of its economy, but also EU's deepening integration and increasing influence. In this process, China and the EU have been constantly updating and adjusting their understanding and policies towards each other. The EU has issued a total of eight policy documents towards China (the latest document was issued in 2019), and China has also issued three policy documents towards EU one after another (2003, 2013, 2018 respectively). The general trend is the strategic enhancement of bilateral relations, the deeper economic and commercial cooperation and the expansion of cooperation in new fields. As the core of EU-China relations, EU-China economic and commercial cooperation has promoted China's economic and social development. At the same time, EU countries have benefited a lot from seizing the opportunity of China's opening up.

Undoubtedly the relationship between China and the EU has entered a new historical stage as the contrast of strength between China and the EU accelerates. The comprehensiveness and initiative of China's policy towards the EU have been enhanced while the policy of the EU has appeared the tendency of internalization. The EU not only values the potential of cooperation with China, but also feels uncomfortable for the rise of China's strength. In the future, EU-China economic and commercial relations will maintain the coexistence of cooperation and competition for a long time.

From the point of view of cooperation, the common position and common interests on the issue of globalization have laid a new foundation for the deepening of EU-China economic cooperation. There is no fundamental strategic conflict and competition for geographical interests in EU-China relations. On the contrary, there is much common stand on major issues such as opposing unilateralism, protectionism, and safeguarding multilateralism and free trade, supporting the construction of an open world economy. From an economic point of view, China and EU complement each other in economic structure. The advantages of EU lie in products and technology, while those of China lie in human resources and broad markets. From a competitive point of view, the EU is unlikely to make easy concessions on trade and investment disputes on specific economic and commercial issues, and will still hold a certain degree of scepticism about EU-China economic cooperation. The U recently said it still needs to watch China's actions to effectively translate the openly stated reform ambitions, including cutting restrictions on European investment in China, promoting reciprocity of market access, opening up service industry, protection of IPR. As a result, friction and competitiveness between China and the EU cannot be

solved in the short term, we should realize that long-term strategic stalemate is more likely to be reality in the near future.

Therefore, the two sides need to strengthen dialogue and communication, carefully handle strategic and political issues, properly treat differences and their respective concerns and create cooperation by expanding the convergence of mutual interests on the basis of effectively controlling differences.

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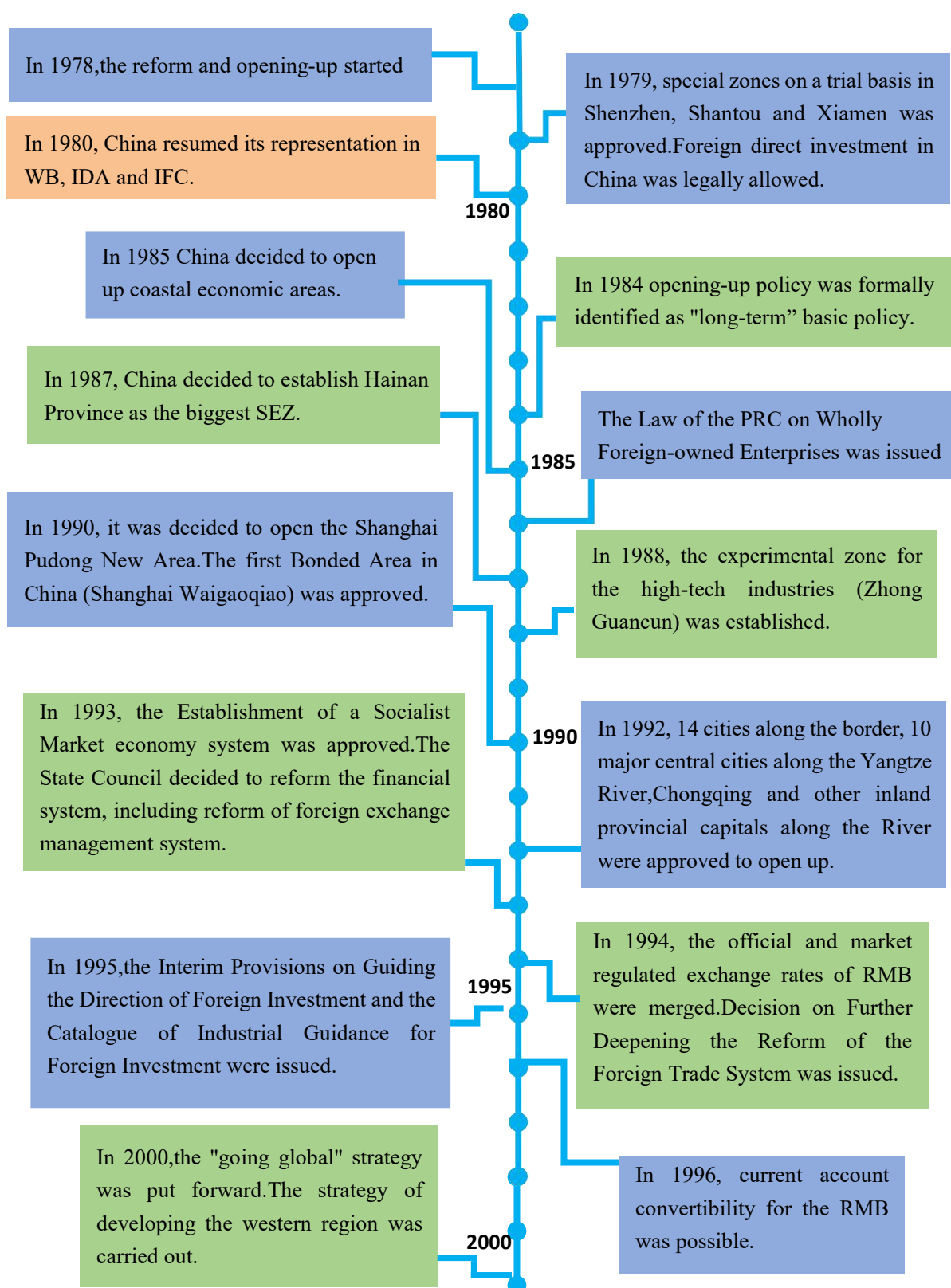
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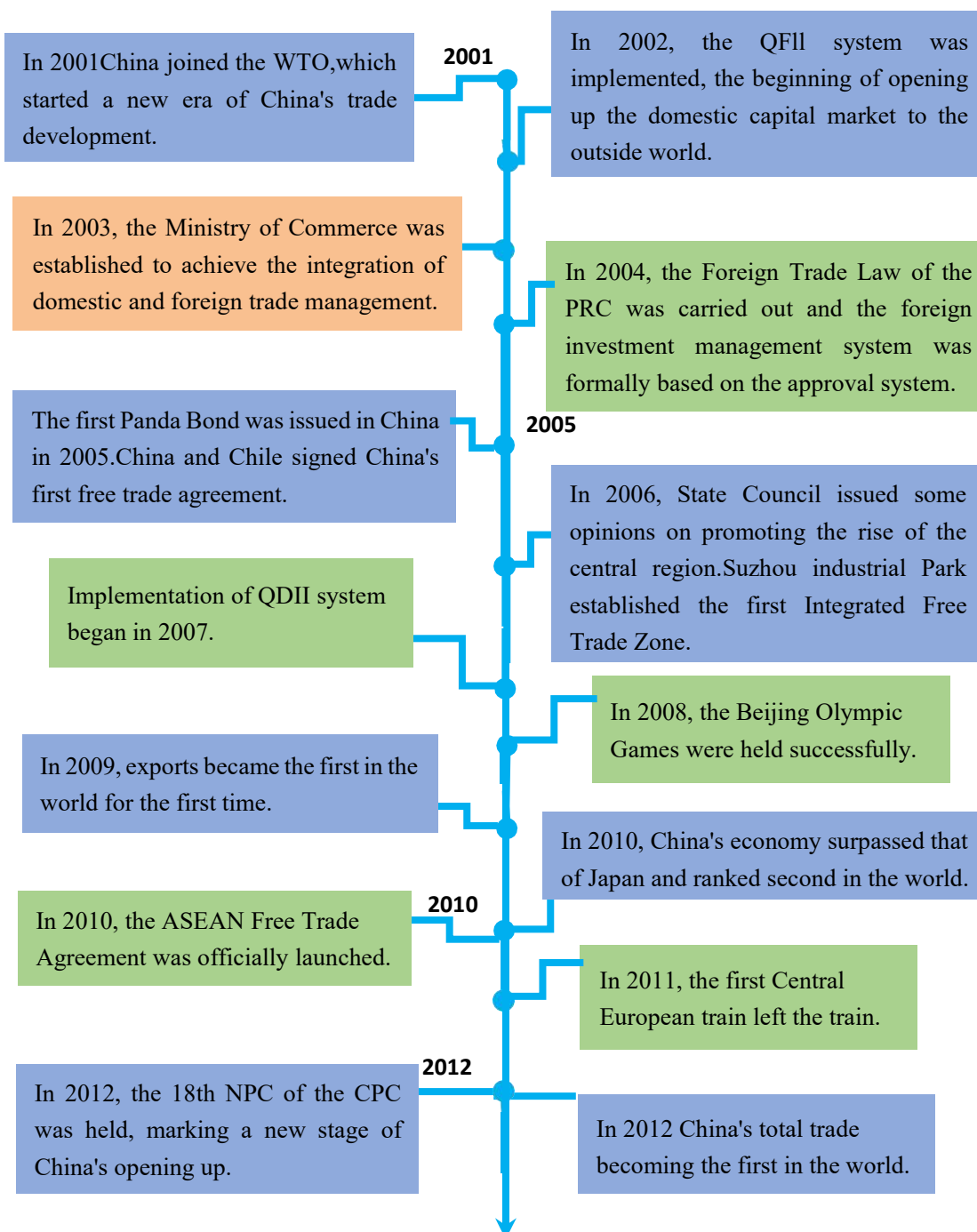
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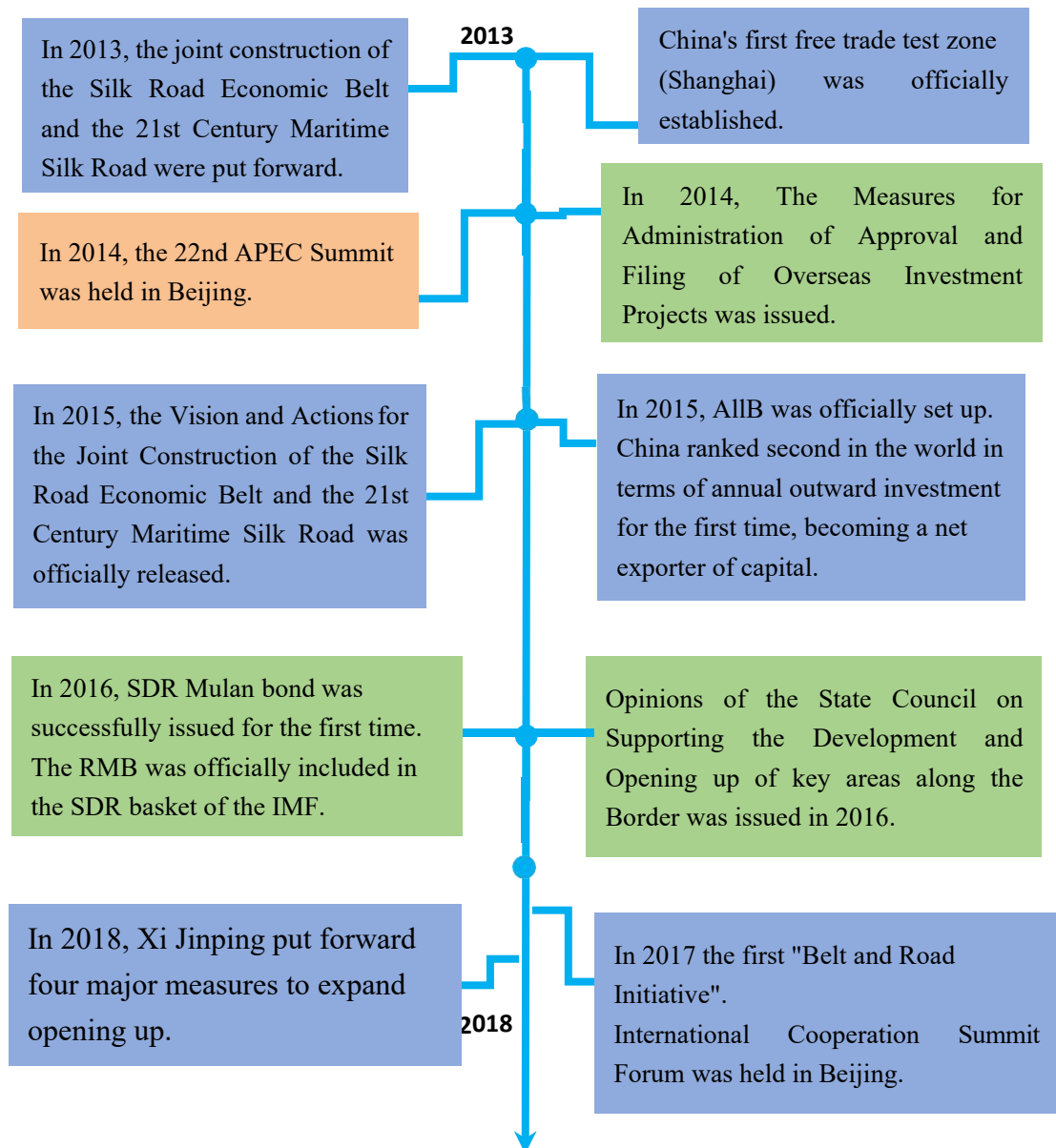
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Stage II of China's opening up to the outside World (2001-2012)





Annex 4: A list of important agreements between EU and China

Year	Main Commercial Treaties signed between EU and China
1978	Trade Agreement EEC-China
1979	(First) agreement on textile trade
1985	Agreement on Trade and Economic Cooperation
1998	Agreement on Scientific and Technological Cooperation
2000	Bilateral agreement on China's WTO accession signed in Beijing
2002	Exchange of letters strengthening the EU-China political dialogue
2003	Agreements signed on -Cooperation in the Galileo satellite navigation program -Industrial Policy Dialogue -EU-China Dialogue on Intellectual Property
2004	-Tourism Agreement -Joint declaration on Non-proliferations and Arms Control -EU-China Customs Cooperation Agreement -Agreement on Research & Development Cooperation on the peaceful use of nuclear energy
2005	-MOU on labor, employment and social affairs -Joint Statement on cooperation in space exploitation, science & technology development -Joint declaration on climate change
2006	-EU-China MOU on food safety -MOU on Cooperation on Near-Zero Emissions Power Generation Technology
2013	EU-China 2020 Strategic Agenda for Cooperation

Annex 5: A list of important papers of China on EU

2003	China releases first policy paper on EU
2014	Release of Chinese White Paper on EU-China relations: "Deepen the EU-China Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation"
2018	China's Policy Paper on the EU

Annex 6: A list of important papers of EU on China

1995	European Commission published first Communication "A long-term policy for EU-China relation", which was aimed at comprehensive development of EU-China relations
1996	The EU-China Co-operation: A New Strategy
1998	European Commission endorsed Communication "Building a Comprehensive Partnership with China" and proposed to raise the EU-China relation to a new level
2001	European Commission publishes Communication "EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy"
2002	European Commission issued China: Country Strategy Paper 2002-2006
2003	EU Council of Ministers endorses European Commission adopts policy paper "A maturing partnership: shared interests and challenges in EU-China relations"
2006	Commission adopts Communication "EU-China: Closer Partners, growing responsibilities"
2006	European Commission adopts the first policy on trade and investment with China-- "EU-China trade and investment: Competition and Partnership".
2016	The High Representative of the Union for Foreign Affairs and Security Policy and the European Commission adopts the Joint Communication on Elements for a new EU strategy on China
2019	The European Commission adopts EU-China–A strategic outlook