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DODS

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The EU's dilemma with China: free trade or bilateral investment?

During the 16th EU-China summit held in November 2013 both sides announced the launch of negotiations of bilateral investment treaty (BIT), and also agreed to start the feasibility study of EU-China free trade agreement (FTA) at an appropriate time.

There are 26 investment agreements between China and EU member states. The first agreement was signed in 1982 with Sweden, which was also the first BIT of China.

The latest revision was with France in 2007 which came into force in 2010. There are two approaches to negotiate a BIT between China and the EU. The first one is to integrate the existing 26 BITs into one inclusive pact.

On the one hand, it can consolidate the EU's competence on investment policy provided by in the Lisbon treaty. On the other hand, it can encourage the parties to reach an agreement in a short time and to translate it into practice.

The second approach is to have a high standard new generation BIT, which the EU has not yet signed with any country, including developed economies.

The EU has now initiated a high standard new generation BIT with China because it far exceeds the traditional bilateral investment protection category. It covers market access, government procurement, competition policy, the role of the state owned enterprises, as well as environment, labour and social issues.

Yet, comparing its recent free trade agreements with other partners, including South Korea and Singapore, it is almost the same FTA structure except customs and trade defence elements. Then the question is what the European Union exactly wants with China, a bilateral investment treaty or a free trade agreement?

The trade agreement signed between China and the EU in 1985 plus the 26 BITs remain the legal framework for bilateral trade. Given the rapid development of trade and economic relations between the two governments, it is imperative for both sides to update the legal framework to better reflect the comprehensive strategic partnership.

The launch of the China-EU BIT negotiation this January is a good opportunity to renew the legal framework. But the first thing is to clarify which paradigm should be followed, which can soon be turned into impetus to serve the practical needs. ★

EU-China relations timeline

- 1975 May** Diplomatic relations established. Christopher Soames is the first European commissioner to visit China
- 1985 May** Agreement on trade and economic cooperation signed
- 1989 June** EC freezes relations with China following Tiananmen protests and imposes sanctions including arms embargo
- 1992 June** Establishment of new bilateral political dialogue
- 1998 April** 1st EU-China summit, London
- 1998 Dec** Agreement on scientific and technical cooperation signed
- 2000 July** First Chinese prime minister Zhu Rongji visits the commission in Brussels
- 2001 May** Commission publishes "EU strategy towards China"
- 2001 Dec** China joins the WTO becoming 143rd member
- 2003 Oct** China releases first policy paper on EU
- 6th EU-China Summit**, Beijing - discussions on Galileo satellite cooperation, industrial policy and intellectual property
- 2004 April** Commission president Romano Prodi visits China
- 2004 May** Chinese PM Wen Jiabao visits the commission customs cooperation agreement signed
- 2004 Dec** 7th EU-China summit, The Hague - discussions on nuclear non-proliferation, arms control, customs and nuclear energy R&D cooperation
- 2005 Jul** Commission president Barroso visits China
- 2005 Sep** 8th EU-China summit, Beijing - discussions on labour, employment and social affairs, cooperation on space exploration, and climate change
- 2006 Sep** 9th EU-China summit, Helsinki - the EU and China agree on opening negotiations for new comprehensive framework agreement
- 2007 Nov** 10th EU-China summit, Beijing - discussions on establishing high level economic trade dialogue, enhancing cooperation on climate change
- 2009 May** 11th EU-China summit, Prague, Czech Republic - addressed the issues concerning the financial crisis and climate change
- 2009 Nov** 12th EU-China summit, Nanjing, China, - agreement to speed up discussions on partnership and cooperation agreement, and strengthen people-to-people exchanges and cultural cooperation.
- 2010 May** 35th anniversary of the establishment of relations between EU and China
- 2010 Oct** 13th EU-China summit, Brussels - discussions on global governance, trade and investment and strengthening political dialogue
- 2012 Feb** 14th EU-China summit, Beijing - discussions on establishing as strategic partnership on trade, climate change.
- 2012 Sep** 15th EU-China summit, Brussels - discussion on international issues Syria, Iran, East Asia.
- 2013 Nov** 16th EU-China summit, Beijing - adoption of the EU-China 2020 strategic agenda for cooperation.
- 2014 Mar** Chinese president Xi Jinping visits Brussels

Source: European external action service

The launch of an EU-China bilateral investment treaty is a 'good opportunity' to renew the legal framework between Brussels and Beijing, says **Chen Xin**

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