

## **A Chinese view: What does the change in Chinese leadership mean for the future of the China-EU relationship?**

*Jiang Shixue*

At the 18<sup>th</sup> Party Congress in November 2012, Xi Jinping was elected as the General-Secretary of the Central Committee of the Communist Party of China (CPC). At the 12<sup>th</sup> National People's Congress (NPC) in March 2013, Xi Jinping and Li Keqiang became China's President and Premier respectively, completing a once-a-decade Chinese leadership change.

### **No major policy changes under the new leadership**

In China, only at the end of the 1970s did this leadership change cause an abrupt policy re-orientation: after Deng Xiaoping came to power in 1977, China started to implement a strategy of reform and opening to the outside world in 1978. This significant turnaround was necessary following the ten-year disaster of the 'Cultural Revolution' (1966-1976). The reforms and opening of China were continuously deepened in the 1980s and 1990s by the subsequent leaders of the party and the government.

Over the past decade, with Hu Jintao and Wen Jiabao in power, the whole framework of China's internal and external policies has become increasingly institutionalised and only minor adjustments have been made. As a result, it is unlikely that the new leadership under Xi Jinping and Li Keqiang will adopt any abrupt policy re-orientation or changes.

This also applies to China's foreign policy: it will not witness significant transformation. But China is determined to safeguard its territorial integrity; this determination is further strengthened by the new leadership.

### **EU-China relations**

China's broad policy towards the EU will also be unchanged. But the outcome of implementing the internal and external policies of the next five years by the new leaders in China might have some implications for China-EU relations.

The new leadership in China will continue to push for economic development. As Deng Xiaoping said, "development is of overriding importance for China". China's overarching development goal was clearly stated in the 18<sup>th</sup> Party Congress report last November: "to complete the building of a moderately prosperous society in all respects". More specifically, China hopes to double its 2010 GDP and per capita income for both urban and rural residents by 2020. If this is achieved, China's position on the world economic stage will increase significantly.

As a result, China is likely to be more vocal on reforming the international financial/monetary systems, and there will be more opportunities to cooperate with the EU on many global issues. With the expansion of the economy, China will make more investment in the EU, especially since the new leadership will continue to pursue the "going global" strategy with vigour. In addition, a more prosperous China means higher demand for European products, and more Chinese tourists will come to Europe. All of this is beneficial for the EU's economic recovery from the euro crisis.

With a more mature economy, China will move towards becoming a level playing field for foreign enterprises. However, the other side of the coin is that European companies will witness more competition in China's growing market, either from Chinese competitors or from other non-Chinese rivals, and there will probably continue to be concerns that China's market is not opening widely or quickly enough.

China's new leaders will also go on pushing for the internationalisation of the Chinese currency, the Renminbi (RMB). In addition to more seigniorage, China would also benefit from the RMB's internationalisation by gaining more economic influence on the world stage, a bigger say in the process of reforming the international monetary system, and better integration of the Chinese economy with the world. Moreover, there is great potential in China and the eurozone countries to join hands to contain the dominance of the US dollar.

## Changes arising from a changing growth model

The new leadership will not stop proceeding with the urgent job of adjusting China's growth model. The major purpose of the adjustment is to reduce reliance on the world market, stimulate domestic demand, and raise energy efficiency. This adjustment will have a number of implications for the EU: first, China's exports to the EU market might not increase as quickly as in the past. But this does not mean that the EU market is not important to China, especially since the EU is still the largest market in the world. Second, China needs more advanced technology from the EU to raise energy efficiency. Therefore, the prospects of technological cooperation between China and the EU should be very bright.

Technological cooperation will also be important in other fields. The new leadership in China will continue to push for rapid urbanisation; indeed, the speed, scope and scale of urban development in China are phenomena without precedence in human history. The EU can help China in this regard: undoubtedly, more European technology will be needed in the fields of energy, construction, environmental protection, transportation, services, urban planning, etc. This cooperation can build on good beginnings: in early 2012 the China-EU Partnership on Urbanisation was established. Li Keqiang himself gave a very encouraging speech on this partnership at the first China-EU Urbanisation Partnership High Level Conference in Brussels on 3 May 2012.

Another factor relating to the adjustment of the Chinese growth model is that China is possibly arriving at the so-called 'Lewis Turning Point', meaning that the era of cheap surplus labour might come to an end. While economists cannot agree whether this turning point has arrived yet, China is expected to reduce labour-intensive exports in order to change the reality of 'selling 800 million T-shirts for an Airbus A380'. In other words, the future composition of Chinese exports to the EU and other markets might be different, further reducing direct competition between China and the EU on labour-intensive goods. Moreover, when 'Made in China' is combined with 'Designed in Europe', the whole game is definitely win-win.

### **Market economy status**

One key issue to be settled is the question of market economy status. According to the EU, there are five criteria to determine whether a country can be considered a full market economy for the purpose of anti-dumping investigations, and China is yet to fulfill these criteria. But according to Chinese government leaders and economists, it was agreed between China and the WTO in 2001 – when China joined the Organization – that the country would automatically be granted market economy status (MES) in 2016.

However, some EU officials, backed by some European scholars, do not believe that China would automatically get the MES, believing that this matter should be determined by all EU member states as well as the European Parliament, as expressed by Bernard O'Connor on 27 November 2011: "There is nothing in the WTO rules, or elsewhere, to provide that China automatically gets market-economy status in 2016. The idea that it will is a misunderstanding shared by many in China, the EU and the US."<sup>1</sup>

So the new leadership of China cannot be complacent regarding the MES issue. If China is not granted MES in 2016, the EU is likely to start more anti-dumping cases against Chinese exports.

In summary, although there will be *no* significant policy changes under China's new leadership, the ongoing developments in the Chinese economy will continue to affect Europe. While the MES issue still needs to be resolved, every other development in China indicates that the future China-EU relationship can be strengthened and that further bilateral cooperation will be very fruitful.

In 2014 the European Union will also witness important elections. In their aftermath, new leaders from both sides need to have more exchanges of views to get to know each other better and to make the comprehensive strategic partnership between China and the EU more meaningful and productive.

*Professor Jiang Shixue is Deputy Director of the Institute of European Studies at the Chinese Academy of Social Sciences. Email: [jiangsx@cass.org.cn](mailto:jiangsx@cass.org.cn)*

*Disclaimer: The views expressed in this Commentary are the sole responsibility of the author.*

---

<sup>1</sup> <http://www.voxeu.org/article/china-market-economy>