

# China-EU Economic Relations in Chinese Perspectives

*Jiang Shixue*

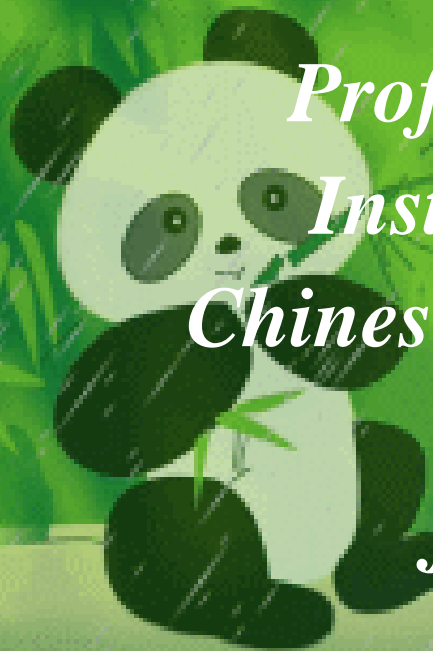
*Professor and Deputy Director*

*Institute of European Studies*

*Chinese Academy of Social Sciences*

*[jiangsx@cass.org.cn](mailto:jiangsx@cass.org.cn)*

*June 2010, Hong Kong*



# Progress



- For many years, the EU remains China's largest trade partner, the greatest export market, biggest source of technology transfer, second largest source of imports.
- China is now the EU's second trading partner behind the USA and the biggest source of imports.



- EU was China's fourth largest source of foreign capital for many years until 2008 (after Hong Kong, the British Virgin Islands, and Japan), and became the third largest in 2009, surpassing Japan.

# 2009



- According to China's statistics, Sino-EU trade was \$364 billion in 2009, accounting for 16.5% of China's total foreign trade.
- China exports to EU: \$236 billion
- China imports from EU: \$128 billion

# 2009



- Despite the crisis, in 2009, Chinese imports from EU declined only by 3.6%, much lower than China's exports to EU (19.4%);
- China's surplus with EU fell by 32.3% in 2009.

# Mutual benefits



- European Commission:  
“The EU's open market has been a large contributor to China's export-led growth and the EU has also benefited from the growth of the Chinese market.”

# According to EU statistics,



- In 2009, EU-China trade stood at €296 billion, 9.2% lower than in 2008, as against 12.9% decrease for EU's total trade.
- In 2009, EU exports fell by 16%, but its exports to China grew by 4%.
- Of the ten largest trade partners for EU, China was the only one to register a positive growth rate for EU exports in 2009.

# Bright prospects



- Each side has a big market;
- There is great economic complementarity;
- Both pursue an open-door policy;
- No geopolitical disputes exist;
- For China, closer trade relations would help reduce dependence upon the U.S. market.
- Each needs the other in an increasingly interdependent world. (China needs Europe more than the other way round?)



# Ten future actions 1



- Guard against trade protectionism.
- China believes that EU utilizes high non-tariff barriers to control Chinese exports.
- EU also complains that China's market is not widely open.

## 2. Anti-dumping



- EU accounts for a bigger share of the anti-dumping cases against Chinese exports.
- In a single year of 2009, EU filed seven anti-dumping investigations against China.
- China tends to retaliate by launching similar measures.

# Not a win-win outcome



- Since 2006 when the EU started to launch anti-dumping tax against Chinese shoes, prices of shoes in the EU market have increased by 10%. So the consumers have to pay more for shoes (€800 million).
- Chinese exporters must avoid gaining the EU's market share by competitive pricing.

# Is anti-dumping a problem?



- Trade affected by anti-dumping accounts for only 1% of total China-EU trade.
- EU Ambassador to China, Mr. Serge Abou: “Compared with cancer, anti-dumping is only a fever. Anti-dumping affects only 0.2% of EU’s imports from China.”

### 3. Market economy status (MES)



- Gaining MES from EU would help China get fairer treatment in anti-dumping investigations.
- In the 1990s, the prices of Chinese TV sets were compared with Singapore, where labor cost was 20 times higher than China.



- No country today could be defined as a pure market economy.
- EU granted MES to Russia in November 2002.
- China would probably wait till 2016 when all countries will have to grant it that status under the terms of its accession to the WTO in 2001.

## 4. Facilitate exchanges of market information and investment opportunities



- Mutual understanding of each other's market conditions and investment environment is crucial to expanding bilateral economic relations.
- Internet, chambers of commerce, embassies, etc., should play a more important role.



## 5. Strengthen cooperation in new areas

- In the areas of new energy, energy saving, waste processing, etc., EU has advanced technologies and know-how.
- China wants to adjust its economic model.
- So its market for these technologies are enormous.



## 6. Deepen high-tech cooperation



- Europe has great comparative advantage in this area;
- China has been requesting Europe to transfer more high-tech;
- “market for technology”;
- A working group for high-tech cooperation was set up in May 2009.

## 7. Facilitate cooperation between the small- and medium-sized enterprises (SMEs)



- In China, SMEs account for 75% of employment and 60% of GDP.
- In Europe, 99% of the enterprises are SMEs.

## 8. Properly deal with the intellectual property rights (IPR) issue



- China is also a victim of IPR violation.
- China is doing its best to improve IPR protection.
- Mutual criticism is not the best way to deal with the IPR issue.
- EU-China IPR2 Project launched in 2007.

## 9. Change China's export structure



- Bo Xilai, former Chinese Minister of Commerce: “China needs to sell 800 million shirts to buy an Air Bus A380.”
- This model of “export miracle” is not sustainable.

# 3\$ out of 40\$



- The Wanda wireless mouse is sold at around 40 dollars for each in the US.
- Logitech takes away 8 dollars, wholesalers and retailers take 15 dollars, and Logitech's material providers take 15 dollars too.



- China only earned 3 dollars out of it, and the money must be used to cover workers' wages, energy, transportation and management costs.
- The total income of Logitech's 450 sales persons in California is much higher than that for the 4,000 Chinese workers in Suzhou plant.

## 10. Consolidate the political relations



- Economic relations should not be politicized, but solid political relations are necessary for the development of economic relations.
- China-EU economic relations are often affected by some non-economic factors.

# Partnership



- Long-term, stable and constructive partnership for the 21<sup>st</sup> century (1998);
- Comprehensive partnership (2001);
- Comprehensive strategic partnership (2003).
- The questions is how to make this strategic partnership more concrete and more meaningful.





- In January 2007 both sides agreed to launch negotiations on the establishment of a new Partnership and Cooperation Agreement.
- EU's arms embargo.

# Impact of the Lisbon Treaty on China-EU relations



- Some say Europe will adopt a more coherent policy toward China. So it would be easier for China to deal with the EU.
- But others say “not much” because the EU still has no “single telephone line”.
- Will member states unite behind common objectives rather than compete with each other for market access and contracts?



- John Fox and Francois Godement say:  
*"China has learned to exploit the divisions among EU Member States. It treats its relationship with the EU as a game of chess, with 27 opponents crowding the other side of the board and squabbling about which piece to move."*

# Impact of the current European debt crisis on China



- A weak Euro weakens China's competitiveness: During January – May, 2010, RMB vs. Euro rose by 16%;
- Difficult to expand exports to PIGS;
- The value of China's foreign reserves in European currencies has decreased;



- A W-shape growth rate in Europe will delay full recovery of the world economy, and a sluggish world economy means less demand for China's exports;
- Rise of the RMB vs. European currencies might encourage speculative money flowing into China.



Thank you!