

George N. Tzogopoulos*, September 15th, 2017

The EU, China and the Trump effect

Relations between the EU and China have taken on increased significance. The EU constitutes the biggest market for China and China the second biggest one for the EU**. The 2020 Strategic Agenda for Cooperation constitutes the institutional basis for collaboration between Brussels and Beijing on peace and security, prosperity, sustainable development, and people-to-people exchanges. Accordingly, annual EU-China Summits are always anticipated with great interest as they bring leaders from the two sides together in an effort to discuss new opportunities and ponder on existing differences.

Moreover, in recent months the EU and China have been faced with a new challenge which goes beyond the scope of Sino-European relations themselves. This is the relative impact of Donald Trump's administration on global governance. Whereas during the years of Barack Obama the US was a predictable world superpower, this has not proved to be the case during the first months of Trump's term. In that regard, the June 2017 19th EU-China Summit took place at a critical moment for international affairs. In particular, Trump's decision to withdraw from the Paris climate agreement has left many questions unanswered as to how international cooperation will evolve under his presidency. His recent statement has been negatively framed across the world. At the same time, however, other powers – including the EU and China – need to assume more responsibilities and even take over Washington's role.

An alliance on environmental affairs?

Let us first turn our attention towards China. Following the Davos World Economic Forum of January 2017, the country has presented itself as a guarantor of globalization, stability and continuity. In the aftermath of Trump's withdrawal from the Paris climate accord, some leading Western media have diagnosed an unprecedented opportunity for China. In a remarkable example, *The New York Times* writes that 'Trump hands the Chinese a gift,' explaining that the US president 'has created a power vacuum of global leadership that presents

ripe opportunities to allies and adversaries alike to reorder the world power structure.' On the same wavelength, *vox.com* asserts that 'Trump pulling out of the Paris climate agreement is great news ... for China.'

In parallel with China, the EU is also endeavoring to enhance its international role, regarding the Trump presidency not only as potential risk, but also as a springboard for necessary action. This is particularly the case following the French presidential election of May 2017, when the nightmare scenario of a Marine Le Pen political domination appeared to be a mere step away. Within this context, the EU believes China can be a reliable partner as far as the implementation of some international agreements is concerned. Subsequently, European and Chinese leaders have banded together to accelerate the global transition to clean energy. This is certainly an unusual alliance that emphasizes the absence of the US. EU Commissioner on Climate Action and Energy Miguel Arias Cañete praised Sino-European collaboration on issues like emissions trading and clean technologies and Chinese Premier Li Keqiang confirmed that China will stand by its responsibilities on climate change.

Beyond climate change

Discussions on climate change naturally took precedence during the 19th China-EU Summit as it coincided with Trump's decision to pull-out. Of course, Sino-European are also developing on several other fronts and the two sides are finding common platforms for cooperation. The European Commission's €315 billion Investment Plan - set up by its President Jean Claude Juncker - attracted Beijing's interest from the very start. The Commission is hoping to unlock investment offering low-scale guarantees and loans from the EU budget and the European Investment Bank and to leverage further financing from other sources. It is here where China can be a valuable partner. Indeed the country announced its decision to contribute on 28 September 2015. The announcement was made

during the High Level Economic and Trade Dialogue in Beijing and after the meeting between Chinese Vice-Premier Ma Kai and Commission's Vice-President Jyrki Katainen.

Approximately two years later on, the momentum remains positive as the economic objectives of the EU and China have been able to converge. Juncker's plan encouraging investors to do business in Europe coincides with China's Belt and Road initiative that aims at promoting infrastructure development and shipping connectivity in Eurasia. In its effort to revive the ancient Silk Road and go even beyond it in the modern era, China has already established significant financial instruments. The most characteristic example is the Asian Infrastructure Investment Bank (AIIB) in which many European countries - including Britain, Germany, France and Italy - participate. Within this context, banks from the two sides have also started to collaborate. This is the case with the European Bank of Reconstruction and Development (EBRD) and AIIB.

As a result, investments and bilateral trade are naturally increasing. There are various examples outlining the logic of the ongoing win-win cooperation for the EU and China. The launch of numerous train services linking them boost interconnectedness. According to a plan issued by the National Development and Reform Commission it is estimated that there will be around 5,000 cargo trains running between Europe and China annually by 2020. Demand for rail cargo service between Europe and China has exploded in recent years because they offer an alternative to slower and riskier sea freight and much costlier air cargo. And as a key component of the Belt and Road initiative, direct cargo trains will connect a growing number of European and Chinese cities. European companies need to grasp the chance and better promote their products for export to China as most of the trains depart half-empty on returning to Asia.

Progress in Sino-European relations was outlined during the recent Brussels Summit. The official full list of outcomes presents thirty specific achievements. It is worth noting that strategic planning brings China and the EU closer also on some political issues. Brussels and Beijing certainly agree to cooperate against terrorism, illegal migration, cybercrime and transnational crime but now they are making specific decisions. Europol and China

agreed in April to strengthen law-enforcement cooperation to boost security. At that time, visiting State Councilor and China's Minister of Public Security Guo Shengkun had said that the two sides should further improve the communication mechanism and give prominence to the key points. The shared commitment was reiterated in Brussels. During the Summit, the EU also welcomed China's efforts on North Korea, as the two sides share a common interest in peace and stability on the Korean Peninsula, de-escalation of tensions, and for North Korea to comply with its international obligations and abandon all nuclear and ballistic missile programmes.

Differences

Of course, the EU and China also have important differences. The Chinese administration, for example, is concerned about the continuation of the arms embargo. It believes Brussels needs to reconsider its policy and adjust it to reflect the current excellent status of Sino-European relations. In addition to this, it strongly disagrees with some of the communique of international bodies where European countries participate - such as the G7 - which, according to China, refer to the situation in the South China Sea and East China Sea in an unfair way. Beijing does not understand why the EU should have a say on affairs away from its neighborhood which, it feels, should be dealt with by those countries directly affected.

Last year the EU was very skeptical about granting China Market Economy Status (MES) and this skepticism caused frustration in Beijing. In particular, according to the Chinese WTO Accession Protocol of 2001, the Non-Market Economy (NME) status of the country was about to expire on December 11th 2016. This could possibly result in a legal obligation to grant the country MES, now that this deadline has passed. For several months, the issue was highly controversial in Europe and European governments were divided. Europe's most important politician, Angela Merkel, had been necessarily negatively predisposed. However, reactions at EU level, as well as the voices of trade unions and lobbies, gradually gained ground.

The May 2016 resolution of the European Parliament against offering China MES further perplexed the situation. Although its nature was not legally bind-

ing, the stance of members of the European Parliament was indicative of the rising skepticism. As a result, the European Commission attempted to find a midway diplomatic solution and followed a balanced policy. On November 9th 2016 it issued a proposal in which it used the term 'market distortion' instead of 'non-market economy'. Also, it elaborated on changes to the EU's anti-dumping and anti-subsidy legislation by using 'international prices' as a tool for assessing the price of products.

For its part, the term used routinely by EU policy-makers in their approach vis-à-vis Beijing is 'reciprocity.' In practical terms, the EU is asking for more opportunities for European companies in order to do business in China. It draws a parallel between the opportunities for Chinese companies in Europe and the difficult business environment for European companies in China. The EU also shares the anxiety of some European industries which cannot easily compete with cheap Chinese products exported to Europe and regularly complain to Chinese authorities about this. Within this context, some European countries refrained from endorsing China's trade priorities during the recent international forum on the Belt and Road Initiative. Last but not least, some European countries – principally Germany – have started to reconsider their initial unconditional policy of selling 'know-how' and technological expertise to the Chinese side, irrespective of high economic offers. Future economic risks and some initial security considerations are already on the European agenda.

Looking towards the future

Differences will always exist between partners such as the EU and China. In spite of disagreements, the glass can be seen as half-full. The EU was China's supporter in the inclusion of the Renminbi in the Special Drawing Rights of the International Monetary Fund. Also, most European countries entered the AIIB from the very beginning, despite US objections. Moreover, China is committed to supporting openness, according to recent pledges made by President Xi Jinping and Premier Li Keqiang and the EU can provisionally benefit. All in all, China and the EU are looking towards the future with optimism,

seeking to co-operate where they can and possibly freeze a few sensitive or delicate issues.

The power vacuum caused by Donald Trump's ambivalent unilateralism is certainly bringing the EU and China closer. Their intention to lead the international community in pushing forward with the Paris climate accord and supporting the principles of globalization against protectionism are also steps in this direction. Nonetheless, no political alliance between the EU and China to internationally isolate the new US president is a feasible scenario. Both Brussels and Beijing have their own strategic calculations in favor of or against the US respectively, and this will hardly change. And Trump is so unpredictable that his future actions cannot be anticipated. Even with reference to the Paris agreement he sent obscure messages after his meeting with his French counterpart Emmanuel Macron a few weeks ago by saying: 'We'll see what happens'. The EU and China therefore need to be cautious before developing joint policies as a reaction to Trump's behaviour.

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