EU-China trade and investment relations and Covid-19: old struggles or new challenges?

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Abstract
The article investigates EU-China trade and investment relations, highlighting the importance of their partnership for the global economy. The article argues that Covid-19 is an accelerating factor of existing trends, analysing EU-China relations as empirical evidence. It will address the institutional and legal framework of EU-China trade and investment relations. The article will use primary and secondary sources to inform the research. It will benefit from an interdisciplinary approach, combining both legal and political literatures. The analysis is based on EU-China trade and investment relations, as reported by EU’s official documents and is divided into three main sections. The first section gives an overview of economic interactions between EU-China. The second section provides an analysis of the main documents between the EU and China before the pandemic. The third section is dedicated to showing how the relations between the two actors continued during Covid-19 pandemic.

Keywords: Covid-19, EU-China relations, investment, trade

Introduction
The past few months have been characterised by the outbreak of the Covid-19 pandemic. The public health crisis affected the entire world, having serious impacts not only on personal and health issues, but also on economy and markets. Although we are far from being out of the woods, an early investigation of the role of the pandemic on trade and investment relations can be put forward.

Many questions arise at this stage. What role does the Covid-19 pandemic play in the international arena? Can a pandemic be accounted for as an economic, as well as a public health crisis? Different theories that debate the exogenous or endogenous value of the Covid-19 crisis are showing up in the academic debate (Petit, 2020). Certainly, these are unprecedented time. This is true for different reasons. Firstly, it is the first time that China is in such a central position of influence and power in the international arena. Secondly, it is the first time that the EU is a global power and economy, capable of influencing the global markets. After almost one year into the pandemic, most of the authors and commentators have taken two different stances on the role of Covid-19 in the international framework. Many see the pandemic as a “game-changer” in the international system (Duclos, 2020; Vinjamuri et al., 2020). Others claim that Covid-19 will only accelerate already existing trends (Amighini & Sciorati, 2021).
In this article EU-China relations are analysed as empirical evidence to demonstrate that Covid-19 is an accelerating factor of existing trends. The aim is to address the institutional and legal framework of EU-China trade and investment relations. In addition, we ask if and how Covid-19 is affecting bilateral relations between the two global actors, in order to determine whether the pandemic is changing trade and investment relations between the EU and China or whether it is simply accelerating already existing trends. On the basis of official EU documentation we assess whether the current situation with Covid-19 pandemic is in line with the policies adopted in the past (see Damro et al., 2018; Freeman, 2021). The article consists of three sections. The first gives an overview of economic interactions between EU-China, taking into consideration trade in goods and service, and investments; the second provides a brief overview of the major steps towards institutional cooperation in trade and investment between the EU and China before the outburst of the pandemic; and the third is dedicated to showing how the relations between the two actors continued during the Covid-19 pandemic.

**EU-China trade and investment relations in a nutshell**

The EU and China together account for one-third of world economic output. (Fang & Shakur, 2018, European Commission, 2021b). Therefore, a clear set of norms and provisions together with a properly defined dispute settlement mechanism is necessary for the stakeholders of both sides. China and the EU have developed their bilateral relations with an average annual rate of growth of more than 20% (European Commission, 2021b). Even though the 2008 crisis has contracted global trade, bilateral relations between the two actors have not suffered like other markets, showing an important steadiness to unexpected market changes. Indeed, the 2008 growth rate was at 19.5% (Hongjian & Tianqi, 2010). In 2019, China was the EU’s second largest partner for trade, and the EU was China’s biggest partner (EEAS Press Team, 2020). Trade in goods was worth over €1.5 billion a day in the past year, and the total value of export from the EU to China accounted for €198 billion, while the import amount was €362 billion (EEAS Press Team, 2020). In 2018, services export from the EU to China was worth €46 billion, while China exported €30 billion (EEAS Press Team, 2020). Especially after China’s accession to the WTO system, the EU has been importing products from China more than its counterpart has.

These figures demonstrate the impressive scale of trade exchange between Europe and China over the past decades. The relations of the EU and China have been strictly interrelated, especially in the industrial sector, as many European companies wanted to reduce their production costs, increasing the use of subcontracts for producing components in China (Farnell, 2016). During the past decades, Chinese and European industries have been relying on each other, creating an interdependent web of connections, that have benefitted from the different characteristics of the two markets. If in the early 2000s textile was the predominant sector, a few years later the scenario changed towards an interdependence in the areas of electronic, information technology and telecommunication equipment (Farnell, 2016). Similarly, the Chinese market has become extremely attractive for European exports.

China and the EU have different access levels in their domestic market. Indeed, the EU has seen China as a “free-rider” on the openness of the multilateral system, without granting the same benefits (Farnell, 2016). In contrast, Europe’s regular use of WTO’s trade defence instruments has been considered by Chinese officials as an unfair
measure (Farnell, 2016). China sees it as another side of the non-recognition of its market status. Nevertheless, it is clear that these concerns are similar to other issues between China and developed countries (Farnell, 2016). Despite the differences and the possible tensions that might rise, though, the EU and China succeeded in pursuing their goal to develop further cooperation (Geeraerts, 2019).

These issues have been at the core of the dialogue between the two partners. The next sections show how these topics have been incorporated and dealt with in the official documents of the partnership, as well as in the negotiations of the new EU-China Comprehensive Agreement on Investment (CAI).

**Key steps towards a more integrated partnership**

EU-China relations have always been driven by economic interests (Casarini, 2019). Other elements of cooperation like security and defence have been added throughout the years. Diplomatic relations started in 1975 (Casarini, 2019; Men, 2008). Ten years later, the EU and China signed the *Agreement on Trade and Economic Cooperation between the European Economic Community and the People’s Republic of China* (1985). This is the only official agreement that exists between the two parties, unless considering the bilateral relations between China and the single Member States. Nonetheless, one of the first institutional fora of cooperation was the *EU-China Summit*. In 1998, the EU and China sat together in London for the first EU-China Summit (EU, 1998b). The main points of discussion were centred around possible solutions for fostering Chinese integration in Europe and in the global economy, supporting China’s transition to an open society (EU, 1998a).

Since the first EU-China Summit, the dialogue between the two actors has witnessed a significant increase in terms of both frequency and width of areas covered. One of the first steps towards a more integrated partnership was characterised by the EU Commission policy paper on the strategy with China in 2003 (European Commission, 2003a). The policy paper was mainly focused on strengthening cooperation in political and security related fields, including sharing responsibilities in promoting global governance, supporting China’s transition to an open society based on the rule of law and respect for human rights, and promoting Chinese economic opening domestically and externally, as well as fostering cooperation in trade and investment sectors (Casarini, 2019; European Commission, 2003b).

A major step towards a more integrated partnership between the EU and China was certainly represented by the *EU-China 2020 Strategic Agenda for Cooperation* of 2013 (EEAS, 2013). The Strategic Agenda was a document issued by the EU to foster cooperation and integration between the two actors in different sectors. This document was drafted taking into account China’s 12th *Five Year Plan* (China’s National People’s Congress, 2011; Hongjian & Tianqi, 2010; Levinger & Hansakul, 2016). The Strategic Agenda was centred on three main areas: I. Peace and Cooperation; II. Prosperity; III. Sustainable Development; People-to-People Exchanges. It served as a roadmap for the relations until 2019, opening the dialogue on the negotiations of the CAI.

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1 To achieve its goals, the document identified the following areas of cooperation: trade and investment; industry and information; agriculture; transport and infrastructure; science, technology and innovation; space and aerospace; energy; urbanisation; climate change and environment protection; ocean; regional policy; social progress; public policy; cooperation and global development; culture, education and youth; facilitation of people-to-people exchanges (EEAS, 2013).
It is clear that the EU is trying to set up an effective strategy for dealing with the presence of Chinese FDIs in its Member States. Evidence of Brussels’ interest towards China does not only include the already mentioned Agenda 2020, but also the 2016 Joint Communication on Elements for a new EU strategy on China (European Commission, 2016), the Council Conclusion (General Secretariat of the Council, 2016), the 2018 European Parliament Resolution on the state of EU-China relations (Gehrke, 2019). The main focus of all these documents is the economic relations between the two actors. It is interesting to highlight the intensive use of terms like “reciprocity” and “level-playing field”. They are indicators of the positive and confident attitude towards the economic relations among the two actors. The documents aim at expressing the will for enhancing market access for European private actors in China, advocating a more transparent and fair Chinese policy towards foreign companies (Gehrke, 2019).

The main turning point of EU-China relations can be found in the 2019 Joint Statement (European Commission, 2019). This document presents a turning point in institutional relations between the two partners. The situation seems to have changed. The rhetoric is different. The EU’s perception of China has shifted (Freeman, 2021). After Beijing’s interest in European countries, the presence of the BRI in the multilateral framework, and the increasing tensions on trade with the US, China has become a “systemic rival” and a “strategic competitor” (European Commission, 2019; Von Der Burchard, 2019). It means that the EU has changed its attitude towards its Eastern counterpart, acknowledging the imminent need for more defined and clear relations. The Joint Statement suggests ten actions (in areas such as climate change, technology, free trade, and sustainable development) to bring China and Europe closer, aligning their long-term strategies. In particular, it is interesting to analyse the fifth action. Considering China as an equal, Europe is asking for more “balanced” and “reciprocal economic relations” (European Commission, 2019; Freeman, 2021).

The document suggests that that this closer cooperation might be achieved by common engagement of Europe and China in the reform of the multilateral system. An example of the shared view of a reformed international community is the proposal for updated rules of the World Trade Organisation (WTO). Indeed, the EU seeks a stronger commitment of Beijing’s government in multilateral fora like the joint working group on WTO reform, as evidence of its support to a common and shared vision. The reform of the multilateral system in international trade has been an intensively discussed topic among scholars and international institutions. In particular, the EU Commission has recently issued a concept paper (European Commission, 2018), proposing some key changes to the multilateral governance of the trade institution, sustained also by China. The EU Commission acknowledges the need for change, stating that the world has changed since the Uruguay Round. The WTO has been facing a deep crisis since the fall of the Doha Round (Hopewell, 2016; Qingjiang, 2013). The EU, then, proposes to update the entire system, making it more flexible to the different inputs of both private and public actors. Furthermore, Brussels believes that together with the engagement in the multilateral dimension, China and the EU should strengthen their bilateral relations, investing resources in trade defence tools (European Commission, 2016, 2018, 2019).

The analysis of Sino-EU relations is necessary to highlight the strategic importance of the two actors in the international system. At this stage, it can be affirmed that EU-China relations have been characterised by a strong dialogue on trade and investment. Despite the EU’s 2019 reclassification of China as a systemic rival, the main debate has
remained unaltered, focusing on market access, reciprocity, level-playing field, as well as sustainable development. Cooperation on other multilateral fora like the WTO plays an important role, confirming the trade-oriented relations between the partners. The next section will address how EU-China relations developed during Covid-19 pandemic.

EU-China relations during the Covid-19 pandemic: old struggles or new challenges?

The past few months have been characterised by new and unprecedented challenges, facing the emergence of the Covid-19 pandemic. Trade and investment relations between China and the EU have certainly been affected, as well as the entire global economy (Godement, 2021). Even though the long-term consequences of the pandemic are far from being known, it is possible to analyse what kinds of responses and measures have characterised the relations between the two actors during this challenging time. Nonetheless, it needs to be emphasised that the health crisis is still ongoing. In this sense, the situation can rapidly change and evolve. This section will give an overview of the main events that have occurred in EU-China relations since the outbreak of the Covid-19 pandemic.

China is considered the point of origin of the spread of Covid-19. Accordingly, global attention was focused on China, the only country at that time that was facing the economic and public health issues connected to the breakout of the new virus. The EU and its Member States provided China with over 50 tonnes of medical supplies in January (European Commission, 2020a). The EU maintained a low profile in sending medical aids to China, as requested by the Chinese government (Institut français des relations internationales, 2020). Nonetheless, a different approach was taken by the Chinese side. Indeed, when the Covid-19 outbreak in Europe necessitated the various lockdowns, Chinese assistance was not as subtle as the European was. Chinese assistance came from different sources, from the central government to public and private companies, together with local Chinese communities (Institut français des relations internationales, 2020). Together with medical assistance, China arranged a number of videoconferences with governments to share experience on the fight against Covid-19. In this sense, Chinese aid did not pass unnoticed. Tailored messages for recipient countries both in Chinese characters and in the local languages were printed on the boxes (Institut français des relations internationales, 2020). It is interesting to highlight how China tried to develop a mask diplomacy and a consistent narrative during the outbreak of Covid-19 in Europe (Chen & Molter, 2020; Institut français des relations internationales, 2020; Verma, 2020; Wong, 2020).

According to the European Council on Foreign Relations’ dataset (Busse et al., 2020), Chinese medical donations in Europe account for 148 individual medical supplies.\(^2\) Even if this is a non-exhaustive list of donations, it still gives a sense of the relations of China and EU Member States during the pandemic. Nonetheless, the health crisis did not stop the institutional dialogue either. Indeed, despite difficulties and the postponement of meetings, the EU and China (virtually) continued their dialogue at

\(^2\) Author’s calculation on the ECFR European Solidarity Tracker up until 3 August 2020 (Busse et al., 2020; Oertel, 2020).
the 22nd EU-China Summit. During the Summit, Chinese and European delegations dealt with different issues, from Covid-19 responses, to economic and trade issues. In particular, the dialogue focused on the need to foster the negotiations of the CAI, as there is an urgent need for regulation on matters of state-owned enterprises, transparency on subsidies and rules tackling forced transfers of technology (European Council, 2020a). As stated by European Council President Charles Michel, the EU-China partnership is decisive for the global economy, but it needs to be balanced in areas like market access, subsidies, regulatory issues, public procurement, forced technology transfers, level playing field and WTO reforms (European Council, 2020b). The EU Commission President von der Leyen clearly defined EU-China relations as crucial as “the COVID-pandemic and a number of major bilateral and multilateral challenges show, [...] be it in terms of trade, climate, technology, and the defence of multilateralism. But for our relations to develop further, they must become more rules-based and reciprocal, in order to achieve a real level playing-field” (European Council, 2020a). After the Summit, the main points of discussion were summarised in the EU-China Relations Factsheet (EEAS Press Team, 2020) by the European External Action Service (EEAS).

The use of expressions such as transparency and reciprocity by President Charles Michel in the report suggests that despite the Covid-19 pandemic and the frictions caused by the health crisis, institutional relations have proceeded without noticeable disruptions or changes to the narrative (European Council, 2020a). An example that the pandemic did not stop the institutional relations between the two parties is the long-awaited signature of the preliminary text of the CAI. At the end of 2020, the EU and China signed a preliminary version of the CAI (European Commission, 2020b). After almost a decade of negotiation rounds, the signature of the CAI represents an important step for Sino-European bilateral relations. Instead of being seen as a replacement for individual Member States’ BITs and trade agreements, the CAI can be interpreted as a detailed legal framework that gives a unified approach on market access.

On 22 January 2021 the EU published the preliminary text of the agreement (European Commission, 2021a). Already in its Preamble, it is evident how the expressions and general intentions of the CAI are in line with the previous documents. One of the major points of the CAI is its focus on sustainable development and the protection of labour rights. In particular, China commits to work through the ratification of the International Labour Organization (ILO) fundamental Conventions (European Commission, 2020b). Even though this is an important step forward in China’s recognition of international labour standards, these terms seem still too vague.

The new agreement aims at “building [...] economic relationship based on openness, reciprocity and mutual benefit, ensuring non-discrimination, a level playing field, transparency, and a predictable and rule-based investment environment” (European Commission, 2021a). This shows the intentions of both partners to continue the dialogue initiated in the past decades. Words like “reciprocity”, “transparency”, and

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3 German Chancellor Angela Merkel postponed the EU-China Summit with Chinese President Xi Jinping set for September 2020 in Leipzig due to the COVID-19 pandemic (Posaner, 3 June 2020) https://www.-politico.eu/article/eu-china-summit-postponed-due-to-coronavirus-concerns/).

4 The discussion touched different themes, like the conclusion of the EU-China CAI, the reform of WTO, the signature of the EU-China Agreement on Geographical Indications, issues on cybersecurity and disinformation, environment, Covid-19 response, the role of the World Health Organisation (WHO), Hong Kong, Human Rights, the Iran deal, Afghanistan, and the Korean Peninsula (European Council, 2020a).
“level playing field” continue to be part of the official language of EU-China relations. In particular, the document reaffirms that both partners should set rules to “reduce or eliminate the barriers to mutual investment” (European Commission, 2021a). This is one of the major objectives of the CAI. Reducing barriers and granting market access with clear and definite rules has been the cause of major delays on the signature of the agreement. The CAI, at this stage, acknowledges the market offer and liberalisation offer of the parties, without drastically changing the rules of the game (Godement, 2021). In this sense, the CAI reinforces the already existing commitment of both parties with WTO rules (European Commission, 2021a). It may be too soon to address any comments on the effectiveness of the CAI provisions, or on their validity, but it is evident that the doubts that were anticipated during the negotiations remain.

One of the main issues is the EU’s difficulty to maintain a unified front towards China. A clear example is the different positions of Member States on the Belt and Road Initiative (BRI). Even though some authors argue that Sino-European relations are part of the BRI grand strategy (De Decker, 2019; Lo, 2018), the EU did not express its intention to be part of it. Nonetheless, many countries did sign memoranda of understanding to access the Chinese initiative. The CAI aims at providing a unified set of rules that each Member can apply in its relations with China. Nonetheless, the agreement does not seem to shed any light on the EU’s position on the BRI.

Scholars have argued that the difficulty of reaching a final agreement on CAI is due to its intention of easing market access, the removal of discrimination between enterprises, and a clear and precise transparency mechanism (Karkanis, 2018; Levinger & Hansakul, 2016; Pelkmans et al., 2018). Despite the signature of the preliminary text, the practical definitions of these points are yet to be defined. Future negotiations on the Annexes of the CAI will bring more clarity. Another sensitive issue for both parties was the discussion on the dispute settlement mechanism (Yin, 2018). The CAI adopted a state-to-state dispute settlement, defined as an “enforcement mechanism”, together with a “monitoring mechanism”, that should prevent issues to escalate at a dispute level (European Commission, 2020b). Previous bilateral agreements used too vague terms, that often lead to inconsistent interpretation by arbitral tribunals (Abgaryan, 2018). Therefore, it seems reasonable to affirm that the success of both the monitoring and the enforcement mechanisms will determine the success of the whole CAI.

After having analysed the themes that are at the core of Sino-European institutional trade and investment relations, it is evident that the pandemic did not substantially modify the debate. The main themes that have characterised the debate of EU-China relations have remained unaltered after the emergence of Covid-19. A clear piece of evidence is the preliminary text of the CAI. The main aims and objectives of the agreement stated in the Preamble are the same that can be found in previous documents. It can be claimed, then, that the pandemic may have accelerated the already existing debate. In this sense, the final signature of the CAI proves that.

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5 At the time of writing, Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia (Nedopil, 2021).
Conclusions

Covid-19 has greatly impacted all aspects of our world. International trade and investments are no different. Therefore, understanding how the pandemic has been affecting trade and investment relations between two major players in the international arena seems necessary. This article sustained the claim that the pandemic is not substantially modifying international relations. Covid-19, instead, can be considered as an accelerating factor in institutional relations. To this end, the article analysed official documents of the EU related to its relations with China. In particular, the article focused on a thematic review of the official documents, looking at possible alteration of their language, as well as more substantial evolution in the official debate.

After looking at the volume of trade and investment between the two partners, we began with an analysis of the major official documents from 1985 to 2020. The analysis highlighted a shift in the EU’s perception of China. Until 2019, the main language used by the EU to describe its relations with China related to the realm of cooperation. After that, in the 2019 Joint Statement the EU considers China as a systemic rival. This change of perception, though, is antecedent to the pandemic, and has not changed since the emergence of the virus. Furthermore, the plans for the CAI seemed unaltered, as the preliminary text signed in December 2020 covers the same topics as the previous documents, despite a heated public debate, involving EU institutions on issues like global health and mask diplomacy.

It seems reasonable, then, to affirm that the Covid-19 pandemic seemingly has not significantly altered institutional relations between China and the EU. Nonetheless, the limitations of this analysis are clear. First, the time factor must be considered. Only few months have passed since the outbreak of Covid-19. It is too soon to claim certainty of results from the analysis of post-pandemic institutional responses, or to prove any consistent alteration in institutional relations. In addition, the analysis mainly focused on a qualitative analysis of the EU’s official documents. More work needs to be done to include data from Chinese media and official sources. Eventually, this analysis will serve as the starting point for further research into the institutional effects of the Covid-19 pandemic on trade and investment between the EU and China.

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