



## EU-China High Level Dialogue – Can it End Souring Trade Relations and Increased Protectionism?

Commercial relations between China and the EU have soured in recent years. There are trade frictions in many sectors and areas – and they have all been amplified by a turn to shrill and confrontational rhetoric. Protectionism is growing on both sides. Can the problems be overcome this week when China and the EU meet for the first proper meeting in their High Level Dialogue – an initiative launched last year to negotiate trade deals in the same fashion as the Strategic Economic Dialogue between China and the United States?

The answer is probably No. Sino-European commercial policy lacks political energy. The sensitivities are many and there is a lack of political leadership on both side to press ahead with reforms necessary to deepen commercial relations and globalization. However, important steps could be taken if Europe and China decide to get real and put the emphasis on the key issues.

The success of this meeting and of future negotiations will depend on two factors:

- Can Europe drop its obsession with its bilateral trade deficit with China and prepare itself for real negotiations?
- Can China press ahead with much needed reforms in its services sector and give Europe increased market access?

Europe's imports from China have grown by around 18% per year for the last five years. With the economic crisis, this growth rate declined in 2008: EU exports to China went down to €46mn in January 2009 compared to €64mn in January 2008. In 2008, the EU imported €248 billion worth of goods from China. China is by now the EU's biggest source of manufactured imports. China is slowly trying to shift its model from extreme manufacturing export dependence to greater attention to domestic consumption. It will need the EU's know-how in high tech and in services to achieve its goal.

<b>EU imports and exports from China 2008-2009 (€mn):</b>			
	Imports	Exports	Balance of Trade
Jan. 2008	214	63	-152
Jan. 2009	204	46	-158

### A considerable slowdown of the growth of the EU's deficit with China in 2008 (Source: Eurostat):

PERIOD/FLOW	EU imports from China in €	EU exports to China in €	Balance of Trade	Annual change in balance of trade in %
1999	52,596,592,144	19,658,888,189	-32,937,703,955	
2000	74,631,931,389	25,863,445,870	-48,768,485,519	-48.06%
2001	82,000,005,310	30,664,765,961	-51,335,239,349	-5.26%
2002	90,147,954,476	35,098,989,652	-55,048,964,824	-7.23%
2003	106,219,954,912	41,472,856,413	-64,747,098,499	-17.62%
2004	128,691,880,342	48,376,211,847	-80,315,668,495	-24.05%
2005	160,327,044,852	51,825,404,729	-108,501,640,123	-35.09%
2006	194,830,738,622	63,784,442,968	-131,046,295,654	-20.78%
2007	232,517,348,763	71,886,919,480	-160,630,429,283	-22.58%
2008	247,694,874,739	78,427,803,293	-169,267,071,446	<b>-5.38%</b>

There have been protectionist initiatives on both sides. In China, new certification requirements that discriminate against foreign producers have recently been introduced. Some tariffs have increased. Beijing's increasing willingness to use China's giant capital reserves for industrial policies (subsidies to firms) have diluted previous ambitions of strong and sustained market liberalisation. Whilst China introduced import bans on EU food products in the midst of the economic crisis, such as Irish pork, Belgian chocolate, Italian brandy, British sauce, Dutch eggs and Spanish dairy products, the EU re-introduced export subsidies for dairy products.

If taken seriously by the Chinese and the European leaders, the new High Level Economic and Trade Dialogue can break the trend of mutual closure. The Dialogue format is inspired by the US-China Strategic Economic Dialogue, which Hank Paulson, the former US Treasury Secretary, initiated in late 2006, and which is now being continued under a slightly different format by the new Obama administration. American firms, especially in the financial-services sector, have been granted better access to the Chinese market, during the process. The new Obama administration was already able to sign a flurry of new business deals during a meeting with Chinese officials in April.

If the upcoming EU-China dialogue achieves nothing but a containment of protectionist pressures on both sides, it would be valuable as such. However, if the agenda is appropriately tailored, the new bilateral talks could solve commercial problems, and create a positive atmosphere for the launched-but-sleeping negotiations of a Partnership and Cooperation Agreement. What should China and Europe do to ensure that the new dialogue does not become a talkfest?

- Firstly, the talks must be based on a proper appraisal of current trade and investment relations. More than anything else, this requires that **Europe drop its obsession with its bilateral trade deficit with China**. The notion that a bilateral deficit represents a problem which must be corrected is simply bad economics. In contrast to the United States, Europe's overall current account is in balance and has stably remained in the one-plus or one-minus region (of GDP) for the last ten years. China's soaring trade surplus with Europe largely represents its comparative advantage and its becoming an assembly hub for goods produced elsewhere in Asia.
- **Secondly, China and Europe should tailor a give-and-get bargain of trade and investment openings**. This is crucial. Europe has legitimate commercial concerns that to some extent go back to China's accession to the WTO and its problems in implementing certain commitments. The concerns regard China's remaining tariff liberalisation and



enforcement of intellectual property rights. Yet EU-China talks cannot end there. If the ambitions are not higher than implementation of WTO commitments, the likelihood that China will change its policy in these areas will certainly be smaller.

- **Thirdly, the negotiations should focus on the areas which cause real frictions in the current commercial relations:**
  - Europe particularly wants increased access to **Chinese service markets**, which are considerably protected, and better tailored policies to prevent infringements of intellectual property rights in key areas of innovation, such as pharmaceuticals, and through forced technology transfer. If Chinese firms want to climb the value-added chain and become a hub also for services trade, Beijing must give better assurances of **IPR** protection.
  - China desires better **discipline in EU's anti-dumping policy** and wants to be granted Market Economy Status. As EU's trade-defense policy is gaining speed again, with an increase in the number of new cases, China's concern is understandable.

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- Patrick A Messerlin, Jinghui Wang , “Redesigning the European Union’s trade policy strategy towards China”, *Joint ECIPE-GEM Working Paper* No. 4/2008  
<http://www.ecipe.org/publications/ecipe-working-papers/redesigning-the-european-union2019s-trade-policy-strategy-towards-china>
- Fredrik Erixon, Iana Dreyer “An EU-China trade dialogue: a new policy framework to contain deteriorating trade relations”, *ECIPE Policy Brief* No. 3/2008  
<http://www.ecipe.org/publications/ecipe-policy-briefs/an-eu-china-trade-dialogue-a-new-policy-framework-to-contain-deteriorating-trade-relations>
- Andreas Freytag “That Chinese “juggernaut” – should Europe really worry about its trade deficit with China?”, *ECIPE Policy Brief* No. 2/2008  
<http://www.ecipe.org/publications/ecipe-policy-briefs/that-chinese-201cjuggernaut201d-2013-should-europe-really-worry-about-its-trade-deficit-with-china>
- Guy de Jonquières, “China and the global economic crisis”, *ECIPE Policy Brief* No. 02/2009  
<http://www.ecipe.org/china-and-the-global-economic-crisis>