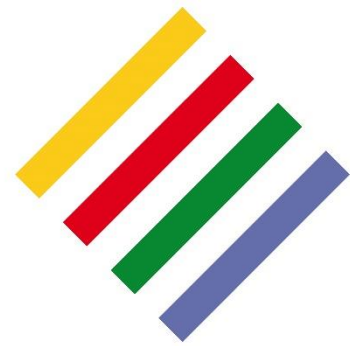




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Recent Trends in Superpower Relations



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OPENING REMARKS

**Ambassador
Jarno Syrjälä**

EU-China Relations



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AGENDA:

EU-China Comprehensive Agreement on Investment (CAI)

EU Commission Trade Policy

The Wider Picture



Comprehensive Agreement on Investment



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- CAI politically concluded on 30 December 2020. The deal aims to address longstanding barriers to investment between the two markets, notably:
 - Expand bilateral investments flows by reducing restrictions on foreign investments and expanding market access
 - Establish a level playing field between local and foreign investors by ensuring that SOEs follow commercial considerations, increasing transparency around state support, and banning forced technology transfers.
 - Promote sustainable development via provisions to uphold labor and environmental standards
- The agreement is *not* a comprehensive trade deal. Therefore, the near term benefits of the deal are expected to be limited. Improved relations could boost sentiments and increase trade flows modestly.
- Given that the scope of the agreement falls exclusively under EU competences, it will only have to be approved by the Council of the EU and the European Parliament, not national parliaments.
- The EU and China will now work to finalize the details of the agreement aiming to ratifying in the end of 2021/beginning of 2022.



What's in the deal? Market Access



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Both parties have agreed to liberalize investment across various sectors. This includes market access commitments, and provisions around national treatment. Parties will also include a “ratchet clause”, which means that any future liberalization of existing measures will be automatically applied.

- **Chinese non-services sectors:** China has notably committed to expand market access for EU businesses in the manufacturing sector, including for the production of electric vehicles, chemicals, telecommunications equipment, and health equipment. It will also make limited commitments in agriculture, fisheries, mining and energy.
- **Chinese services sectors:** China will expand market access across a range of service sectors, hereunder banking, private hospitals cloud services, transportation and logistics, real estate etc. However, based on conversations with EU companies in China, it has not yet been possible to identify meaningful market access improvements in the service sector.
- **EU market access:** The EU is already relatively open to investment from China. For its part, the EU will expand access to some manufacturing sectors beyond its WTO commitments. However, it will refrain from liberalizing sensitive areas such as public utilities, critical infrastructure and technologies. Policy space will also be preserved in sectors such as agriculture, fisheries and mining.

Level Playing Field



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- **State owned enterprises (SOEs):** The deal requires SOEs to act in accordance with commercial considerations and not to discriminate against companies from the other party when they buy or sell goods and services. Parties will also be obliged to share information around whether SOEs comply with commitments under CAI. The nature and effectiveness of this tool remains to be ascertained.
- **Forced technology transfers:** Parties have agreed to ban various investment requirements that compel transfer of technology, and to prohibit state interference in the licensing of technology.
- **Subsidies:** The deal goes beyond WTO commitments by imposing obligations around transparency of subsidies in service sectors. It also includes provisions for both sides to share information and consult on specific subsidies that could negatively impact the investment interests of the other party. The nature and effectiveness of this tool remains to be ascertained.
- **Transparency and standard setting:** The EU and China will provide companies from the other party with equal access to their standard-setting bodies. Both sides also agreed to make authorizations more transparent and to enhance legal certainty by agreeing transparency rules for regulatory and administrative measures.
- **Sustainable Development:** Commitments to not lower labor and environmental protection standards in order to attract investment. Parties have also agreed to effectively implement the Paris Agreement on Climate Change and the ratified ILO Conventions. China has also committed to work towards ratifying the ILO fundamental Conventions on forced labor.
- **Dispute settlement:** Parties agreed a two-step mechanism to settle state-to-state disputes based on consultations and, if a solution cannot be reached, recourse via an arbitration panel.



Sustainable Development and Dispute Settlement

- **Sustainable Development:** Commitments to not lower labor and environmental protection standards in order to attract investment. Parties have also agreed to effectively implement the Paris Agreement on Climate Change and the ratified ILO Conventions. China has also committed to work towards ratifying the ILO fundamental Conventions on forced labor.
- **Dispute settlement:** Parties agreed to establishing a monitoring system and state-to-state dispute resolution mechanism. Negotiations for an investment dispute resolution mechanism are envisioned to be concluded within two years of the entry into force of the Agreement.

The Fine Print



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What is not included in the deal?

- CAI focuses on tackling barriers to investment only. It does not cover other trade aspects such as goods, services or digital trade.
- The deal also does not include provisions around investment protection or a mechanism for investors to raise disputes, although parties have committed to further negotiations in these areas.
- CAI does not tackle key bilateral issues around overcapacity in steel production, access to public procurement contracts, and trade in counterfeit goods.
- Some commentators also believe the deal does not go far enough on labor rights, which could affect chances of EU ratification of the agreement. Moreover, it remains to be seen how enforceable certain commitments under the deal are (e.g. around labor standards and state support).

Next steps

- Schedule of commitments (early March).
- Parties are aiming to ratify the deal by late 2021 or early 2022.



Wider observations



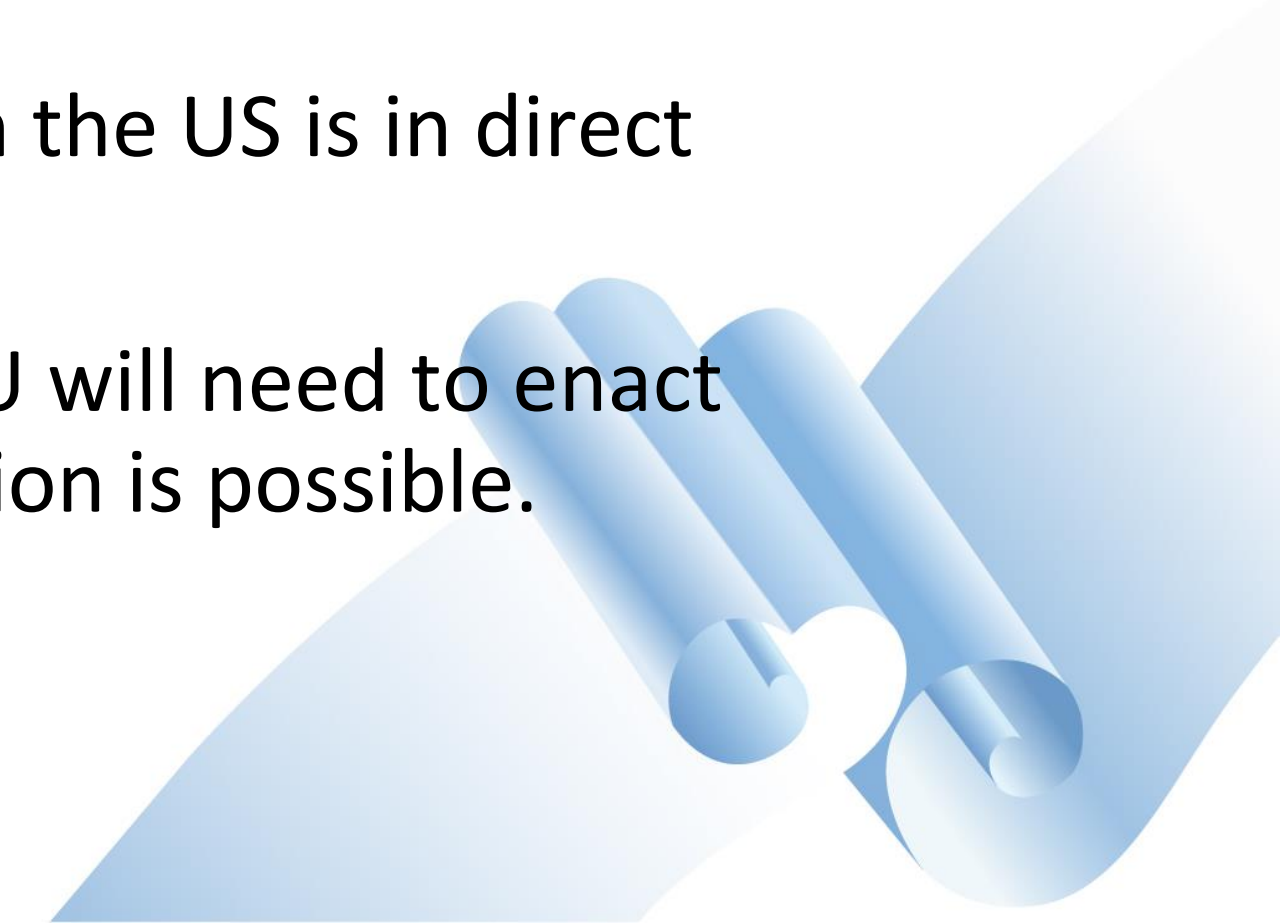
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CAI in view of EU-US relations:

- The US-China Phase One deal was negotiated without the EU and places EU companies in a position worse off relative to US companies.
- The CAI will bring EU companies some of the same benefits US companies achieved through the Phase One deal levelling the playing field
- Uncertainty as to when the US will be able to engage with EU on China
- A viewpoint held by many: the past four years has underlined the necessity for the EU to define a more autonomous position less vulnerable to the vagaries of alliance partners
- The desire for transatlantic cooperation on China remains intact

CAI reflects two different views on China:

- China increasingly viewed as an ideological adversary and a geopolitical threat with whom the US is in direct competition for global hegemony.
- The EU views China as both a 'systemic rival' but also a partner. The position is that the EU will need to enact adequate measures to protect EU interests, but also that rational dialogue and collaboration is possible.



EU's Trade Relations



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As an export market for EU businesses,
China ranks somewhere between UK and
Switzerland in trade volume

Main trading partners - EU

bn €

	EU exports to			EU imports from			Trade balance	
	Jan-Dec 19	Jan-Dec 20	Growth	Jan-Dec 19	Jan-Dec 20	Growth	Jan-Dec 19	Jan-Dec 20
China	198.2	202.5	2.2%	363.0	383.5	5.6%	-164.7	-181.0
United States	384.4	353.0	-8.2%	232.6	202.0	-13.2%	151.8	150.9
United Kingdom	319.8	277.5	-13.2%	194.3	167.2	-13.9%	125.5	110.3
Switzerland	146.5	142.4	-2.8%	109.9	108.6	-1.2%	36.7	33.8
Russia	87.8	79.0	-10.0%	145.0	95.2	-34.3%	-57.3	-16.2
Turkey	68.3	69.9	2.3%	69.8	62.6	-10.3%	-1.5	7.3
Japan	61.1	54.5	-10.8%	62.9	54.9	-12.7%	-1.8	-0.4
Norway	51.6	48.6	-5.8%	54.1	42.3	-21.8%	-2.6	6.3
South Korea	43.3	45.3	4.6%	47.4	44.1	-7.0%	-4.1	1.2
India	38.2	32.2	-15.7%	39.6	33.1	-16.4%	-1.4	-0.9

Source dataset: [ext_st_eu27_2020sitc](#)

Annualized EU's total trade in goods and services for 2020, EU27-China trade in goods and services likely totaled €657 billion in 2020, while EU27-U.S. trade was €950 billion — 40 percent higher.

EU Commission Trade Strategy



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“The rapid rise of China, demonstrating global ambitions and pursuing a distinct state capitalist model, has fundamentally changed the global economic and political order. This poses increasing challenges for the established global economic governance system and affects a level playing field for European companies competing globally and at home” (Trade Policy Review, EU Commission, 18 February 2021)

- Reform the WTO (e.g. through enhancing transatlantic cooperation and working to restore the Appellate Body)
- Support the green transition and promote responsible and sustainable value chains
- Support the digital transition and trade in services (e.g. through the creation of a WTO agreement on digital trade and through fostering regulatory cooperation with like-minded partners)
- Strengthen the EU’s regulatory impact (e.g. through regulatory dialogues and through fostering the transatlantic partnership on green and digital)
- Strengthen the EU's partnerships with neighbouring, enlargement countries and Africa
- Strengthen the EU’s focus on implementation and enforcement of trade agreements, and ensure a level playing field (particular mention is made to fostering engagement with high-growth regions like Asia; other actions include developing/implementing autonomous tools to develop challenges, such as export credit regulations, an instrument on foreign subsidies or the International Procurement Instrument)

In addition, the European Commission published a roadmap for the proposal of a regulation which would create a mechanism to deter and prevent any coercive action by non-EU countries. These practices may include the use or threat of coercion, often in the form of trade or investment restrictions – for example extra, discriminatory import duties, intentional delays, or refusing authorisations needed to do business.





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Thank you!





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RECENT TRENDS IN SUPERPOWER RELATIONS

*How Will Trade Relations with China
Change Under the Biden Administration*

Prepared For:

Finnish Business Council

March 02, 2021



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- 2. Effect of Trade War on Trade**
- 3. Trade & Policy Outlook Under Biden Administration**



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US Trade War Actions



US-China Trade War *actions taken by US*



Phase One Trade Agreement

*effective February 14 2020;
predominantly covers China policy and
purchase commitments over a 2 year
period*



Tariffs

*since 2018, four tranches (lists) of
tariffs introduced by US and China
covering up to USD 550 billion in US
imports from China and USD 185
billion in Chinese imports from US*



Other Public Actions

*in 2020, the US government took at
least 210 public actions related to
China that spanned at least 10
departments*



US Government Public Actions *related to China, 2020*



60 public actions

visa restrictions, travel advisories, diplomatic actions and public statements



27 public actions

executive orders, signing bills into laws and signing of the Phase One trade agreement



24 public actions

sanctions



23 public actions

freedom of navigation operations, Taiwan Strait transits, and release of reports and other info



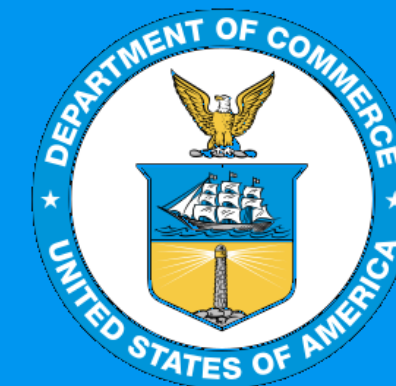
22 public actions

indictments and arrests



16 public actions

blocking import of items made through forced labor and the release of reports and statements



13 public actions

export controls, additions to entities list and advisories



6 public actions

designating Huawei and ZTE as national security threats

US Government Public Actions *related to China, 2020*



3 public actions

*release of reports and
public statement*



2 public actions

*designating China as a
"foreign adversary."*



2 public actions

~



2 public actions

*a letter and a list of goods
made with forced labor*



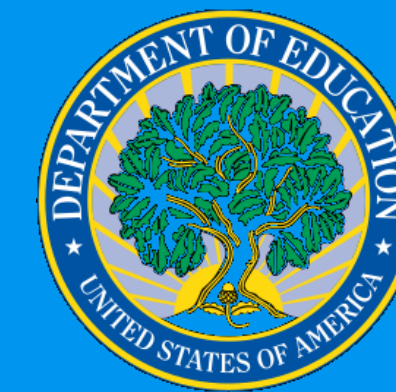
1 public actions

*interim report on agricultural
trade with China*



1 public actions

*cybersecurity advisory
regarding China-linked
cyber actors*



1 public actions

*letter sent to university
officials regarding
Confucius Institutes*

US-China Trade War Tariffs

US Section 301 Tariffs

China Retaliatory Tariffs

July 6, 2018	25%	\$34 billion <i>in products</i>	List 1	\$34 billion <i>in products</i>	25%	July 6, 2018
Aug. 23, 2018	25%	\$16 billion <i>in products</i>	List 2	\$16 billion <i>in products</i>	25%	Aug. 23, 2018
Sept. 24, 2018 <i>original</i>	10% <i>original</i>	\$200 billion <i>in products</i>	List 3	\$60 billion <i>in products</i>	5 or 10% <i>original</i>	Sept. 24, 2018 <i>original</i>
May 10, 2019 <i>raised</i>	25% <i>raised</i>				10, 20, or 25% <i>Increase on select products</i>	June 1, 2019 <i>Increase on select products</i>
Sept. 1, 2019 <i>original</i>	15%	\$300 billion <i>in products</i>	List 4A	\$75 billion <i>in products</i>	5 or 10%	Sept. 1, 2019
Feb 14, 2020 <i>decreased</i>	7.5%				5 or 2.5% <i>decreased</i>	Feb 14, 2020



Phase One Trade Deal *overview of policy commitments*

Intellectual Property

requires various IP protection commitments in the areas of trade secrets, pharmaceutical-related IP, geographical indications, trademarks, patents, e-commerce infringement, and enforcement against pirated / counterfeit goods

Forced Technology Transfer

prohibits forced technology transfer and prevents either government from directing or supporting domestic companies to acquire foreign technology that could create “distortion” in sectors and industries

Food & Agricultural Products

commits China to certain science-based / risk-based standards for assessing import and export of food & agricultural goods

Financial Services

Exchange Rate Policies

Trade & Service Expansion



China Imports of U.S. Products *Increased Purchase Commitments Under Phase One Trade Deal*

Product Category	Overview	2020 <i>(USD)</i>	2021 <i>(USD)</i>	2-Year Total <i>(USD)</i>
Manufactured Goods	Industrial machinery, electronic equipment and machinery, pharmaceutical products, aircraft (orders and deliveries) vehicles, optical and medical instruments, iron and steel	\$32.9 billion	\$44.8 billion	\$77.7 billion
Energy Goods	Liquefied natural gas (LNG), crude oil, refined products, coal	\$18.5 billion	\$33.9 billion	\$52.4 billion
Services	Business travel and tourism, financial services, insurance, reinsurance, management consulting, telecom services, data hosting, cloud computing services, charges for use of IP	\$12.8 billion	\$25.1 billion	\$37.9 billion
Agricultural Goods	Soybeans, oilseeds meat, cotton, seafood, wheat, fruit, jams, jellies, corn, flour, horses, honey	\$12.5 billion	\$19.5 billion	\$32.0 billion
Total		\$76.1 billion	\$123.3 billion	\$200 billion





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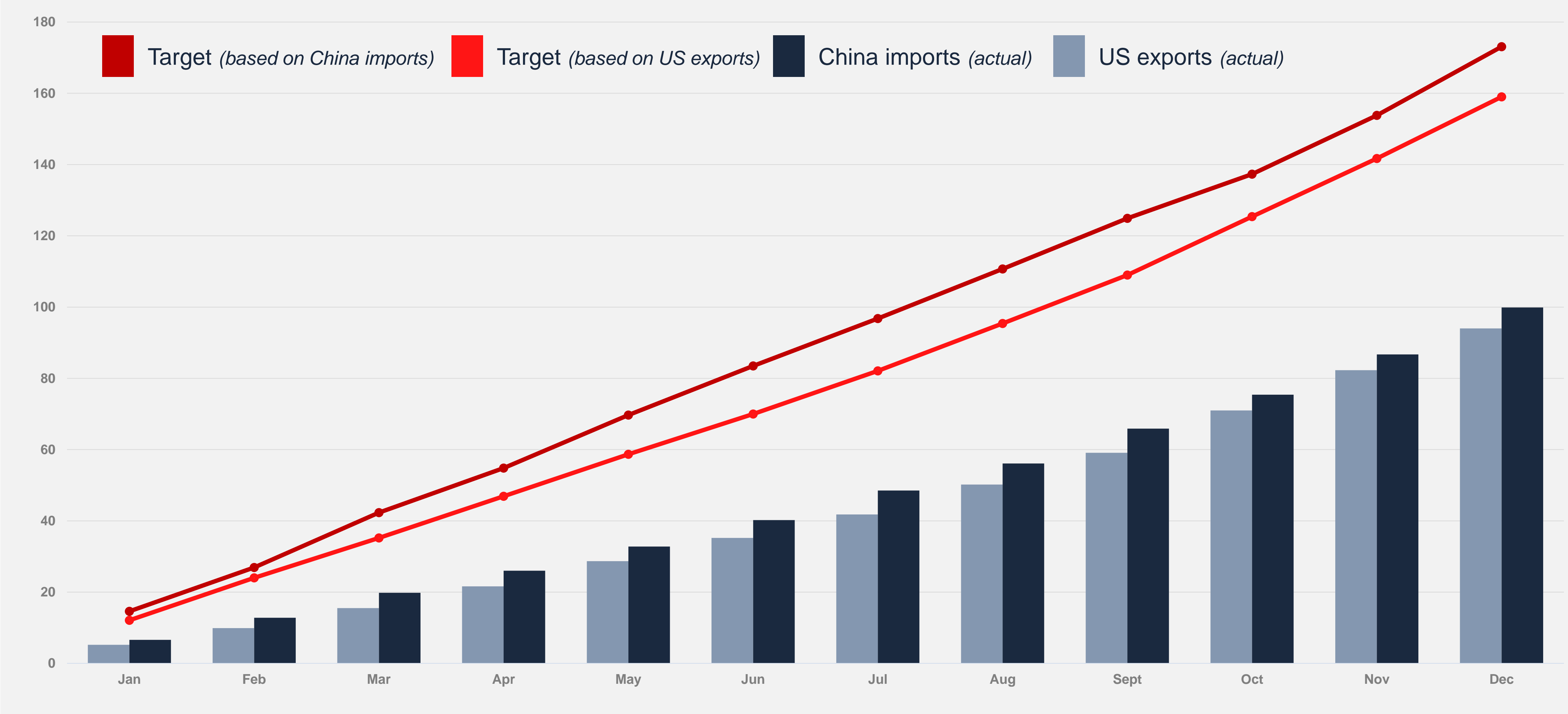
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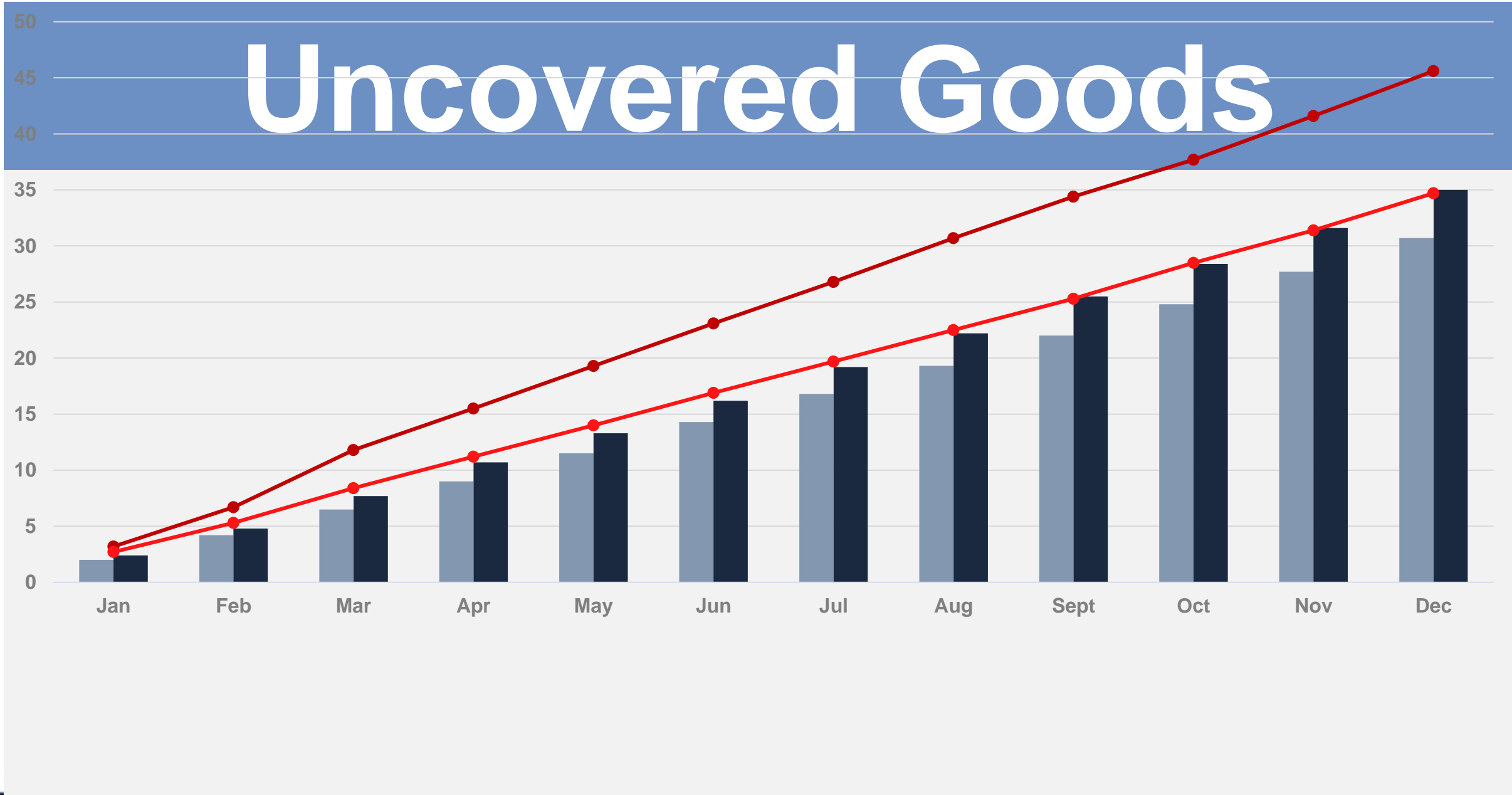
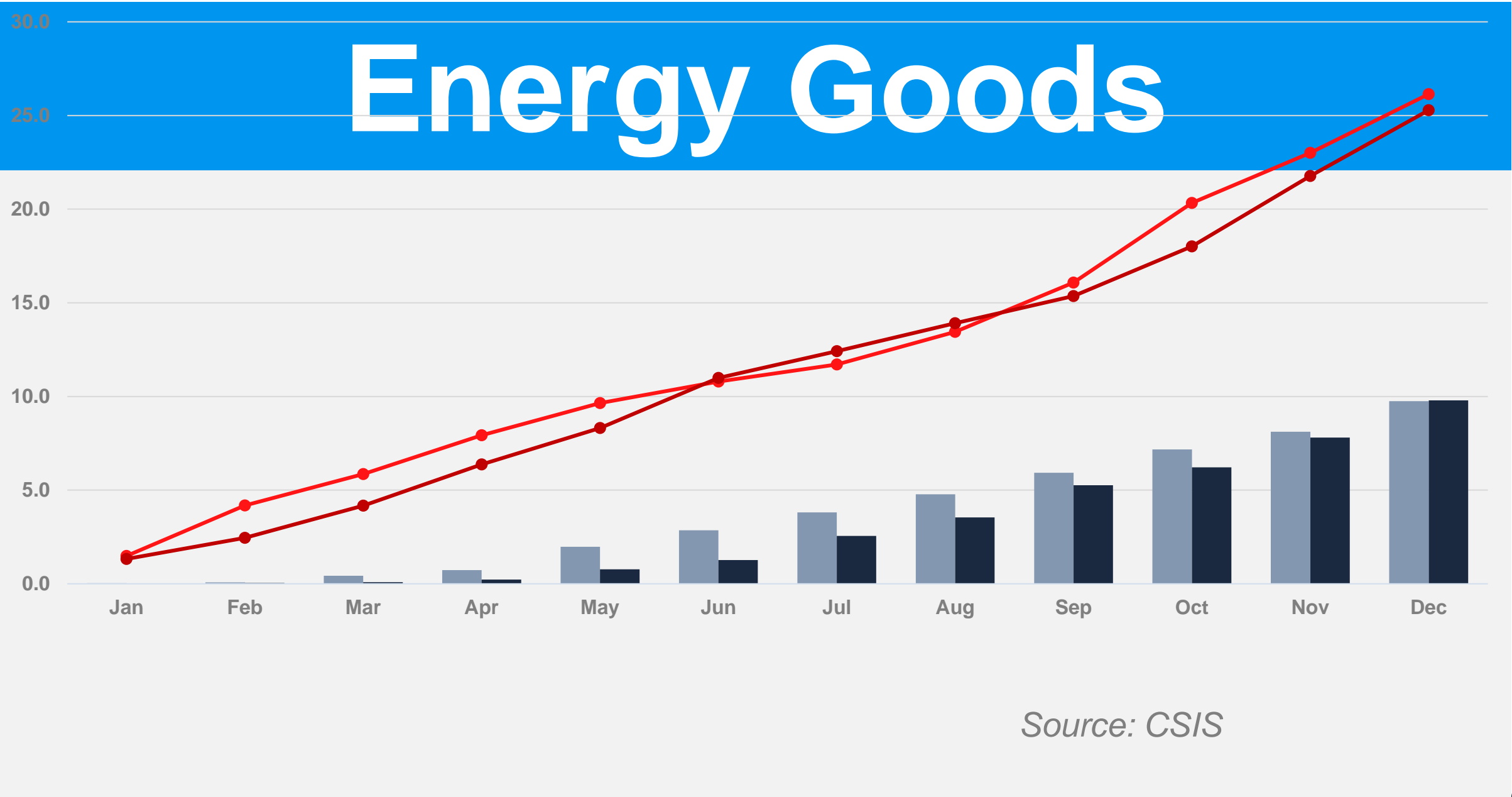
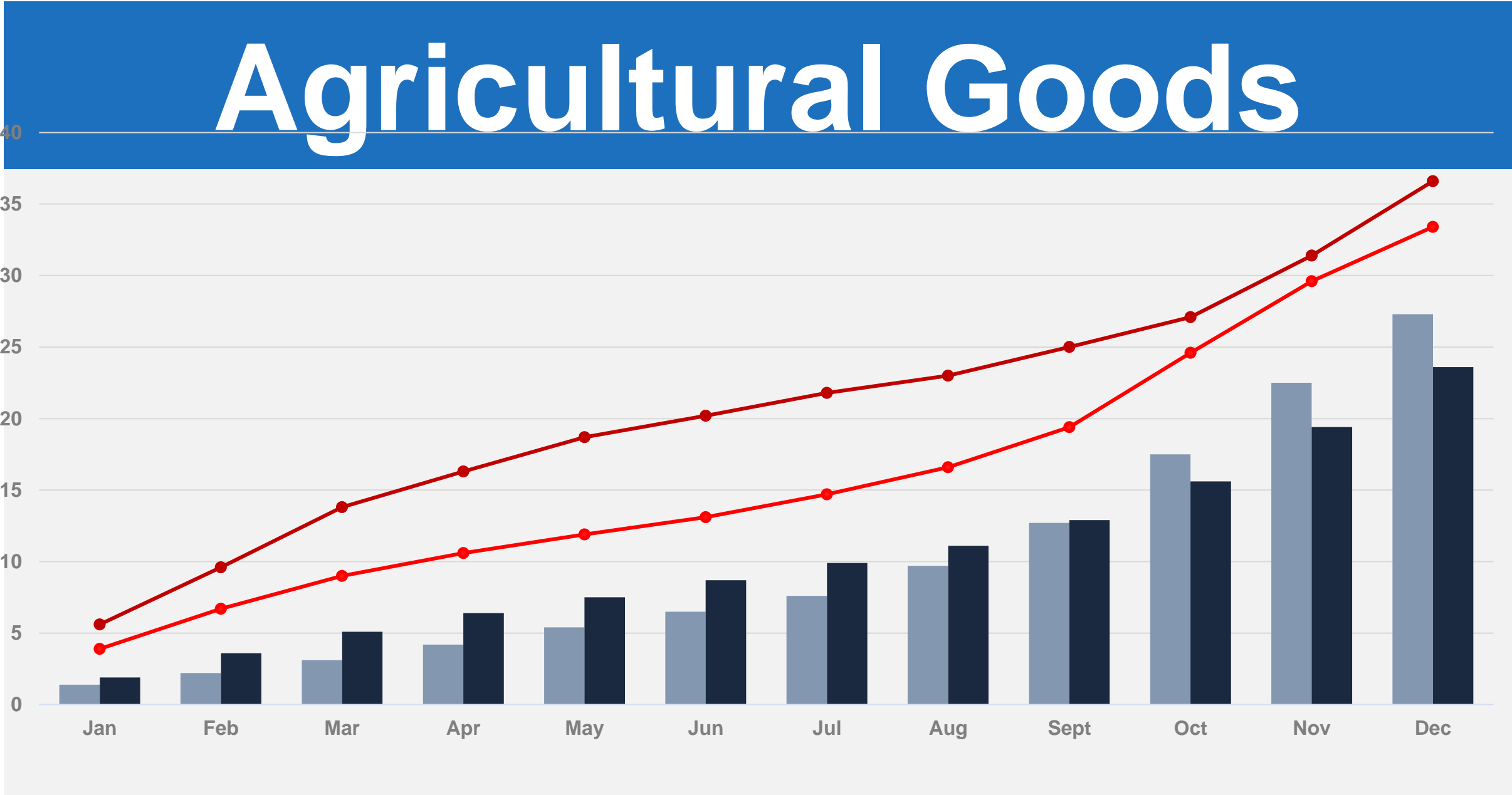
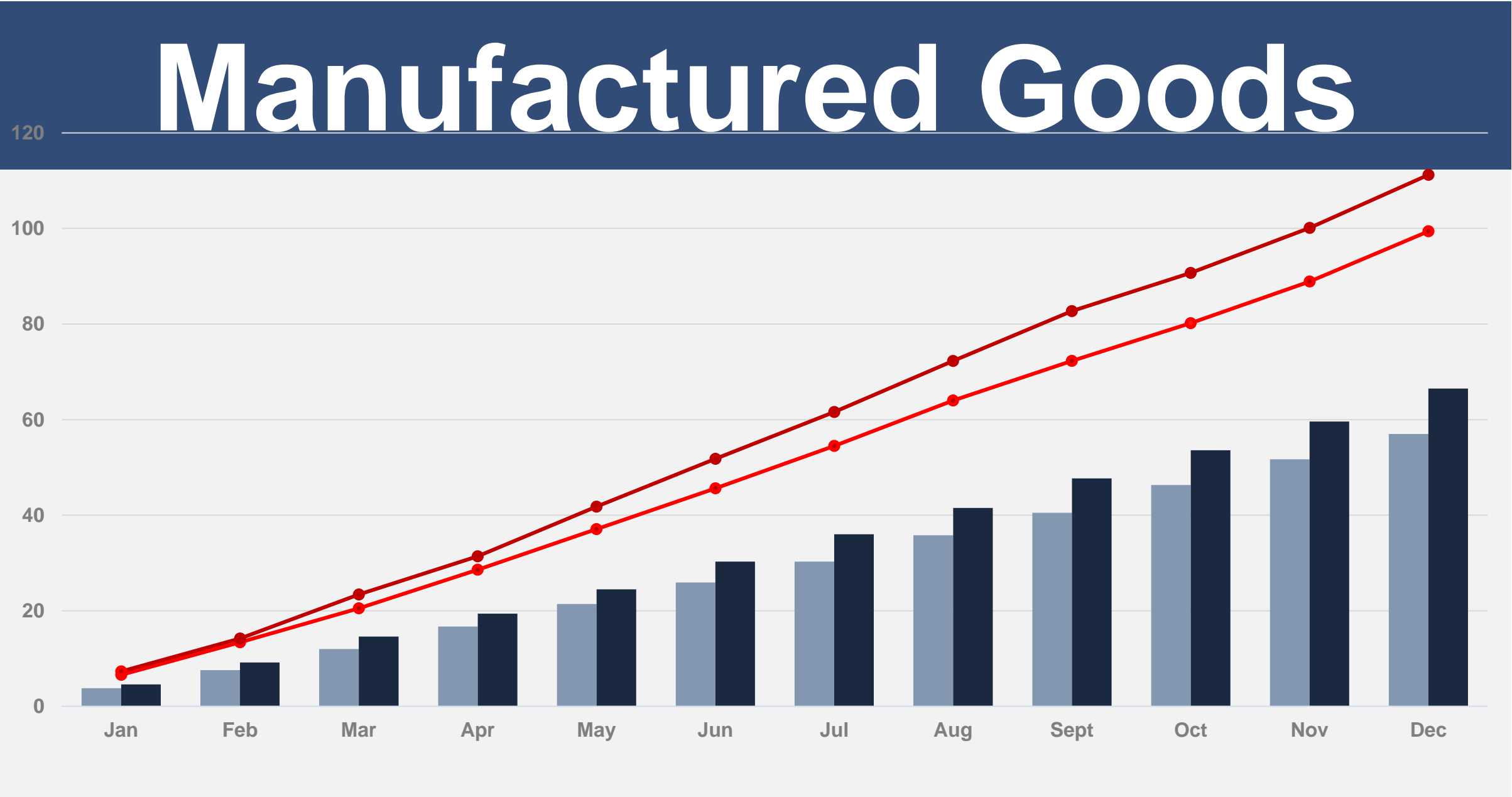
Phase One Purchase Commitments



China's Purchase of US Goods

US exports & China imports of all covered goods in 2020, USD billions

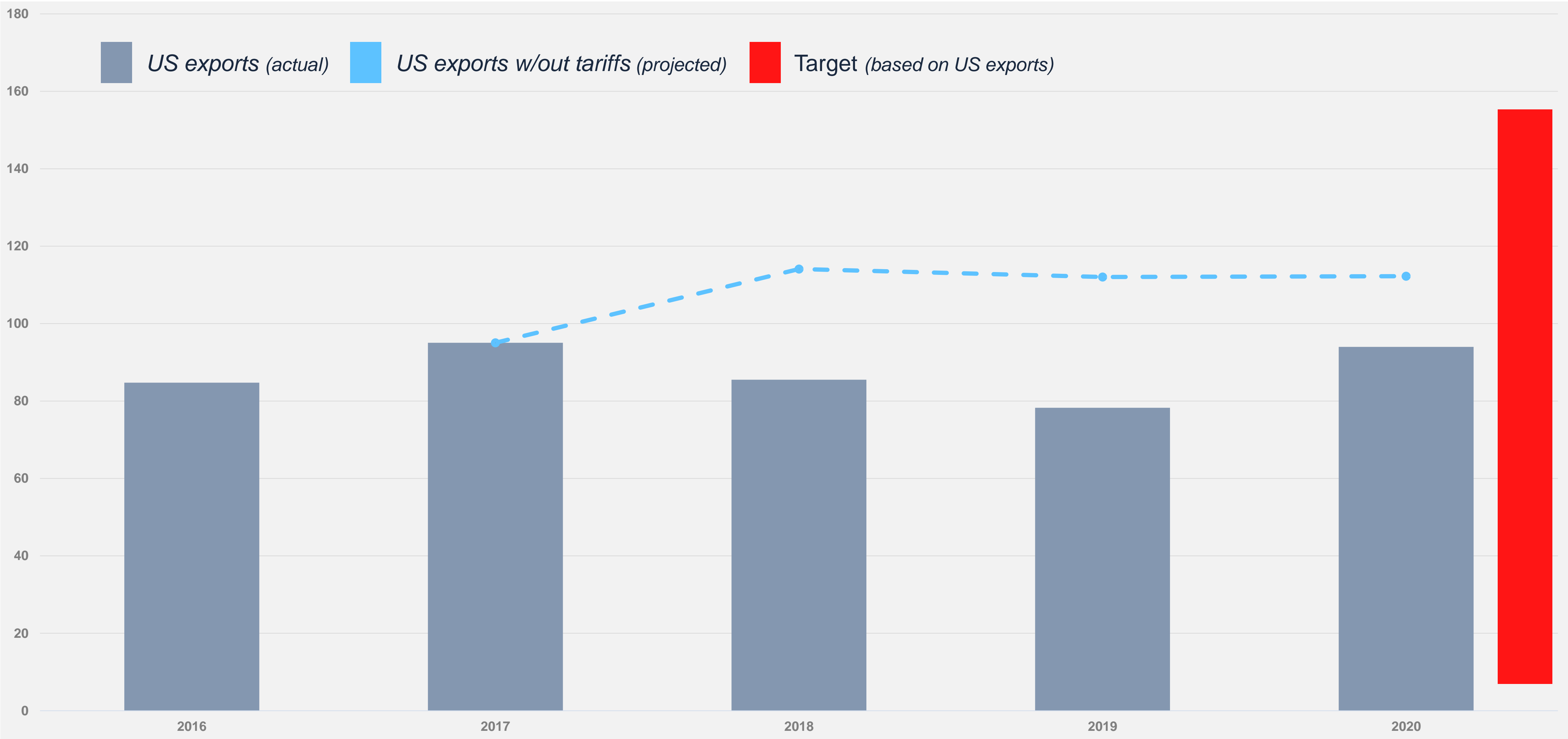




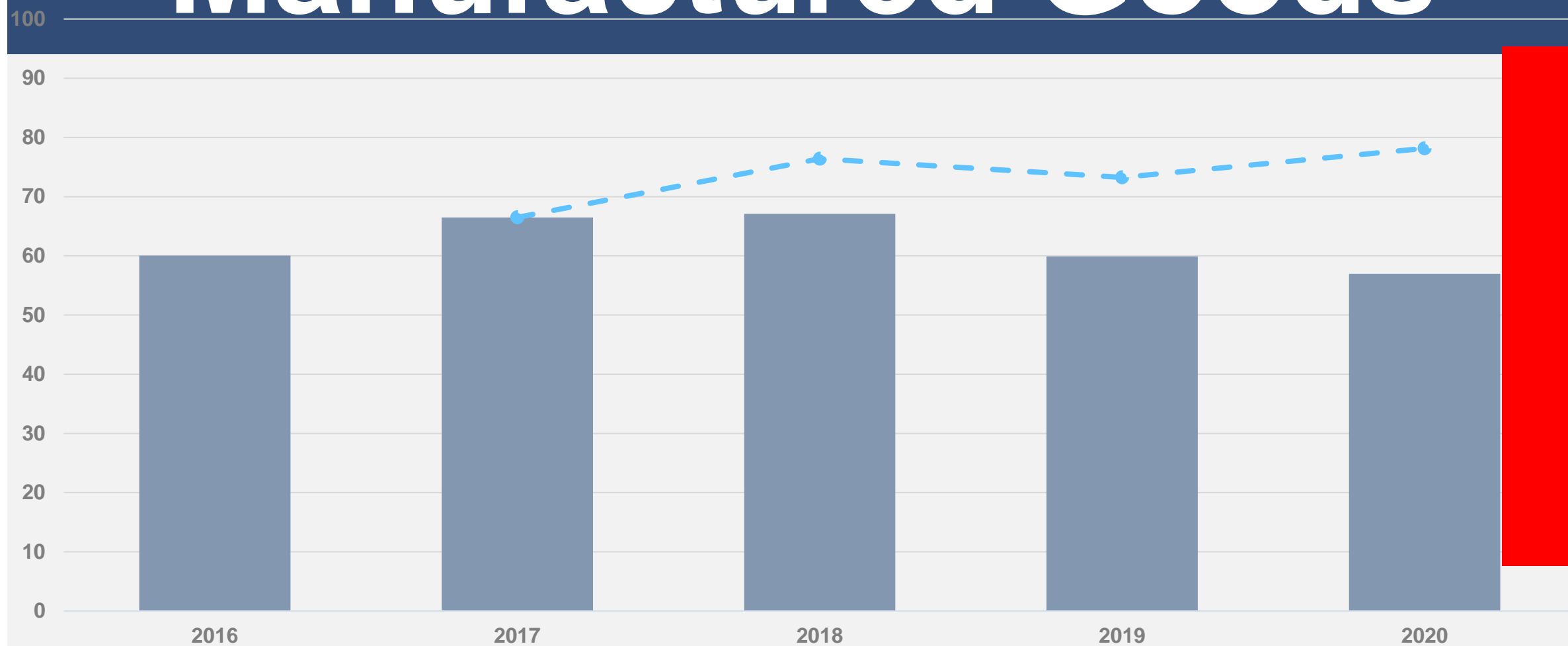
Source: CSIS

Projected US Exports w/out Trade War

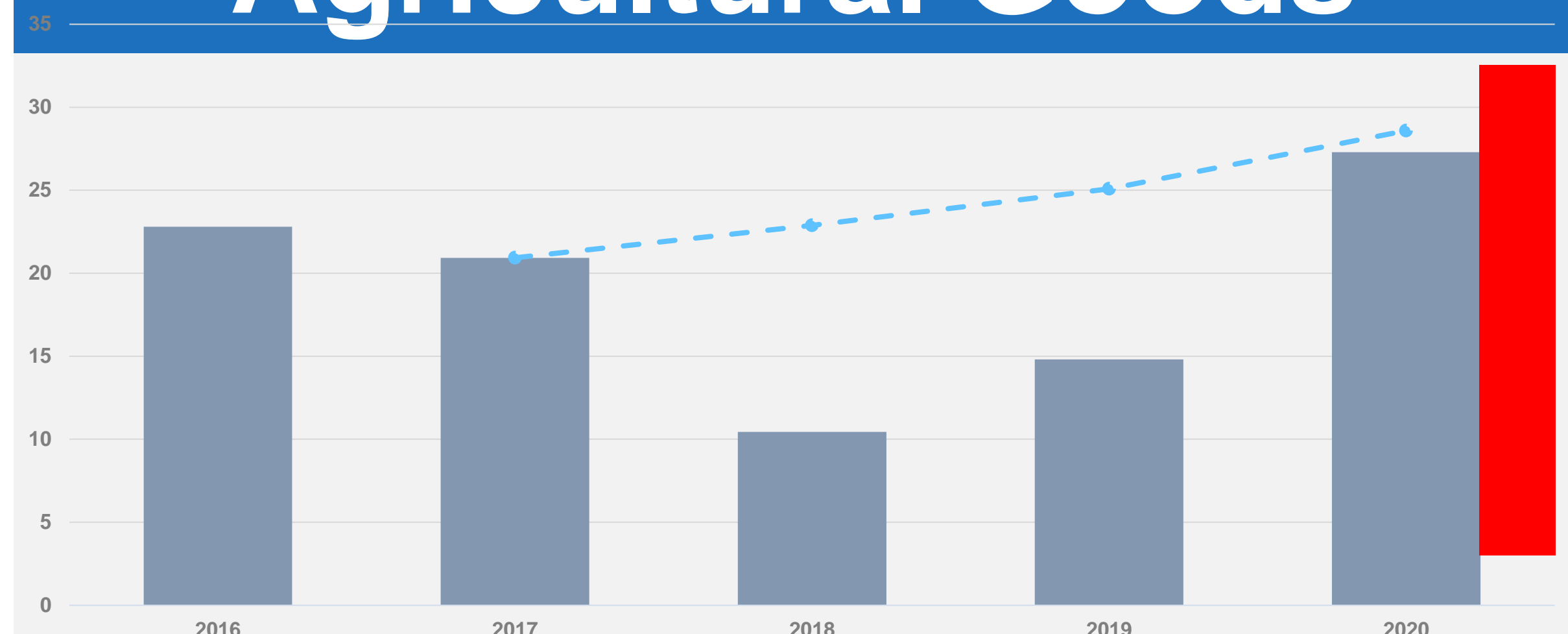
US exports to China of all covered goods, USD billions



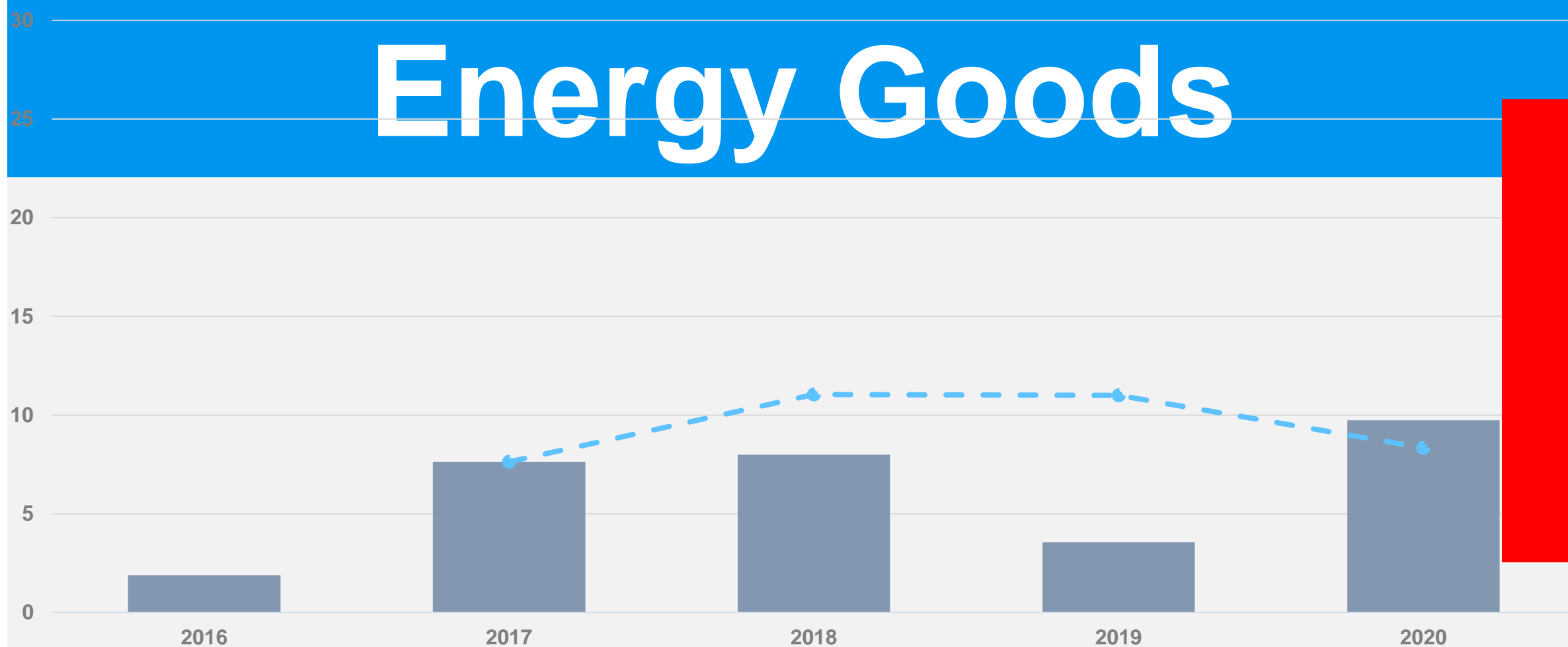
Manufactured Goods



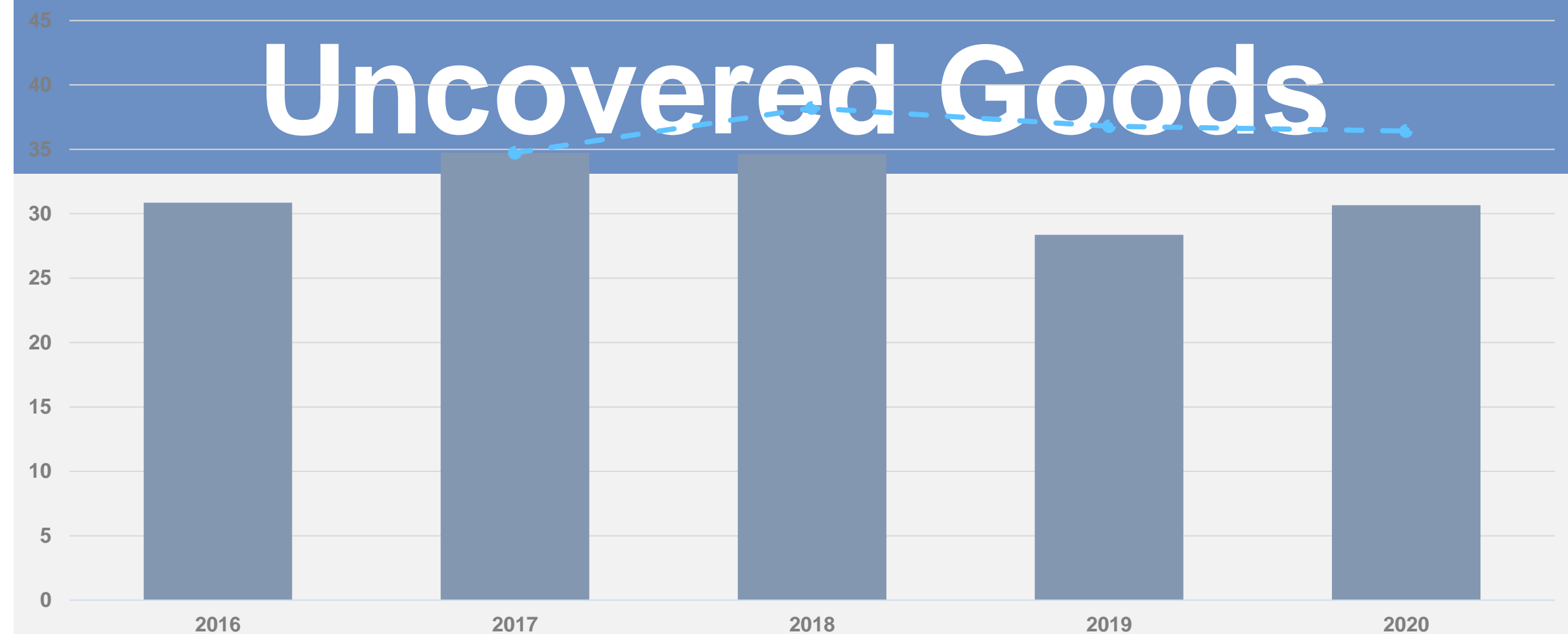
Agricultural Goods



Energy Goods

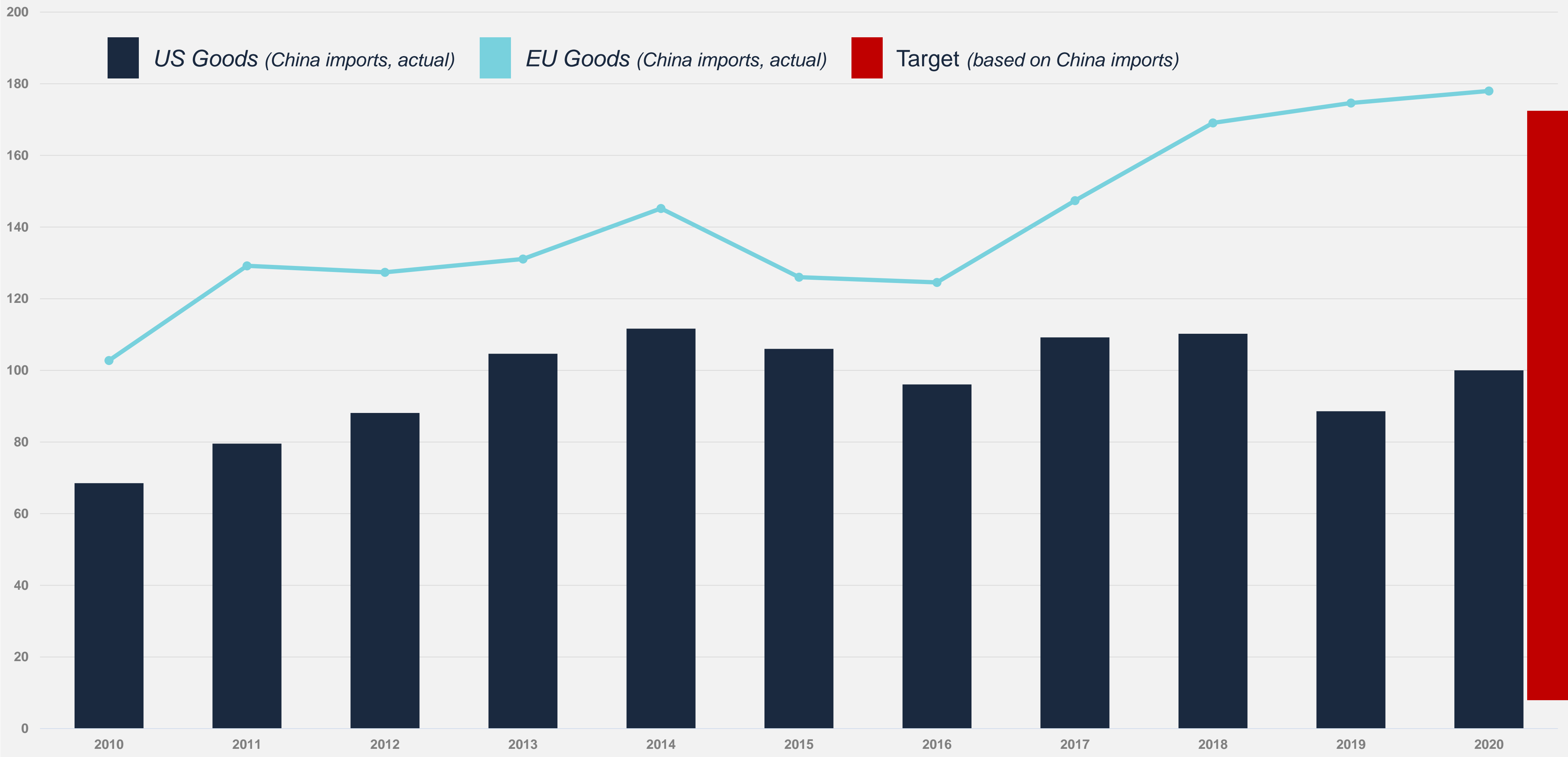


Uncovered Goods

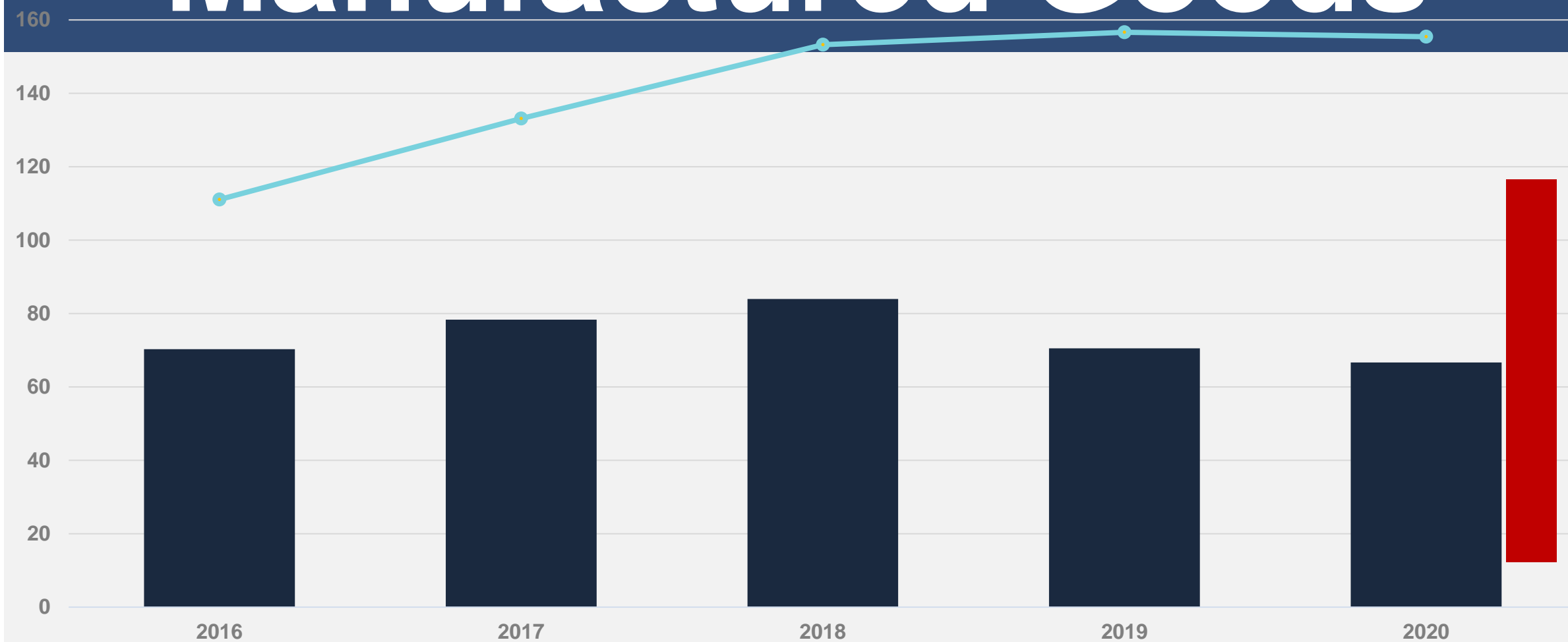


Source: CSIS

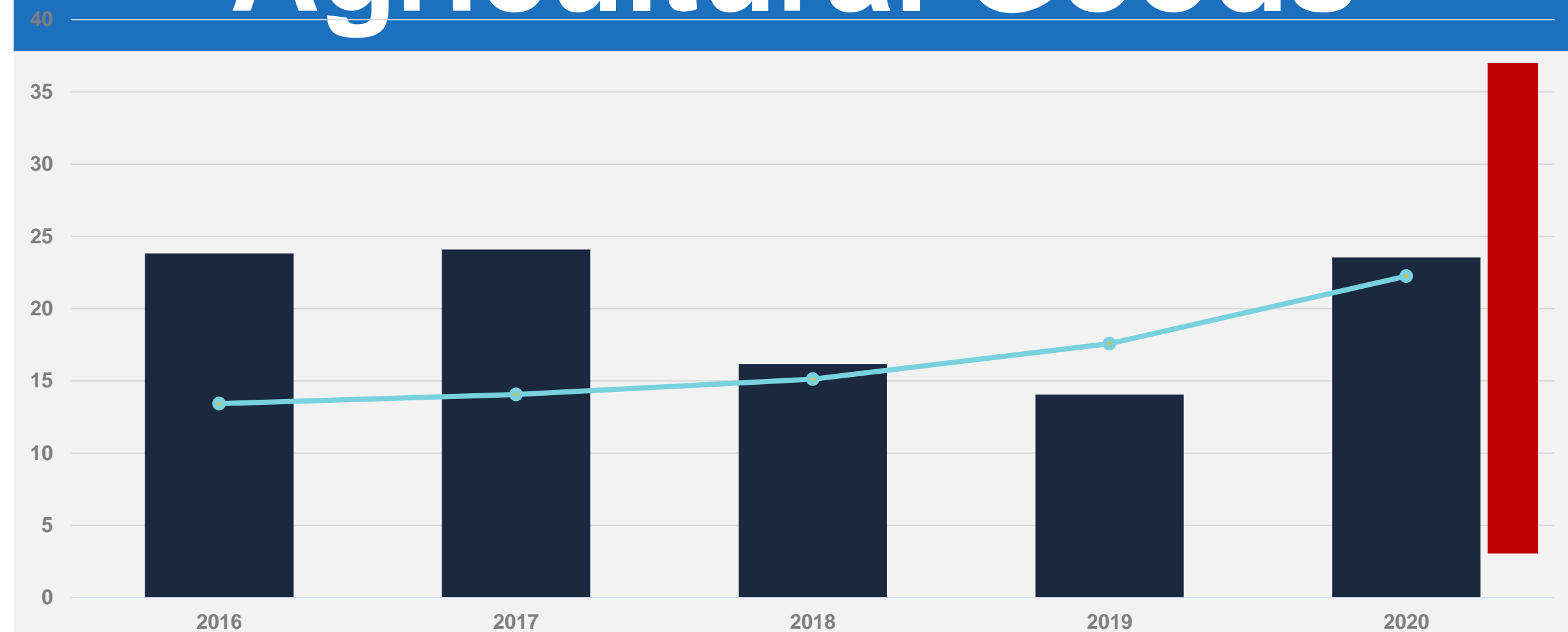
China's Imports of US & EU Products *China imports of all covered products, USD billions*



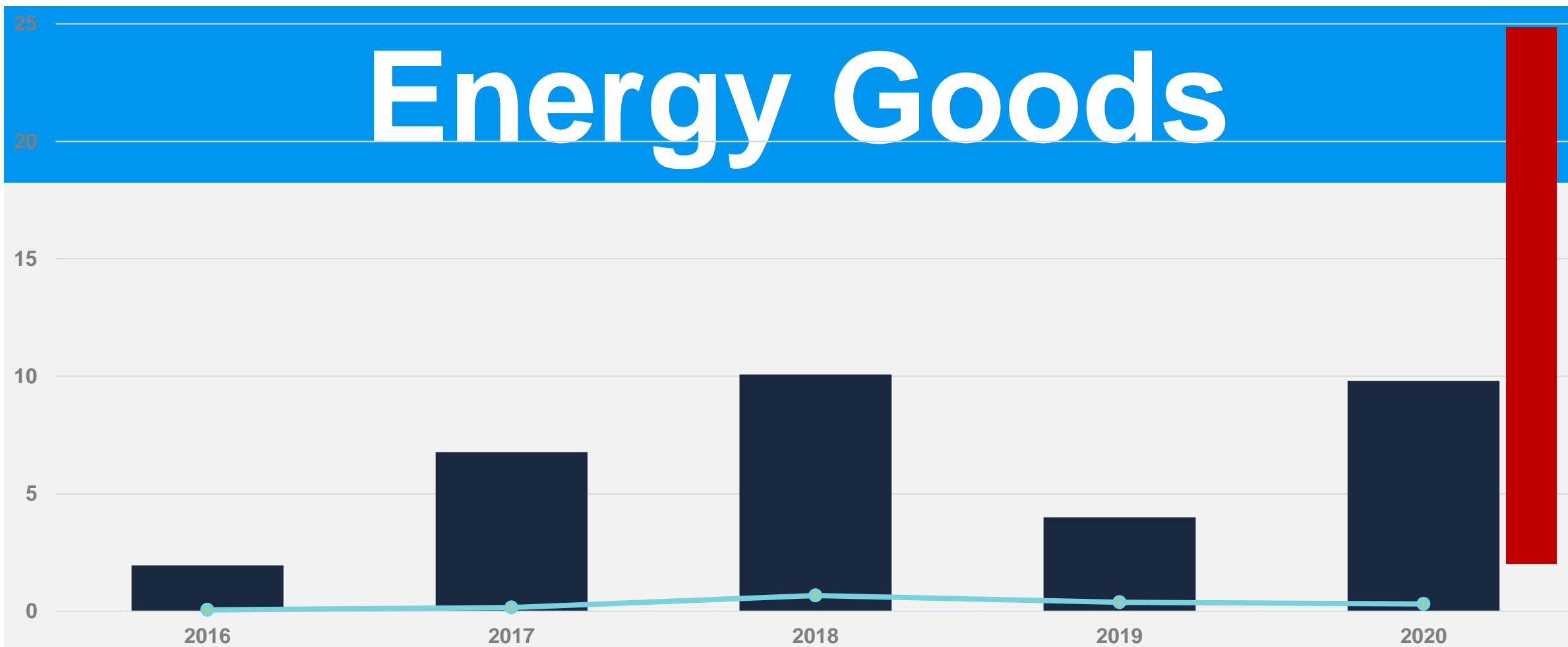
Manufactured Goods



Agricultural Goods



Energy Goods



Uncovered Goods



Source: CSIS



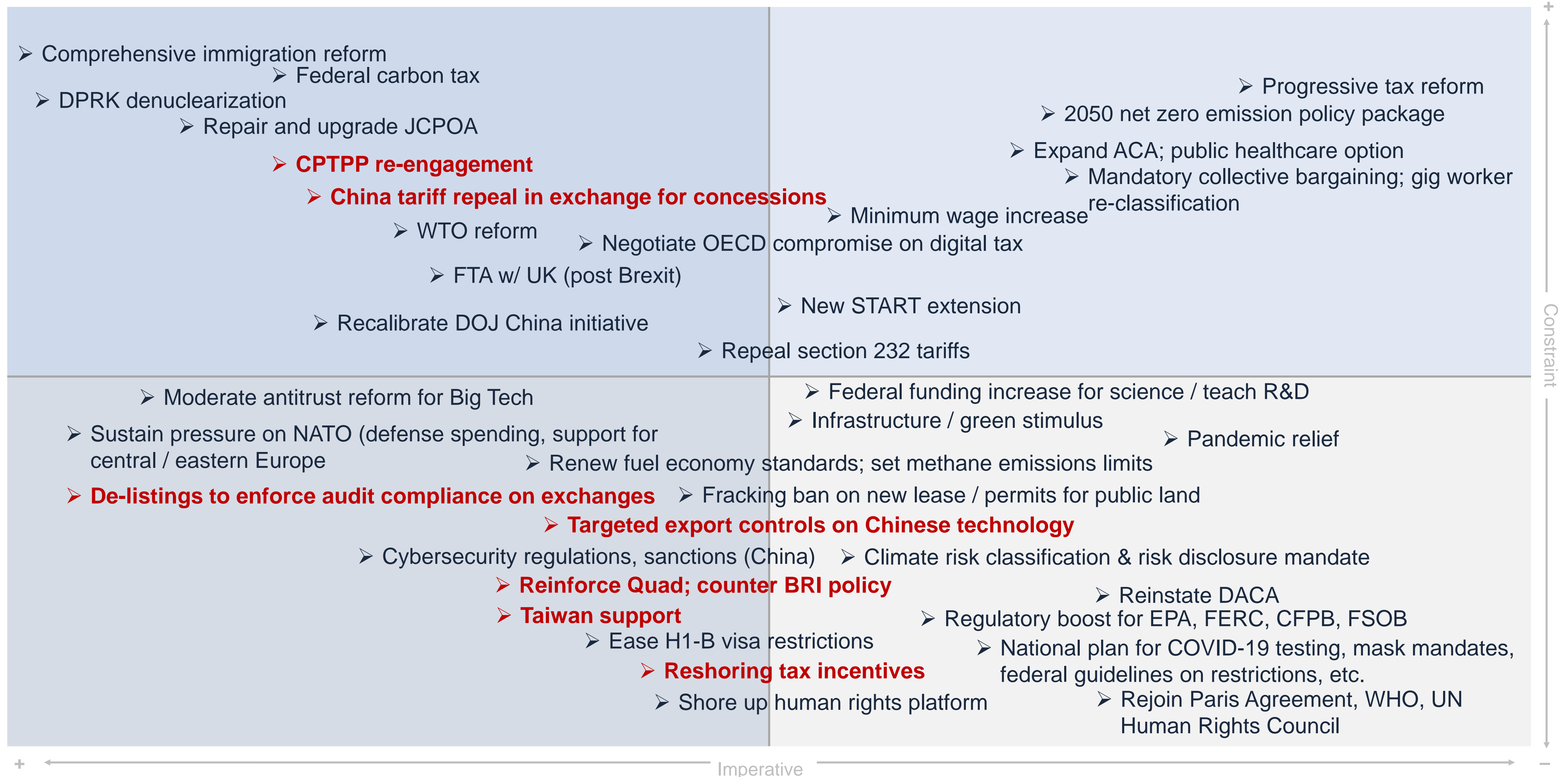
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US-China Trade Outlook



Biden Administration Agenda *imperatives & constraints*



Biden Administration China Outlook

Unilateral Multilateralism

change w/out negotiation

- Section 232 tariffs
- WTO: director general candidate
- US troops in Europe & Asia
- WHO
- Iran nuclear deal ((JCPOA)

Bilateral Stabilization

resolve through dialogue with China

- Section 301 tariffs
- Journalist expulsions
- Consulate closures
- Tik Tok & WeChat bans
- Visa - general restrictions (pandemic, CCP members)
- Fulbright & Peace Corps programs

Isolate China

maintain & expand via domestic (US) debate

- Hong Kong sanctions
- Xinjiang sanctions
- Delisting of non-compliant US-listed Chinese firms
- Revocation of US operator licenses for Chinese telecom firms
- Confucius Institute closures

Source: CSIS

Modify Restrictions & Reforms

adapt via domestic debate & dialogue with allies

- Huawei tech restrictions (executive order, entity list, FDPR)
- Entity lists – Commerce and DOD (general, military, South China Sea)
- “Clean Network” initiative (carrier, cloud, apps, cable)
- Defense Production Act, other measure to secure and relocate supply chains

Restrictive

Negotiation

+

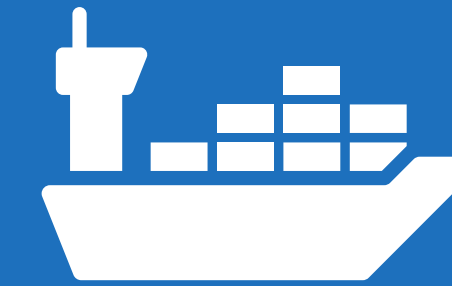


Decoupling



Marco Decoupling

Political and financial



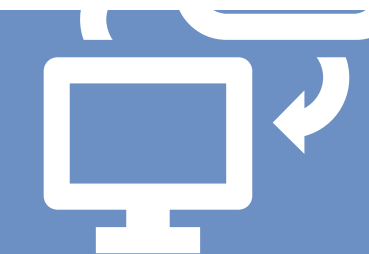
Trade Decoupling

Supply chains and critical inputs



Innovation Decoupling

Standard and R&D



Digital Decoupling

Data, network equipment, and telecommunications services





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Kyle Freeman

Partner

International Business Advisory

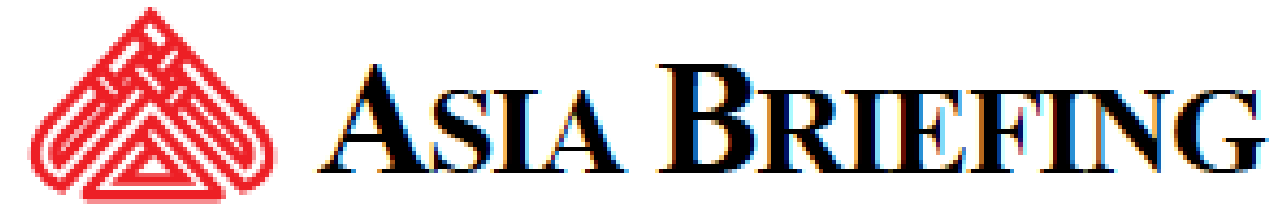
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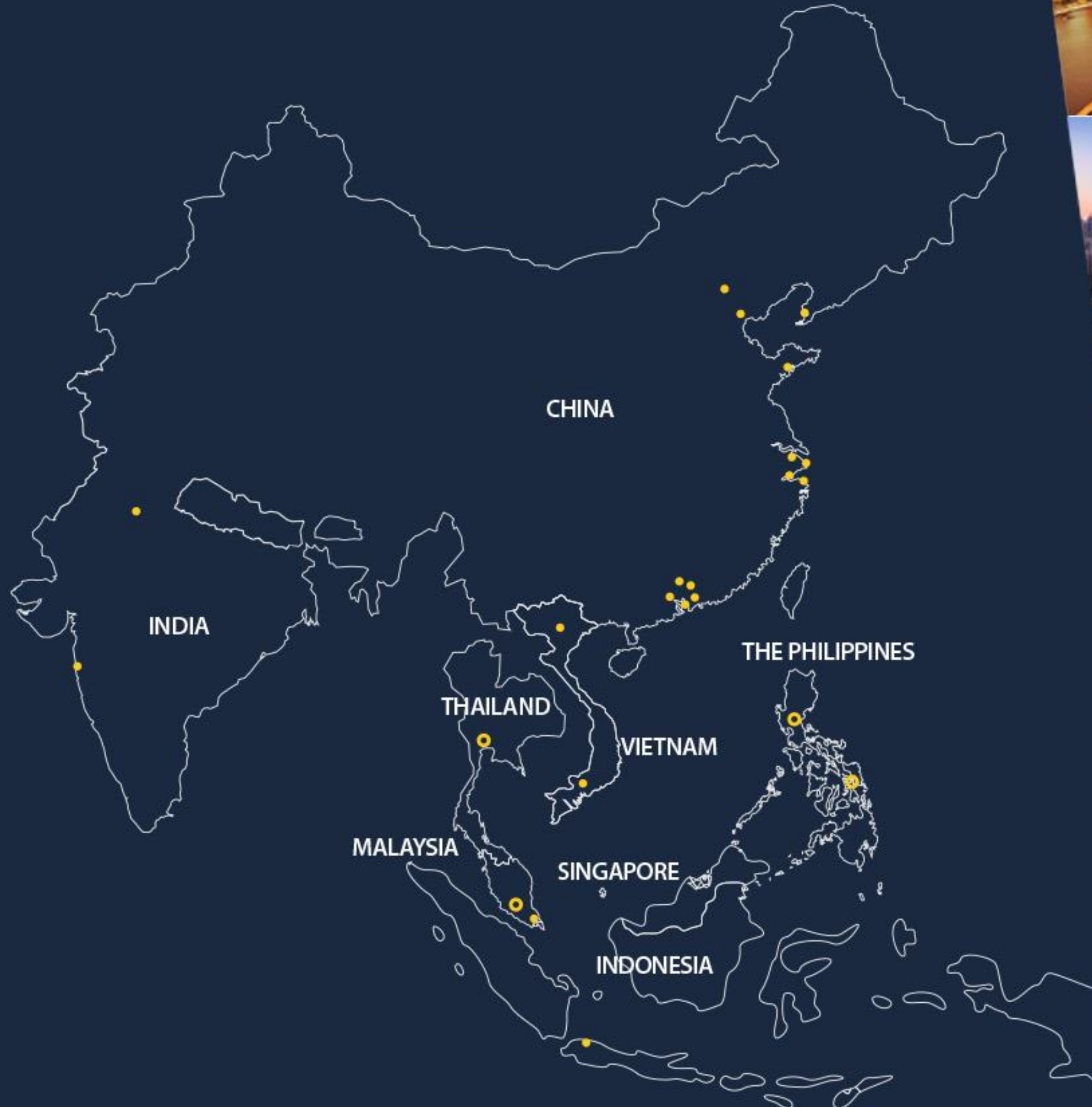


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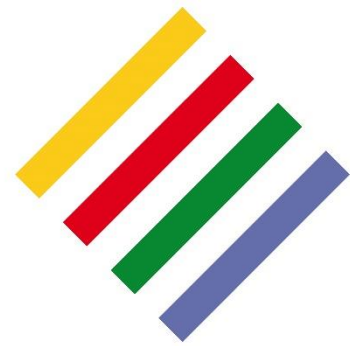
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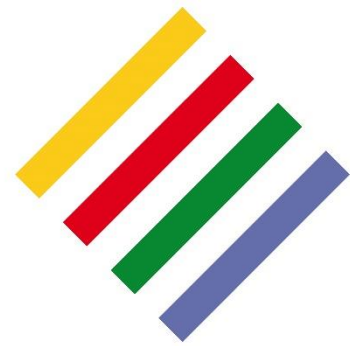
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