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OPENING REMARKS

Ambassador
Jarno Syrjälä

EU-China Relations

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

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

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.

Thank you!