# Some key facts about the EU-China relationship

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**Since the introduction of pro-market reforms in 1978, China has emerged as a global economic powerhouse and it is today the EU's second-largest trading partner.**

**In order to strengthen this trading relationship, the European Commission and the Chinese government in 2013 announced the launch of negotiations for a comprehensive investment agreement in. However, for the time being, EU trade defence measures persist and China's liberalisation process has slowed down.**

**The conventional narrative has tended to present Chinese firms solely as competitors undercutting European producers. But Chinese outward FDI into the EU reached €35 bn in 2016 alone, whilst Chinese consumers account for an increasing share of global sales for European firms. Moreover, China's outbound tourism to Europe has increased exponentially over the last 15 years.**

**Introduction**

At the World Economic Forum in January, Chinese President Xi Jinping's embracing of economic globalisation met with much approval. Mr Xi's speech on the benefits of free trade and its role in lifting hundreds of millions of people out of extreme poverty is surely to be applauded. China is, in fact, a prime example of globalisation's great successes. From 1978 to 2016, China's real GDP growth has averaged 9.7% per year; GDP per capita, in PPP terms, reached US$14,450 in 2015; and the share of the Chinese population living on less than US$1.90 per day has plunged from 66.6% in 1990 to 1.9% in 2013 (World Bank, 2017a; 2017b; 2017c).

Whilst China has widely increased its own economic freedom (Fraser Institute, 2016) and its remarkable growth has served as a locomotive for the global economy; in recent years, the Chinese government has slowed the liberalisation process down, President Xi has consolidated power and the country still lacks a free market for ideas (Dorn, 2017). For this reason, it comes as no surprise that European policymakers are still divided on what to do, as in some cases Chinese rhetoric has not been matched by reforms (Malmström, 2017).

**Strengthening trading relationships**

EU-China trade has increased dramatically in recent years, especially following China's WTO accession in 2001. China is today the EU's second-largest trading partner, behind the United States, and the EU is China's biggest trading partner. Over the last decade, China's exports to the EU have almost doubled, reaching €345 bn in 2016. On the other hand, in nominal terms, EU exports to China have tripled, rising from €64 bn in 2006 to €170 bn in 2016 (European Commission, 2017b).

**96.5% of China's exports to the EU28 come from the manufacturing sector. Primary products, such as food, fish, raw materials and fuels account for just 3% of EU imports from China (European Commission, 2017a).**

According to the Observatory of Economic Complexity, Germany, France, the United Kingdom, the Netherlands and Italy are China's top EU trading partners, making up more than 11.7% of China's total imports. Interestingly, China's share of total exports to these five EU Member States has decreased from 14.1% to 11.8% since 2001 (OEC, 2017). As a whole, Europe's share of Chinese exports has remained stable at 21% over the last fifteen years. However, in recent years China has been able to better diversify its trading relationship with other countries, especially Australia, Brazil and several African nations. By contrast, China's share of exports to the US has decreased from 24% in 2001 to 19% in 2015 (OEC, 2017). Moreover, despite the 2008-11 economic crisis, EU exports to China have increased on average by 10.8% per annum since 2006, whilst China's exports to the EU28 have on average grown by 6.9% (European Commission, 2017a).

As of 2014-15, bilateral trade in services only amounted to one-tenth of total trade in goods, and the EU's exports of services only amount to 20% of the EU's exports to China (European Commission, 2017b). In terms of FDI stocks, between 2010 and 2014, the EU28 outward stocks to China, including Hong Kong, grew by around €60bn. Even if Hong Kong's FDI importance has recently diminished, the city-state still accounts for around 40% of the EU28 outward stocks to China. Instead, China's FDI stocks to the EU have doubled between 2010 and 2014, reaching €91,9 billion. Of these, 77.4% comes directly from Hong Kong (Eurostat, 2016). These numbers demonstrate that investment stocks show vast untapped potential and that a stronger trading relationship with China could stimulate economic growth, create new jobs opportunities and rise national and personal incomes.

In fact, for now, China accounts for just 2-3% of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base. At the end of 2014, China held only about 1% of the European foreign direct investment stock (Bloomberg, 2015). However, Chinese companies are now expanding at rapid pace. From football (Inter Milan) to robotics (Kuka AG); from steel (EEW Group) to mobile games development (Supercell); from aircraft leasing (Avolon) to travel (SkyScanner), Chinese interest is growing rapidly in sectors that remain restricted to foreign investors in China (Hanemann and Houtari, 2017).

**Anti-dumping duties on Chinese exports are inefficient and harm Europeans**

**Anti-dumping protections come at a rather high price to users and consumers in the EU. For every euro gained in the protected sector, users and consumers pay, on average, €4.5 in higher prices and tariffs (Swedish National Board of Trade, 2013).**

Despite ever stronger trading ties, the Commission has recently adopted new anti-dumping (AD) duties on Chinese steel products, bringing the total of trade defence measures against steel imports from China and Taiwan to 17. Chinese exports will be taxed with AD duties ranging from 30.7% to 64.9% of their nominal import value. Taiwanese exports will face duties from 5.1% to 12.1%. (Regulation 2017/141).

There is reason to doubt that the Commission's trade defence policies will be to the benefit of European consumers. Firstly, even if the Chinese state subsidises its steel industry in a bid to undercut European producers, those subsidies are paid for by Chinese taxpayers and they come at a cost to them first and foremost. Secondly, European firms are consumers as well as producers of steel – in fact, EU countries import more steel than they export. In 2015, the EU28 imported 37.7 million tonnes of steel, whilst exporting 33.8 million tonnes (World Steel Association, 2016) This means that artificially raising the price of steel via AD duties will not unambiguously raise the welfare of European industry. Finally, import duties will, like all tariffs, make products more expensive for end consumers in the protecting countries.

Indeed, AD duties might backfire even for the industries that they are intended to safeguard. A good example of this comes from the introduction of EU anti-dumping duties on Chinese solar panels in 2013. According to a study conducted by the Alliance for Affordable Solar Energy (AFASE), the resultant job losses from the imposition of these trade defence measures were as high as 65,000. If the European Council had adopted even higher duties against Chinese solar products, the number of job losses would have been much higher, up to 240,000 jobs (ODI, 2013).

**Chinese are not our competitors. They are increasingly important consumers.**

**In the next five years, China is expected to import €8 trillion of goods, attract €600bn euros of foreign investment and make €750 bn euros of outbound investment, and Chinese tourists will make 700 million overseas visits (Xinhua News Agency, 2017).**

In light of the bilateral investment agreement under negotiation, the 2018 EU-China Tourism Year is an interesting opportunity to increase visitors' flows and investments on both sides. China is currently the world's largest travel market in terms of expenditure and the second largest in terms of outbound travel. From 2010 to 2015, China's outbound tourism to Europe has increased by more than 150% and it is projected to rise further in the coming few years. In 2015, more than 11.5 million tourists from mainland China visited a destination in Europe and stayed for over 40 million nights. In the early 2000s, Chinese arrivals in Europe were around 2 million per year (Arlt, 2016; European Commission, 2016).

Moreover, shopping is an essential part of Chinese travel plans. According to shopping tax refund company Global Blue (2016), the Chinese allocate around one-third of their European holiday budget to shopping, which amounts to around €3,544 euros spent on European luxury brands. It is important to mention that the main reason why Chinese travellers keep buying abroad is price. In fact, hefty import tariffs and consumption taxes, as well as higher prices mean a Chinese shopper can end up paying up to 50% more for the same product in China than they would pay elsewhere. According to Moët Hennessy Louis Vuitton (LVMH), a Louis Vuitton handbag costs 30% more in Beijing than in Paris (The Economist, 2014).

**Conclusion**

As the data demonstrate, the current rise of Chinese investment flows, acquisitions, exports and expenditure to the EU has been a boon for European consumers and businesses. On the contrary, EU trade defence measures against Chinese exports have tended to lead to higher prices and job losses within the EU. Thus, with current trade flows forecast to grow further in the coming years (Hanemann and Houtari, 2017) and with China's apparent willingness to take a more central role in promoting the benefits of economic globalisation and international trade, it is now time for European policymakers to get serious about a comprehensive bilateral investment treaty with their Chinese counterparts (MERICS, 2016).

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