
Eu-China: New Impetus for Global Partnership

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Summary: This paper is focussing on the place of the EU-China partnership in the changing world order. With the U-turn in the US approach to multilateral system of trade relations and climate change, some of the ways for the EU and China to move forward are getting different in their strategies. A successful cooperation in the future might be determined by the extent to which China accepts the ‘European values’, but the question will also arise as to whether EU is prepared to embrace the governance dynamics

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of China. The authors are trying to identify the new impetus of EU-China relations and give very concrete illustrations of where their potential future cooperation could be established, at the same time acknowledging that considerable uncertainty will still exist in the near future. China's relations with other global players such as Russia are of utmost importance, and the authors reflecting on how these relations might impact the advancements on EU-China dialogue and cooperation. The paper is illustrating China's ever increasing role and influence when it comes to trade and investments with EU countries, cooperation in energy, science and innovation as well as climate change. The paper is concluding that the recent changes in the world order and EU approach to multilateral system gave new impetus to the EU-China relations.

Keywords: climate, EU-China, global challenges, trade,

1. Introduction

Geopolitically from the European perspective, the world today looks very different to how it looked just few years ago. The European Union (EU) is facing unprecedented challenges, both global and domestic: regional conflicts, terrorism, growing migratory pressures, protectionism and social and economic inequalities. No doubt there is ultimate need to address the challenges of a rapidly changing world and to deal with both security and new opportunities within traditional and emerging global alliances. It is very important for the EU to have the opportunity to shape globalisation in line with its own values and interests. The evidence presented here clearly shows that globalisation can be beneficial where properly harnessed.¹

Outside the EU, an effective European economic diplomacy will help write the Global rulebook and ensure European companies can prosper in fast-growing international markets. Their continuing success will deliver more and better jobs for European citizens. Equally, Europe should not shy away from taking measures to restore a level playing field where this is threatened.

In future the competition will increasingly come from emerging economies that are rapidly moving up the value chain. The divide between more technologically advanced regions and those that are less advanced is more likely to be widening, unless governments invest in education, equip their citizens with the right skills, encourage innovation, ensure fair competition and regulate smartly where needed. It is forecasted that in 2025, 61 % of the world's 8-billion

¹ EC. *Reflection Paper on Harnessing Globalisation*. [online]. Available at: <https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-globalisation_en.pdf>

population will be in Asia, predominantly in China and India. Europe's relative share of the world population will decline, with the EU-27 accounting for 5.5 %.² This may bring about a multipolar world order with different political, technological, economic and military powers, but it also means large new markets for European companies.

The current geopolitical situation seems to be beneficial to advance the EU-China relation. China's position in the world has strengthened during the last 20-25 years. President Xi Jinping's speech in Davos in January 2017 was more like that of a 'growing giant' and reminiscent of presidents' speeches calling for an open global economic system during the heyday of US hegemony.³ China continues to grow economically, politically, and strategically. Its sheer size and strength are already challenging the West. President Trump's trade policies, such as abandoning the Trans-Pacific Partnership, hands China a golden platter. A disengaged United States could also undermine the rules-based international trading system, unless the EU becomes strong and united enough to stem the decline of the West.

Moreover the latest developments show the United States and its allies must think realistically about possible approaches to addressing the increasingly acute North Korean challenge, adopting a clear-eyed view of which approaches may work and which may not⁴, where China will have important geopolitical leverage on future US-EU-China relations

The purpose of this paper is to analyse the EU-China relationships in the light of the recent geopolitical developments, challenges and uncertainties, especially the new US role in world politics, and the increasing interest of Russia in its relations with China. We make an attempt to assess the latest geopolitical situation from the viewpoint of specific aspects of EU-China cooperation such as trade and investments. Another important EU-China's cooperation fields are transport, logistics, energy and climate change as well as science, which under favourable conditions could be instrumental for growth and numerous opportunities for both the EU and China.

² EC. *EU-China Summit: new flagship initiatives in research and innovation*. [online]. Available at <<http://ec.europa.eu/research/index.cfm?pg=newsalert&year=2017&na=na-020617>>

³ DEMERTZIS, Maris, SAPIR, André, WOLFF, Guntram. *Europe in a new World Order*. [online]. Available at: <http://bruegel.org/wp-content/uploads/2017/02/Bruegel_Policy_Brief-2017_02-170217_final.pdf>

⁴ EINHORN, Robert. *Approaching the North Korea challenge realistically*. [online]. Available at: <<https://www.brookings.edu/research/approaching-the-north-korea-challenge-realistically/>>

2. Global Challenges in EU-China Relationship

The EU and China are both central actors in international affairs, collectively accounting for almost 40% (in current market prices) of the world's gross domestic product (GDP). While addressing the key global challenges of the 21st century increasingly requires an entente between these two actors, their relationship is often plagued by conflicting interests. Whether or not the EU will grant market economy status to China still looms largely in the trade relations of the two; the EU is still yet to lift its arms embargo on China; and they also differ in climate action responsibilities, to name a few.⁵

Despite the multiple ongoing crises in Europe, China's EU policy still focuses on gaining access to the vast markets there in order to pursue its immediate economic activities. Beijing also continues to flex its economic muscles and apply the well-practiced 'divide and rule' strategy in its dealings with EU member states regardless of their sizes. In particular, Beijing puts strong emphasis on courting CEEC with its '16+1' cooperation framework, which has shown significant potential for generating a strong pro-China lobby within the EU.⁶

However, the European political elites must be aware that Beijing has devised several tactics to attain its economic diplomacy goals, which have also become more complex as a result of China's ongoing and much-needed efforts to transform the domestic economy. In particular, the ambitious 'Belt and Road' initiative under the aegis of President Xi Jinping is confusing and creates both, risks and incentives for EU member states to engage in further collaborations. For instance, with a view towards revamping its EU policy agenda, Beijing has intertwined this initiative with domestic players, who, however, are little known to the European policy makers. This type of change in bureaucratic management may exacerbate EU-China relations.⁷

The EU-27 remains the world's largest trader, investor and development assistance provider. EU is deeply integrated into global value chains and will continue to carry weight even as other powers emerge. Therefore it is very important for the EU to have the opportunity to shape relationship with China in line with its own values and interests, rather than sitting back and letting globalisation shape. The global players that impact success of EU-China include Association of Southeast Asian Nations (ASEAN), the US and Russia.

⁵ UJAVARI, Balazs (ed). *EU-China Co-operation in Global Governance: Going beyond conceptual gap*. [online]. Available at: <<http://www.egmontinstitute.be/content/uploads/2017/04/ep92.pdf?type=pdf>>

⁶ YU, Jie. *After Brexit: Risks and Opportunities to EU-China Relations*. [online]. Available at: <<http://onlinelibrary.wiley.com/doi/10.1111/1758-5899.12440/full>>

⁷ YU, Jie. *After Brexit: Risks and Opportunities to EU-China Relations*. [online]. Available at: <<http://onlinelibrary.wiley.com/doi/10.1111/1758-5899.12440/full>>

The essential factors that contribute to EU-China collaboration refer to the influence of ASEAN⁸ region. In fact, Asia is the world's largest and most populous continent, of great geo-strategic importance to the EU. In Southeast Asia, ASEAN is a prime importance to the EU. Moreover, economically both regions are interdependent. EU-ASEAN cooperation was framed in the 2012 Plan of Action to strengthen the EU-ASEAN enhanced partnership (2013–2017), and the EU has a strategic interest in consolidating ties with ASEAN. The EU and individual ASEAN member countries pursue partnership and cooperation agreements (PCAs). Up to date the following agreements have been concluded: EU-Singapore (2014) and EU-Vietnam (2016). At present, negotiations with the other members of ASEAN are not in the agenda, although considering current protectionist policies of the US, these negotiations might progress.

Overall, the EU is ASEAN's second-largest partner, with a 13% share of ASEAN's total trade with the world. ASEAN is the EU's third largest partner outside Europe (after the US and China). Negotiations for a region-to-region FTA between the EU and ASEAN — the EU's ultimate goal — were revived in March 2017. EU-ASEAN two-way trade stood at EUR 208 billion in 2016, and the EU remained the largest external source of FDI flows into ASEAN in 2015, when they amounted to EUR 23.3 billion. Although, negotiations for a region-to-region FTA with ASEAN were launched in 2007 and paused in 2009 to give way to bilateral FTAs negotiations.⁹ Notably, a biannual ASEAN-EU Trade and Investment Work Programme frame cooperation between the two regions.

The EU and China are significant players in ASEAN. However, both are not fully accepted by ASEAN countries. Consequently it is important for China, the EU and its Member States to be active at all levels be it multilateral, regional or bilateral. Such policy could positively influence and enhance relations with Southeast Asian countries in future and, what is very important, to advance national and EU international and transnational interests.

What is more, in economic dimension EU and China will find themselves increasingly in competition in ASEAN when high tech Chinese products enter the market and European technological lead and investment in certain sectors

⁸ In this respect it is quite significant that 2017 is the year of celebrations for the 60th anniversary of the creation of the European Economic Community (the predecessor of the EU). At the same time this is the year of 50th anniversary of the ASEAN, born in 1967 with membership of 27 nations in ASEAN Regional Forum in 2017 including China. Furthermore, it is 30 years since the ASEAN-EU Dialogue Relations were launched.

⁹ EC. *EU-ASEAN*. [online]. Available at: <<http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>>

could be reduced. China is becoming a serious competitor in foreign investment in Southeast Asia and as a donor country in development aid. According to experts, in theory this Sino-European competition should be beneficial to the ASEAN countries. In practice however, there is a potential for a stronger China to be to the detriment of ASEAN members or at least to the citizens of ASEAN countries. China is a responsible economic actor in China-ASEAN FTA. However, economic, security and other political questions are so intimately interlinked that it would be misguided to feel that economic relations could be dealt with in an isolated way. Agreement on a series of common objectives in the political, social, cultural and environmental fields would open an opportunity for China and the European Union to cooperate in meeting common challenges in Southeast Asia.¹⁰

The changing role of the US on the global arena is a second serious factor in shaping EU-China relation. Contrary to EU globalisation policies, President Donald Trump has been propagating America's retreat from the world, giving China a golden opportunity to fill the void and make its case for global leadership on issues such as trade and climate change. These declarations grew to a crescendo at the G-20 Summit in Hamburg, Germany. At the G-20 summit the German Chancellor Angela Merkel stood by her suggestion that Europe can no longer entirely rely on the US and declared that Germany and China can work together to help calm the world's problems.¹¹

Today on global arena there is ongoing contest between the world's three most influential figures: Donald Trump, who is acting as a lightning rod for discontent since he publicly disavows multilateral actions; Xi Jinping, who proclaims China ready for global leadership while failing to explain in any way what that leadership would consist of; and Angela Merkel, whose skill in balancing will be scrutinized. German Chancellor Angela Merkel has suggested that Europe can no longer entirely rely on the US and declared that Germany and China can work together to help calm the world's problems. The expectation is that Donald Trump will be cornered and defeated, while Xi Jinping will emerge as a born again progressive internationalist, following his recent re-commitment to the Paris climate agreement in contrast with President Trump's renegeing. Chancellor Merkel is seen as the clear-sighted umpire who will declare the defeat of the nefarious Donald Trump.

¹⁰ CAMROUX, David. China and its Neighbors in a book *China-EU A Common Future*, (eds.) Crossick, S., Reuter, E., New Jersey: World Scientific Publishing Co., 2017, pp.93-100.

¹¹ MOULSON, Geir. *G20 summit: Europe can no longer rely on US under Donald Trump's leadership*. [online]. Available at: <<http://www.independent.co.uk/news/world/europe/g20-summit-latest-angela-merkel-donald-trump-europe-us-relations-germany-china-a7826421.html>>

Most of all, the expectations ignore China itself. A soft power victory is enjoyable for Xi Jinping, with Western pundits ignoring the inconvenient and long-lasting truths about China in order to focus on the current US president.

Two recent and publicly undisclosed events will serve as examples. In the lead up to the EU-China summit on June 2, 2017 in Brussels, Chinese negotiators and the Chinese prime minister himself seemed amenable to compromise on the thorny trade and investment issues that have prevented China from gaining market economy status. After years of paralysis, China seemed ready to concede the EU-China investment agreement that would surely include better access for European firms in China. At the last moment during the summit, the Chinese concessions were withdrawn without any explanation, and China also refused to co-sign a statement on climate policy. The same reversal had happened one day before in Berlin meetings between the Chinese and German governments on July 5, 2017. In fact, on both occasions China's government seemed to be superseded by a hidden but stronger authority – it is not too difficult to guess what that force was, given the extraordinary amount of personal power gathered by President Xi. The China-EU-US triangle is not what most commentators think it is. Europe's balancing act – leveraging the US on trade issues with China while leveraging China with the US on global policies such as climate – does not work, except for media purposes. This is because China refuses to play the game, or rather plays it very differently.

Beijing happily collects the public diplomacy benefits of Western dissensions, with Europe heaping praise on Xi Jinping to better underline Donald Trump's uncouth manners. But China will still prioritize outcomes with the US, especially to prevent strong measures on trade. It has understood Donald Trump's sensitivity and therefore goes out of its way to avoid antagonizing him publicly, therefore not joining the wailing over Donald Trump. And although it has flashed a more open card at the European Union, that card has been quickly withdrawn.

The above examples are only about trade and climate negotiations. Arguably, that's not the strategic heights of international relations. But trade issues are the bulk of the actual EU-China relationship, and climate politics are perhaps Europe's signature item in international affairs. On hard power issues, Europeans alone are a negligible global force, given the lack of common purpose and coordination.

The US is clearly paying a price in public diplomacy with Europe, and perhaps in substantial negotiating agreements, for its current unpredictability and lack of a coherent design. An almost totally ignored feature of current global relations is in fact more important and significant for Europe. With Japan finally coming to terms with the European Union on a free trade agreement that effectively creates the world's largest free trade area, the Europeans and Japanese

are in fact sending a concrete signal to both Donald Trump and Xi Jinping: protectionist postures by the US will not prevent other free market economies from moving ahead on the trade agenda, and China is not left free to pursue its mercantilist and bilateral ambitions with countries over which it now has trade dominance.¹²

If China's modern relationship with the US has received more than its fair share of attention – too much some might complain in both Asia and Europe – the same could hardly be said until very recently of its complex relationship with another important state with which it has had an even closer history: Russia. The two countries share one of the longest land borders in the world. The former USSR was for many years a close ally of the Chinese Communists. And though Russia may have abandoned communist rule – while China has not – the two today appear to be on excellent terms, so much so that China is now regarded by President Putin as Russia's indispensable friend while Russia and its much feted leader is now viewed in China in the most positive terms imaginable. But in spite of the mounting evidence that the two have formed what even they now call a 'strategic partnership', there are still many who doubt whether the relationship is especially secure one.¹³

The United States' ability to deal with the challenges posed by Russia-China partnership is commonly seen as in decline. The US position in the triangular relationship has deteriorated, to the satisfaction of leaders in Moscow and Beijing opportunistically seeking to advance their power and influence. Russia's tensions with the West and ever-deepening dependence on China, combined with constructive US engagement of China, have given Beijing the advantageous "hinge" position in the triangle that Washington used to occupy.¹⁴

¹² GODEMENT, Francois. *Hamburg G 20: A test for the China-EU-US triangle*. [online]. Available at: <http://www.ecfr.eu/article/commentary_hamburg_g_20_a_test_for_the_china_eu_us_triangle>

¹³ COX, Michael. *Not just 'convenient': China and Russia's new strategic partnership in the age of geopolitics*. [online]. Available at: <http://eprints.lse.ac.uk/83632/1/Cox_Not%20just%20convenient.pdf>

¹⁴ CHASE, Michael S., MEDEIROS, Evan S., ROY, J. Stapleton, RUMER, Eugene B., SUTTER, Robert, WEITZ, Richard. *Russia-China relations: Assessing Common Ground and Strategic Fault Lines*. [online]. Available at: <http://carnegieendowment.org/files/SR66_Russia-ChinaRelations_July2017.pdf>

3. EU–China Trade and Investments

Free trade has played a key role in underpinning globalisation in the past decades. Both the European Union and China, the two largest trading entities in the world, have developed vested interests in furthering international trade liberalization efforts. In view of the deadlocked Doha Development Round (DDR), China has joined the global trend of negotiating free trade agreements in bi-and plurilateral fashion. Despite Beijing’s involvement with free trade agreements (FTA), the country retains an interest in the further liberalization of trade in non-agricultural products through the World Trade Organisation (WTO). The EU, along with its continued support for the WTO track, is also engaged in a number of FTA negotiations, not least with Japan, Indonesia and the Philippines. The fact remains, however, that the EU finds its primary interests in the liberalization of trade in services – an area that largely escapes the Doha Development Round’s agenda. In light of these structural differences in the stance of Beijing and Brussels – which currently also pursue negotiations on a bilateral investment treaty with a view to potentially concluding a comprehensive FTA in the mid-term – on global trade relations, the prospects of improved co-operation are worth a scrutiny.¹⁵

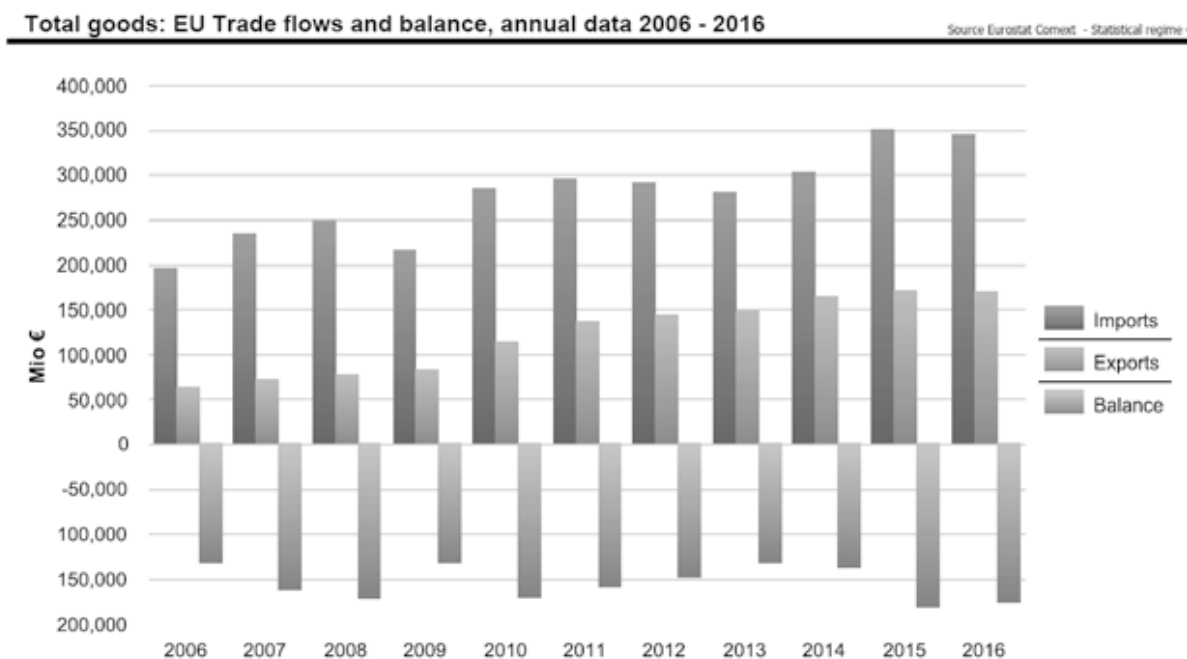
Moreover China seems to be committed to developing global free trade and investment, promote trade and investment liberalization and facilitation through opening-up and say no to protectionism. President Xi said at World Economic Forum in Davos 2017: “Pursuing protectionism is like locking oneself in a dark room. While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war”.¹⁶

The EU and China are two of the biggest traders in the world. China is now the EU’s 2nd trading partner behind the United States and the EU is China’s main trading partner. EU-China trade has increased dramatically in recent years; for most trade items they are increasingly competitive¹⁷ (Fig.1).

¹⁵ UJAVARI, Balazs (ed). *EU-China Co-operation in Global Governance: Going beyond conceptual gap*. [online]. Available at: <<http://www.egmontinstitute.be/content/uploads/2017/04/ep92.pdf?type=pdf>>

¹⁶ WORLD ECONOMIC FORUM. *President Xi’s speech to Davos in full*. [online]. Available at: <<https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>>

¹⁷ Eurostat.2017. Economic relations between China and the EU. [online]. Available at: <<http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>>

Figure 1. EU trade with China: EU Trade flows and balance, annual data 2006–2016

Source: Eurostat, 2017

China and Europe now trade well €1 billion a day. EU imports from China are dominated by industrial and consumer goods: machinery and equipment, footwear and clothing, furniture, and toys. EU exports to China are concentrated on machinery and equipment, motor vehicles, aircraft, and chemicals.

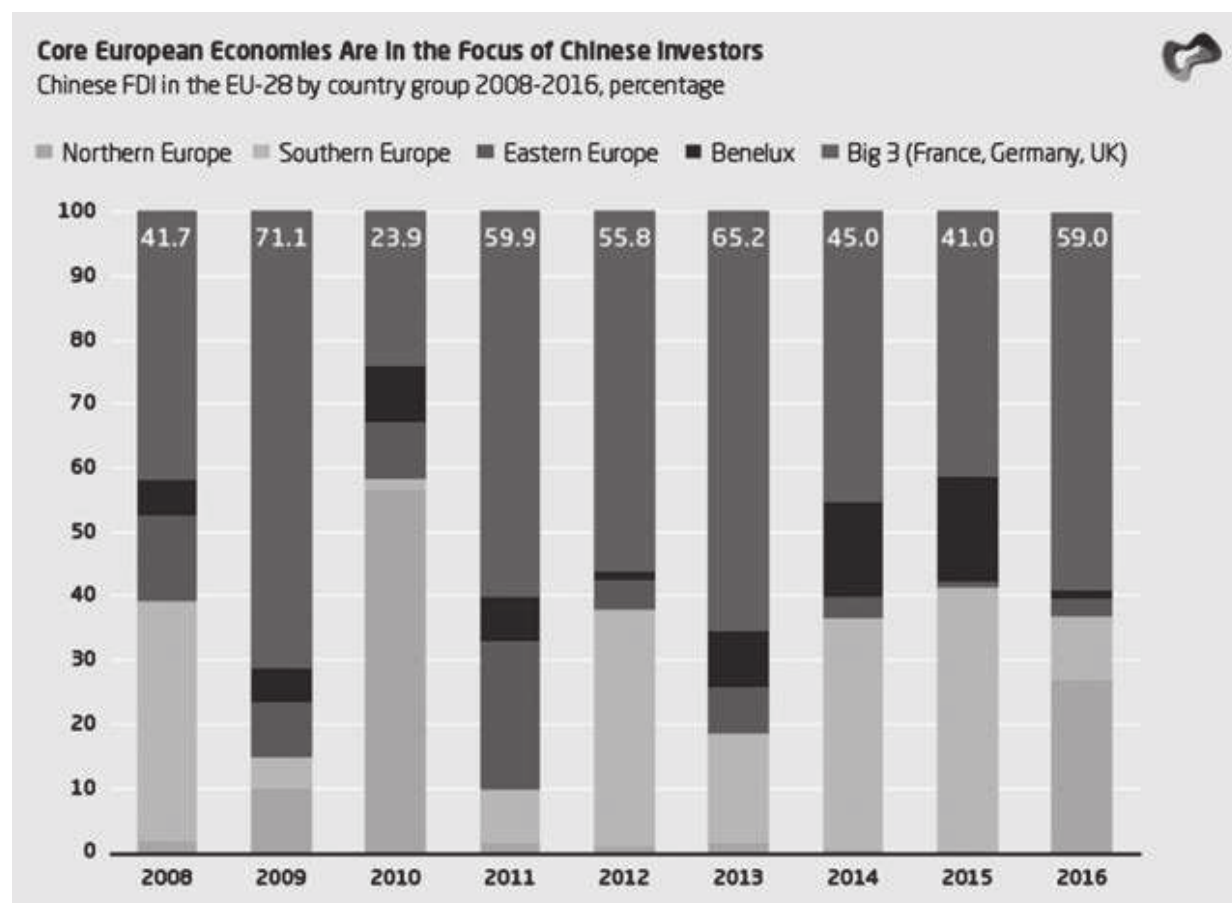
The EU is committed to widen trading relations with China. However, the EU wants to ensure that China trades fairly, respects intellectual property rights and meets its WTO obligations.

The 2008 financial crisis in Europe, and the subsequent (and still-ongoing) debt crisis which hit the continent in 2010, has caused European investors to hold on tightly to their wallets. Europe today doesn't have a cash problem; it has a liquidity problem. Businesses lack the confidence to spend the money they have. On the other side of the world, China is flush with cash from its economic boom. Chinese investors have stepped into the European investment void, buying properties, industries and financial assets¹⁸. China's global outward FDI has been on an impressive growth trajectory for the past decade, with an annual average growth rate of 30 per cent from 2005–2015. In 2016, Chinese outbound investment grew faster than this historical rate. The acceleration was

¹⁸ HANEMANN, Thilo, HUOTARI, Mikko. *A New Record Year for Chinese Outbound Investment in Europe*. [online]. Available at: < <http://rhg.com/reports/a-new-record-year-for-chinese-outbound-investment-in-europe>>

driven by greater incentives for corporations to diversify in the face of a slowing domestic economy, financial stress and devaluation pressure on the Chinese currency. Official full-year data is not yet available, but we estimate that Chinese outward FDI came close to USD 200 billion in 2016, a 40 per cent increase compared to 2015. This cements China's role as one of the top direct investor nations globally.¹⁹

Figure 2. Chinese OFDI in the EU-28 by country group 2000–2016 (percentage)



Source: Rhodium Group, 2016

The 'Big 3' includes France, Germany and the UK; 'Benelux' includes Belgium, Netherlands and Luxembourg; 'Eastern Europe' includes Austria, Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia; 'Southern Europe' includes Croatia, Cyprus, Greece, Italy, Malta, Portugal, Slovenia and Spain; 'Northern Europe' includes Estonia, Denmark, Finland, Ireland, Latvia and Sweden.

¹⁹ HANEMANN, Thilo, HUOTARI, Mikko. *Record Flows and Growing Imbalances: Chinese Investment in Europe in 2016*. [online]. Available at: <http://rhg.com/wp-content/uploads/2017/01/RHG_Merics_COFDI_EU_2016.pdf>

Investment flows show vast untapped potential, especially when taking into account the size of the respective economies. China accounts for just 2-3% of overall European investments abroad, whereas Chinese investments in Europe are rising, but from an even lower base while, investments from the EU in China amount to a mere 5% of European investments abroad and only a fraction of the overall trade volume. In turn, Foreign Direct Investment (FDI) from China represents less than 3% of the total FDI inflow into the EU.²⁰ At the same time, the competition among EU states for Chinese capital has intensified, which weakens European leverage vis-à-vis China on important strategic questions. Moreover, investment patterns further aggravate existing economic concerns related to Chinese investment, most importantly the lack of equal market access for European companies in China and potential market distortions through state-owned and state-supported enterprises. Addressing those concerns now is critical as China expects to deploy an additional USD 1 trillion in outward FDI in the coming five years in Europe and globally. Chinese investors have broadly followed the footsteps of other foreign investors in Europe by putting most of their investments in the wealthiest and largest European economies.

Lately questions have arisen about investment in Europe's strategic industries. With increasing globalization, Chinese state-affiliated investors are increasingly eyeing strategic assets, such as ports, railroads, tunnels and other transit infrastructure in Europe and elsewhere. Therefore, instituting a credible investment screening mechanism in the EU is a *sine qua non* in helping to address the effects of global capital flows.

4. Climate and Energy

Climate change is becoming one of – if not – the most acute global issues whose effective solution requires an unprecedented level of international co-operation. Amongst the direct consequences are rising sea levels and inter-state conflicts over increasingly scarce water resources, which risks generating refugee flows across borders or internally within countries. The EU and China are both key actors in global climate politics given their present economic weight and pollution record. Europe as the pioneer of industrial revolution had once accounted for 90% of the planet's emission, whereas China now is the only country with an annual emission of more than 10 billion tons. Yet, the approaches of these two actors to

²⁰ HANEMANN, Thilo, HUOTARI, Mikko. *A New Record Year for Chinese Outbound Investment in Europe*. [online]. Available at: < <http://rhg.com/reports/a-new-record-year-for-chinese-outbound-investment-in-europe> >

how global warming should be tackled often differ. The key areas of disagreement between the EU's and China's position in the negotiations pursued under the United Nations Framework Convention on Climate Change (UNFCCC) and identifies possible solutions to overcome these differences.²¹

4.1. Implementing the 2015 Paris Agreement

At the 19th EU-China summit (EC, 2017)²², set against the backdrop of US-President Trump's announcement of withdrawal from the Paris Climate Agreement, the two economies and major emitters of greenhouse gases reconfirmed their commitment to mitigating the effects of climate change. With the 2015 Paris Agreement the 195 signatories commit themselves to reduce the negative impacts of climate change by trying to keep 21st century global temperature rise well below 2 degrees Celsius above pre-industrial levels.²³ Such an alliance provides unrivalled potential for innovation in energy efficiency and renewable energy sources, which are at the heart of uni- and bilateral efforts for achieving the countries' respective climate pledges. The decision of the EU and China to take the lead on climate change has been welcomed worldwide, however, the alliance' efficacy must be doubted. Their economic relations seem to be problematic at the core, as trade and investment reappear as stumbling blocks on the most recent summit. Will the disagreement in trade and investment policy hamper common climate ambitions? It seems so.²⁴

To be sure, EU-China cooperation and effectiveness on climate change holds great potential. EU demand for renewables has stimulated Chinese investment in renewables which has in turn reduced the global price of renewable energy production by 40% since 2010. The cornerstone of the partnership has been the establishment of a nationwide emissions trading system, the development of carbon capture and storage (CCS) solutions and the harmonization of energy labels of appliances, equipment and buildings. An informal 2017 EU-China joint statement,²⁵ which is more concrete than any before, clearly demonstrates the

²¹ UJAVARI, Balazs (ed). *EU-China Co-operation in Global Governance: Going beyond conceptual gap*. [online]. Available at: <<http://www.egmontinstitute.be/content/uploads/2017/04/ep92.pdf?type=pdf>>

²² EC. *EU-China Summit: new flagship initiatives in research and innovation*. [online]. Available at: <<http://ec.europa.eu/research/index.cfm?pg=newsalert&year=2017&na=na-020617>>

²³ EC. *Paris Agreement*. [online]. Available at: <https://ec.europa.eu/clima/policies/international/negotiations/paris_en>

²⁴ SEKULOVIC, Saba. *The EU-China climate alliance: new plans and old troubles*. [online]. Available at: <<http://politheor.net/the-eu-china-climate-alliance-new-plans-and-old-troubles/>>

²⁵ EC. *Energy Dialogue*. [online]. Available at: <<http://ec.europa.eu/energy/en/topics/international-cooperation/china>>

alliance's ambitions: The EU and China recognise the importance of developing global free trade and investment, and promoting the multilateral rule-based system to allow the full development of the low greenhouse gas emission economy with all its benefits. None of the bilateral initiatives including the EU-China 2016–2020 Roadmap on energy cooperation are binding.²⁶ Collaboration is mainly institutional and project-based.

4.2. EU-China Energy Dialogue

EU cooperation with China is based on so-called Sectorial Dialogues²⁷ which focus on individual economic areas. Since 1994, EU and Chinese officials have met throughout the year at the Energy Dialogue to cooperate on energy issues. The Dialogue's work forms part of the annual EU-China Summit. There are six priority areas of cooperation: (i) renewable energy, (ii) smart grids, (iii) energy efficiency in buildings, (iv) clean coal, (v) nuclear energy, (vi) energy legislation.

There is nothing new about EU-China energy cooperation, this simply signals the desire of both parties to up the tempo. Dialogue was established in 1981 and institutionalised in 1997 with the creation of an annual EU-China energy summit. The summit measured their progress on two main topics: energy security and energy efficiency, specifically, best practice sharing on nuclear safety for the former and smart grids, urban development and clean coal development for the latter. Meanwhile, climate change cooperation began in earnest in 2005, bringing us to the current phase of intensified relations that began in May 2012 with the creation of the EU-China High-Level Meeting, via two agreements, one on urbanisation, the other on energy cooperation. The deal was signed by Chinese Vice Premier, now Premier, Li Keqiang and the then President of the European Commission Emmanuel Barroso.

The agreement continues in the steps of the EU-China Roadmap aimed at speeding up the transition towards a low-carbon economy. Textually we see a lot of «enhancing mutual trust on market-related issues», or «contributing to the sustainable development of the global energy system». In practice, this should yield additional R&D development contracts for European firms and reduced costs for Chinese energy firms seeking to invest in renewables in Europe.

The 2016 Roadmap is an interesting text because of the detail it gives on renewables, through a focus on reducing development costs, expanding the biogas sector by increasing methane production, and a big emphasis on energy

²⁶ SEKULOVIC, Saba. *The EU-China climate alliance: new plans and old troubles*. [online]. Available at: <<http://politheor.net/the-eu-china-climate-alliance-new-plans-and-old-troubles/>>

²⁷ EC. *Energy Dialogue*. [online]. Available at: <<http://ec.europa.eu/energy/en/topics/international-cooperation/china>>

efficiency. The latter represents the interest of Chinese officials to benefit from the EU's leading position in the cogeneration industry, seeking to share best-practice in public policy planning along with the objective of adding a substantive combined heat and power (CHP) dimension to ongoing Chinese urban development. Cogeneration or CHP is the simultaneous use of a heat engine to generate electricity and useful heat, making it possible for energy suppliers to massively reduce their energy waste, and therefore enabling a lower running cost of their plants while helping public authorities reach their energy efficiency target. The EU generates 11% of its electricity using cogeneration and includes the world leaders in the business: Denmark, the Netherlands and Finland with 60% to 80% of their power produced through this method.²⁸

However, traditional defenders of free trade like the United States and the United Kingdom are engulfed in domestic political scandal and flirt with protectionist politics, leaving China's President Xi Jinping to announce in 2017 that his country is developing free trade, promotes liberalisation and says «no» to protectionism²⁹. These deepening energy ties could be a sign of the shape of things to come as the EU and China gear up to deploy a more cohesive voice on the governance agenda of the global economy.

4.3. China's Energy Expansion and Clean Energy Investments

China watchers and other commentators debate China's resolve and capability to fill the political vacuum left by the U.S. withdrawal from the Paris climate accord this month. Why would China be eager to take leadership on climate change? To understand this transition requires looking more closely at the interests and motivations of the Chinese leadership in the rapid growth and development of Chinese renewables.

Unlike political leaders in Europe or former US President Barack Obama, who link moral duty with climate action, China's leadership is not looking to support collective goals of reducing greenhouse gases. Rather, China will redefine global climate leadership to pursue the government's immediate goals of national economic development, control of energy infrastructure and the global economic competitiveness of Chinese industry³⁰

²⁸ GRANDJOAN, Thomas. *EU and Chinese energy cooperation: Remodelling a new world order?* [online]. Available at: <<http://politheor.net/eu-and-chinese-energy-cooperation-remodelling-a-new-world-order/>>

²⁹ WORLD ECONOMIC FORUM. *President Xi's speech to Davos in full.* [online]. Available at: <<https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>>

³⁰ HSUEH, Roselyn. *Why is China suddenly leading the climate change effort? It's a business decision.* [online]. Available at: <<https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/22/>>

China is near the forefront of global renewables, from hydro to solar and wind. The development of Chinese renewables began more than a decade and half before China's 2015 Paris pledge to curb fossil fuels and peak CO₂ emissions by 2030. Shortly after China's accession to the World Trade Organization in 2001, the Chinese government introduced the Wind Power Concession to attract foreign direct investment through installation-based fiscal incentives and government subsidies for wind farm developers, as well as state-owned utilities and grid companies.³¹

With Chinese renewables controlling the domestic market, the Chinese government promotes these products globally with diplomacy and development finance. The Chinese government established the "South-to-South Cooperation in Climate Change" in 2014.³² Declining to contribute to the UN Green Climate Fund, China promised \$3.1 billion to the South-to-South Cooperation to build low-carbon parks, implement mitigation and adaptation projects, and provide climate change training in developing countries, including those covered by China's "One Belt, One Road" initiative, which promotes Chinese investment in Central Asia and Southeast Asia. With the United States taking a back seat on climate change, if China exerts leadership it would be about enhancing China's global prestige and economic clout — and diversifying energy sources at home, while managing China's energy infrastructure. This appears to be a clear win-win scenario for China, although it is less obvious whether the global community stands to gain from any reduction in greenhouse gases.³³

5. Research and Innovation

China is building up its global competitiveness in knowledge-intensive sectors and its ambition to be a global leader in science and innovation by 2050 seems

why-is-china-suddenly-leading-the-climate-change-effort-its-a-business-decision/?utm_term=.cd03ade3d9b2>

³¹ HSUEH, Roselyn. *Why is China suddenly leading the climate change effort? It's a business decision.* [online]. Available at: < https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/22/why-is-china-suddenly-leading-the-climate-change-effort-its-a-business-decision/?utm_term=.cd03ade3d9b2>

³² GRANDJOAN, Thomas. *EU and Chinese energy cooperation: Remodelling a new world order?* [online]. Available at: < <http://politheor.net/eu-and-chinese-energy-cooperation-remodelling-a-new-world-order/>>

³³ HSUEH, Roselyn. *Why is China suddenly leading the climate change effort? It's a business decision.* [online]. Available at: < https://www.washingtonpost.com/news/monkey-cage/wp/2017/06/22/why-is-china-suddenly-leading-the-climate-change-effort-its-a-business-decision/?utm_term=.cd03ade3d9b2>

well within reach. China outperforms the European Union in terms of expenditure on research and development as a share of its GDP, and already produces about the same number of scientific publications, and more PhDs in natural sciences and engineering, than the United States.³⁴

The creation of scientific knowledge and its use in technology and economic and societal development has become increasingly global and multipolar. Europe and the United States have traditionally led in scientific development, but China in particular has emerged as a new science and technology (S&T) powerhouse. A key indicator of the rise of China in S&T is its spending on research and development (R&D). Chinese R&D investment has grown remarkably, with the rate of growth greatly exceeding those of the United States and the European Union. China is now the second-largest performer of R&D, on a country basis, and accounts for 20 percent of total world R&D (Fig. 8).

Figure 3. Share of Total Global R&D Spending

Share of Total Global R&D Spending			
	2014	2015	2016
North America	29.1%	28.5%	28.4%
U.S.	26.9%	26.4%	26.4%
Caribbean	0.1%	0.1%	0.1%
All North America	29.2%	28.5%	28.5%
Asia	40.2%	41.2%	41.8%
China	19.1%	19.8%	20.4%
Europe	21.5%	21.3%	21.0%
Russia/CIS	3.1%	2.9%	2.8%
South America	2.8%	2.6%	2.6%
Middle East	2.2%	2.3%	2.3%
Africa	1.0%	1.1%	1.1%
Total	100.0%	100.0%	100.0%

Source: 2016 Global R&D Funding Forecast by Industrial Research Institute

Increasing Chinese scientific power has provoked concern in the west that the flow of Chinese talent will slow. US universities import much of their scientific talent from abroad, particularly from Asia, and particularly from China.

³⁴ VEUGELERS, Reinhilde. *The challenge of China's rise as a science and technology powerhouse*. [online]. Available at: <<http://aei.pitt.edu/88210/1/PC-19-2017.pdf>>

There are therefore particular worries in the US about being able to continue to attract the best of the world's brains to power the US science machine. This concern, however, is so far not justified by the data, as this section will show (Veugelers, 2017).

European S&T policymakers should promote scientific collaboration not only within the China is a long standing key partner country on research and innovation cooperation for the European Union. The relationship is governed by the Science and Technology Cooperation Agreement signed in December 1998 and last renewed in December 2014. In addition, an Agreement between the European Atomic Energy Community (Euratom) and the Government of the People's Republic of China for R&D Cooperation in the Peaceful Uses of Nuclear Energy is in place since 2008. A new High Level Innovation Cooperation Dialogue (ICD) was inaugurated in 2013 raising the level and intensity of research and innovation relations with China and a new co-funding mechanism agreed at the 2015 Summit and ICD.

The EU Science Technology and Innovation Cooperation with China have intensified in recent years. China was the third most important international partner country under the EU's Framework Programme 7 (FP7) that run from 2007 to 2013, with 335 participations of Chinese organisations in 227 collaborative research projects and a total EU contribution of 33 million euros. Moreover, the Marie Skłodowska-Curie programme counted with around 316 Chinese participations.³⁵

China remains a key partner country in Horizon 2020, the EU's Framework Programme for Research and Innovation running from 2014 to 2020. So far 695 applications from China were presented in 304 eligible proposals leading to 117 participations of Chinese organisations in 47 collaborative research projects.³⁶

EU but also with non-EU countries, and should remove barriers that prevent such collaboration. The EU should do more to attract the best foreign talent, wherever it is located in the world, and should remove barriers that prevent such mobility. EU talent should be encouraged to be mobile outside the EU and go to the best universities and institutes, wherever they are in the world. Connections with these European outflows must be maintained, and incentives must be provided to encourage scholars to return home at optimal stages in their careers. Similarly, connections with foreign scholars who return home after their research stays in the EU should be supported. This is most notably the case for the Marie Curie Fellowships and the collaborative research programmes under

³⁵ EC. *EU-ASEAN*. [online]. Available at: <<http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>>

³⁶ EC. *EU-ASEAN*. [online]. Available at: <<http://ec.europa.eu/trade/policy/countries-and-regions/regions/asean/>>

the EU's Horizon 2020 framework initiative (Veugelers, 2017). None of this requires major new initiatives at the EU level, but rather a stronger commitment to implementation of existing initiatives that are aimed at those parts of the world that are at the scientific frontier. EU programmes that support extra-EU cooperation and mobility should be based on excellence in terms of destinations for, and sources of, researchers.

6. Conclusions

The EU and China relations have never appeared as highly strategic as they are today and there is a good potential for the new global partnership. This opportunity comes in the environment where the United States' global role is still being reconsidered, moreover there are other players such as Russia that are contesting the EU – China growing as well as a new emerging region ASEAN that bring additional competition.

The recent changes in the world's geopolitical order have put pressure on the EU to redefine its global position. The EU has to be ready to defend its interests and act proactively. Strengthening the collaboration between the EU and China, two large global players would seem particularly relevant for traditional cooperation areas as trade and investment. The prospect of the EU-China free trade agreement in future could without doubt represent big gains for the world economy. The recent developments have showed that the EU and China could work closely together on many other important fields: not only trade and investment, but also energy research and innovation. The EU and China have taken step forward in addressing climate change and give impetus to green investment; furthermore to the development of a global low carbon economy. The EU and China could shape the global competitiveness by joining efforts and enhance cooperation in science, research and innovation.

However, it is clear that the potential of the EU – China enhanced global partnership has some risks. The prospects for overcoming China's and the EU's conceptual differences on global governance appears to stand a greater chance than ever. China's resistance to the EU accepted environmental, procurement and labour standards in its trade accords might continue to be major obstacle in moving forward. A successful cooperation in the future might be determined by the extent to which China accepts the European values, but the question will also arise as to whether EU is prepared to embrace the governance dynamics of China. One way to advance is to continue constructive EU-China dialogue and reach mutual understanding of how each other's principles and norms would impact their respective societies and economies.