



The European International Model United Nations 2016

European Council



Image source: Niall O'Reilly, Accurate Limited.

EU-China Trade Relations

Welcome Letter

Distinguished delegates,

A warm welcome to the European Council (EC) of The European International Model United Nations (TEIMUN) of 2016! We are delighted that you are joining us to debate the trade relationship between the European Union (EU) and China. We hope you that throughout this week, we can strike a balance between diplomacy within sessions and fun on the dance floor.

In this background paper, we will first discuss the historical background of Europe's trade relationship with China, followed by the current trade situation with China, and the points of contention raised by each party.

For both topics discussed within the EC during this conference, the Chairs encourage you to rely not only on the background papers, but also to actively undertake research about the issue and your country's position. Seeking additional information through other sources is encouraged, as we hope that each delegate will be able to bring their own unique contributions to the discussion.

We look forward to what will undoubtedly be intense and high-quality debates and to meeting all of you in July!

Diplomatically yours,

Elmer van der Vlugt & Daniel Gindis
EC@teimun.org

Introduction

China and the EU make up a large part of the global economy, and trade between the two economic blocs is a major revenue stream. To put it into numbers: The EU imported 350 billion euros-worth of goods from China and it exported goods totalling 170 billion euros. In services in 2014, China sold 22 billion euros-worth of services to the EU, and it bought 29 billion euros of services from the EU. Foreign Direct Investment (FDI) from China into the EU totalled 20 billion, whereas FDI from the EU heading to China was as high as 144 billion in 2014.¹

A trade agreement with China, which coordinates and improves economic relations between the two economies, could serve to improve this powerful economic relationship. On the other hand, there are some that object to cooperating with this large, powerful State, be it on grounds of humanitarian reasons, or the balance of power (economic or otherwise). Lastly, there are strong arguments to be made for certain minima to be met, before any deepening of the trade relationship is acceptable. This background paper will give a concise overview of all the topics above in a concise manner.



Figure 1: CNN

Historical Background and Theoretical Foundations

Development of The Relationship Between Europe and China

Modern European trade relations with China – or the People’s Republic of China as it is formally known – started as early as 1517, when the Portuguese established a trade relationship with merchants in Guangzhou. This relationship between European colonial powers and the Chinese dynasties would change over time, but a foundation was laid on which trade is still happening today. And, partly because the EU is the largest economic bloc in the world, the EU is now

¹ European Commission Directorate-General for Trade, accessed on June 6, 2016: http://trade.ec.europa.eu/doclib/docs/2012/march/tradoc_149251.pdf

the largest and arguably most important trading partner of the Chinese economy.

Diplomatic relations between the EU and China began in 1975, making the relationship between the two over 40 years old.² Furthermore, in 1985 the European Economic Community (EEC – a precursor to the current EU) entered into the EEC-China Trade and Economic Cooperation Agreement.

Based on this accord, the relationship between two major world powers has transformed from a purely technical and economic agreement into a forum of discussion and cooperation on the fields of “foreign affairs, security matters and international challenges such as climate change and global economy governance”.³

This broadening shift was strengthened by the creation of an annual High Level Strategic Dialogue, as this annual meeting followed the creation of the annual High Level Economic and Trade Dialogue of 2009. Together with the EU-China High Level People-to-People Dialogue, these meetings form the foundation of the current shape of the annual EU-China summits, which have been held for more than 15 years.⁴

Chinese Economic Development

During the past forty years, the Chinese economy has developed significantly. In 1979, Chinese policies on development and international trade shifted from a focus on independence to a mind-set more open to trade and investment. The Chinese economy opened up in the 1980s, a rather fruitful economic period, and the economy grew substantially as a result. The focus of Foreign Direct Investment (FDI) was first on light, labour-intensive industry goods. Later, in the early 1990s, this shifted towards investment in “infrastructure, real estate and financial services.”⁵

European Economic History

The European economy has also not stood still. Already a developed industry and service economy in 1975, European States have had to face a number of changes and pressures over time, with the 2008 crisis and its European sovereign debt aftermath signifying the most hardship. Moreover, the expansion of the EU, the creation of a customs union and the introduction of the single currency have meant a strong movement towards a closer and more integrated European economy.

² European External Action Service (EEAS), 2015: “The The EU-China Comprehensive Strategic Partnership” accessed on June 6, 2016: <http://eeas.europa.eu/factsheets/docs/eu-china_factsheet_en.pdf>

³ EEAS, no date: “EU Relations with China” accessed on June 6, 2016: <http://eeas.europa.eu/china/index_en.htm>

⁴ European External Action Service (EEAS), 2015: “The The EU-China Comprehensive Strategic Partnership” accessed on June 6, 2016: <http://eeas.europa.eu/factsheets/docs/eu-china_factsheet_en.pdf>.

⁵ Tony Saich, *Governance and Politics of China* (Basingstoke: Palgrave Macmillan, 2011), 357-358.



Figure 2:
Economist

Recent Developments

Currently, the relationship between the EU and China is defined and shaped, in part, by the EU-China 2020 Strategic Agenda for Cooperation, created in 2013. The agenda cites the 2003 EU-China Comprehensive Strategic Partnership, which the agenda claims has made the two economic monoliths “highly interdependent”.⁶ The 2020 Agenda includes many different policy areas, some more detailed than others. In general, the Agenda paints a broad-strokes picture, without a lot of specifics and hard-line commitments. However, it does signify a certain direction that both parties want to go in, and it sets the frame for further consultation and discussions. It stands as an interesting and easy-to-read document that describes the tone of discourse between the EU and China, and as such it is highly recommended reading.

Although the 2020 Agenda touches upon pretty much every policy field imaginable, there are a few key areas of interest to certain groups within the EU. These groups are not necessarily limited to State blocs, but may also include (groups of) industries, regions and civil society. The key contested topics will be shortly described below and serve as an introduction into their separate topics.

Intellectual Property Rights

Intellectual property rights (IPR) are those rights connected to ideas, designs and other patented intellectual creations. Not only patents, but also copyright and trademarks are seen as intellectual property. According to some research, stronger intellectual property rights protection correlates with better economic growth.⁷ On the other hand, some researches claim that IPR serve only to benefit rich States, mostly harming developing States.⁸

⁶ EEAS, 2013: “EU-China 2020 Strategic Agenda for Cooperation” accessed on June 13th, 2016: <http://eeas.europa.eu/china/docs/20131123_agenda_2020_en.pdf>.

⁷ David M. Gould & William C. Gruben (1995) “The role of intellectual property rights in economic growth” *Journal of Development Economics*, 48, 323 – 350.

⁸ Elhanan Helpman (1993) “Innovation, Imitation, and Intellectual Property Rights” *Econometrica*, 61:6, 1247-1280.

Implementation and enforcement of intellectual property rights in China has been a hot economic issue for a long while, since a lot of foreign States argue that China does not protect these rights well enough, especially in cases of foreign intellectual property. Its Intellectual Property system was started in 1979, but this creation process is seen as lasting until 1990,⁹ signifying not only the difficulty but also the unwillingness of the Chinese government to tackle the issue.

With China joining the World Trade Organisation as well as improving its record on intellectual property, the squabble has reduced a lot, but there is still a ways to go. In 2012, Forbes dedicated an article about the hardship that companies endure when entering and competing in the Chinese market.¹⁰ Another tell-tale sign is the fact that governmental patent agencies from Western States like the United Kingdom have tailored documents with advice on how to approach the Chinese intellectual property situation.¹¹

International intellectual property rights are administered by the World Intellectual Property Organisation (WIPO), a UN Special Agency. Both China and the EU are members to treaties administered by WIPO, but one big lacuna in China's international IPR policy is that they have not signed the Hague Agreements. These agreements make sure that a successful patent filing in one State party is also registered as such in all other contracting parties. The EU is already a member, and having China sign these agreements would go a long way towards harmonising the intellectual property rights between the two.

Ongoing WTO Disputes

There are fourteen unresolved cases involving China as a complainant or respondent currently 'in consultation' at the World Trade Organization's Dispute Settlement Body. Of these fourteen cases, there are three involving the European Union.

In the first case China argues that the European Union should modify certain tariff concessions on poultry meat products.¹² In the second case the EU made a complaint against China's provisional anti-dumping duties on iron or steel fasteners.¹³ The damage this has caused to the EU market has been most visible in the case of Tata Steel, which has been forced to close a Welsh steel factory and cut thousands of jobs.¹⁴ In the third case China submitted a complaint about EU measures, as well as Greek and Italian policies, that seek to stimulate the renewable energy sector through feed-in tariff programs.¹⁵

⁹ Page 136 in Deli Yang (2003) "The development of intellectual property in China" *World Patent Information*, 25, 132-142.

¹⁰ Jack Perkowski (2012) "Protecting Intellectual Property Rights In China" *Forbes*.

¹¹ Intellectual Property Office of the Government of the United Kingdom, 2013: "Intellectual Property Rights In China"

¹² WTO Case DS492.

¹³ WTO Case DS407.

¹⁴ BBC, accessed June 21st, 2016: <<http://www.bbc.co.uk/news/uk-wales-politics-36446381>>

¹⁵ WTO Case DS452. Feed-in tariffs are an economic provision in which producers of renewable energy (including business owners, farmers and homeowners) are guaranteed a certain price for the energy they provide into the grid, with prices based on the cost. This ensures financial stability in the early years for early adopters, thus stimulating emerging sources of renewable energy.

These individual WTO cases and whatever their outcomes may be are perhaps not extremely relevant to the issue at hand, but they do signify the trade struggles present between the two economic giants. China wants unfettered access to the EU market, whereas the EU has an interest to protect its own businesses, which may cause conflict with Chinese interests. These struggles show most in aggressive trade policies like dumping and preferential treatment. A good trade agreement between the EU and China may include some sort of provision to somewhat alleviate these tensions, so as to satisfy both parties and serve both their interests.



Figure 2:
BBC.

Intersectional Issues

So far, this paper has discussed topics that are mostly trade-related, but there are also other considerations at play for the EU members, of which this paper will cover three: arms trade with China, the human rights situation in China, and the Chinese-contested territories.

There has been an EU-wide embargo on arms trade with China since the Tiananmen Square protests in 1989.¹⁶ China obviously opposes this policy, and instead buys its arms from other States. The argument that the policy guidelines seem to make is that selling arms to China would be to be complicit in any violence the State commits against other States or in cases of human rights abuse.¹⁷ However, as China can buy arms anyway, some arms-exporting States are missing out on serious trade revenue (e.g. States like Belgium and Germany have considerable arms manufacturing companies). It therefore may be in these States' best interests to lift the embargo, if they feel the economic benefit is worth the potential backlash.

With regards to human rights in China, the EU has adopted a relatively pragmatic policy which tries to promote the European idea of human rights, whilst still engaging in plenty of trade with China. The EU, since the creation of the European External Action Service, has chosen to apply a softer approach

¹⁶ Stockholm International Peace Research Institute.

¹⁷ BBC, accessed June 20th, 2016: <<http://news.bbc.co.uk/2/hi/asia-pacific/4329613.stm>>

than the sanction-driven one from the 1990s. It tries to softly influence China through cultural exchange and other collaborative events, a method founded on the idea that it is better to have exposure than no contact. This method, which reflects some cultural relativism and perhaps economics-driven pragmatism, may be working¹⁸ in the long run, but so far there do not seem to be many tangible results.

China is perhaps king of the hill when it comes to territorial claims. On the Chinese mainland, there are conflicting claims between China and India, as well as Bhutan. Moreover, internal factions, such as Tibet or the Muslim groups in the west of China have shown interest in independence. Next to these disputes, there have been a lot of overlapping claims between China and many other Asian States in the seas which China borders. Japan and China claim islands in the East China Sea, which are a good foothold in gaining access to large reservoirs of oil and gas in the seabed. Moreover, China claims, amongst other islands, the Spratly Islands in the South China Sea, which conflicts with claims by Vietnam, Thailand, Malaysia, Brunei and the Philippines. Once again, the motive is fossil fuels, but the sea trade routes, vital to the economies in South East Asia, also play a major part.¹⁹

The EU obviously has an interest in the stability of the region, and there is an argument to be made that to trade more with China, is to silently support China's expansionist policies. On the other hand, it seems unclear whether EU sanctions can directly curb China's expansion, unless China would somehow be willing to trade tit-for-tat. China, however, has a second motive, which is not monetary. In order to maintain the relative silence of the separatist factions within China, it needs to uphold a strong ideal of State sovereignty.²⁰ The quibbles over claims with other States, in a sense, only help divert attention from China's internal territorial struggles.

Conclusion

There are many reasons for encouraging further trade with China through a trade deal, but many uncertainties over what such a plan would look like and mean. At TEIMUN, it will be up to the Delegates to decide how best to approach the future of trade with China, keeping in mind the EU's current policies and trying to walk the narrow tight-rope between economic success, protecting the European economy and advancing the aims and ideals of the European Union.

¹⁸ Wenwen Shen, (2013) "EU – China Relations on Human Rights in Competing Paradigms: Continuity and Change" in *The Palgrave Handbook of EU-Asia Relations* (eds. Thomas Christiansen, Emil Kirchner, Philomena B. Murray) (Palgrave MacMillan: Basingstoke) 165 – 180.

¹⁹ The Economist, "China's Territorial Disputes".

²⁰ Ibid.

Questions A Resolution Must Answer (QARMAs)

1. What should be done to improve trade between China and the EU? (e.g. certain standards, certain quality rules? Etc.)
2. What should be the EU's approach to trade disputes and aggressive trade actions (dumping, sanctions, etc.)?
3. Should there be an arms embargo? Under which conditions can China expect the embargo to be alleviated?
4. What is the EU approach to China's human rights policies when it conducts trade with China?
5. How should the EU handle China's territorial disputes and expansionist policies, and should there be trade consequences to potential Chinese aggression?

Additional readings

➤ *For general information about international economics:*

Dominick Salvatore (2012) *Introduction to International Economics* (3rd international edition) (John Wiley & Sons: Singapore). (Or any equivalent introductory text book on international economics and/or international political economy).

➤ *For information on European politics:*

Herman Lelieveldt & Sebastiaan Princen (2013) *The Politics of the European Union* (3rd edition) (Cambridge University Press: Cambridge).

Hubert Zimmermann & Andreas Dür (2012) *Key Controversies in European Integration* (Palgrave MacMillan: Basingstoke).

➤ *For information about Chinese politics:*

Tony Saich (2011) *Governance and Politics of China* (3rd edition) (Palgrave MacMillan: Basingstoke).

➤ *For information on EU – China relations:*

John Fox & François Godement (no year) *A Power Audit of EU-China Relations*.

Accessible here:

http://www.politica-china.org/imxd/noticias/doc/1259867538A_Power_Audit_of_EU-China_Relations._Fox_and_Godement.pdf

Reuben Wong (2013) "China's Rise: Making Sense of EU Responses" *The Journal of Contemporary China Studies* 2(2), 111 – 128.

Accessible here:

http://www.academia.edu/download/32293822/R.Wong_2013d_JC_CS_111-128.pdf

➤ *More about China's Maritime Disputes:*

Council on Foreign Relations (no year) *China's Maritime Disputes*.

Accessible here:

www.cfr.org/asia-and-pacific/chinas-maritime-disputes/p31345#!/p31345