

PERSPECTIVES ON THE SUSPENSION OF THE EU-CHINA COMPREHENSIVE AGREEMENT ON INVESTMENT

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Abstract

The decision reached by the European Parliament (EP) to suspend ratification of the Comprehensive Agreement on Investment (CAI) introduced a new phase into EU-China relations. This paper examines some of the events leading up to the EP decision, and considers some of the larger consequences of the decision. When on 20 May 2021 the European Parliament passed a motion recommending a formal freeze on the CAI, it brought an abrupt interruption, and possible final conclusion, to seven years of negotiations. The decision resulted in considerable comment in the EU and China. Beyond the question of how China reacted to this unexpected block to future negotiation, and whether the EU Parliament vote could have been foreseen, the paper considers, among other topics, the role of public opinion in the EU. The paper reviews the changing evaluations of China in advanced economies, as mirrored in Pew Research Center surveys. What brought about the suspension was not investment or trade-related differences, but was directly related to human rights issues and labour law issues, and sanctions imposed upon China on members of the European Parliament, with the CAI being signed in the context of crackdowns in Xinjiang and Hong Kong. Accepting the view of Mario Teló that the CAI must be seen not only as a new investment regime, but also as a relevant international event affecting international relations, this paper examines indications of changes in Chinese attitudes towards the EU. While some of those in the EU Parliament who voted for the motion previously might have held a positive view towards developing a new framework, more recent events demonstrate that even were there to exist any resolve towards future negotiations, they could not occur at the price of fundamental European values.



Keywords

EU, EU Parliament, China, EU-China Comprehensive Agreement for Investment (CAI), Public Opinion.

Resumo

A decisão do Parlamento Europeu em suspender a ratificação do EU-China Comprehensive Agreement for Investment (CAI) deu início a uma nova fase das relações entre a União Europeia (UE) e a China. Este artigo analisa alguns dos eventos que levaram esta decisão e considera algumas das suas consequências mais abrangentes. O congelamento formal do Acordo, a 20 de Maio de 2021, levou a uma interrupção abrupta e, provavelmente, pôs fim a sete anos de negociações. Para além da questão da reação chinesa a este inesperado bloqueio de negociações e se o voto do Parlamento Europeu poderia ter sido previsto, o artigo considera o papel da opinião pública europeia e as alterações às percepções da China nas economias avançadas, de acordo com os inquéritos do Pew Research Center. O que levou à suspensão, não foram dissensões na área do investimento ou comércio, mas sim sobre questões de direitos humanos e de legislação laboral, bem como as sanções impostas pela China a membros do Parlamento Europeu, num contexto da repressão chinesa em Xinjiang e Hong Kong. Seguindo a visão de Mario Teló de que o CAI deve ser visto, não apenas como um novo regime de investimento, mas também como um evento internacional relevante com impacto nas relações internacionais, analisamos os indicadores de mudança nas atitudes chinesas em relação à UE. Enquanto alguns dos que votaram a favor da moção podem ter tido, inicialmente, uma visão positiva em relação ao desenvolvimento de um novo enquadramento, os eventos mais recentes demonstram que, mesmo que se dê o reatar negociações, estas não irão pôr em causa os valores fundamentais defendidos pela UE.

Palavras-chave

UE, Parlamento Europeu, EU-China Comprehensive Agreement for Investment, Opinião Pública

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Introduction

The decision reached by the European Parliament (EP) to suspend ratification of the Comprehensive Agreement on Investment (CAI) introduced a new phase into EU-China relations. The suspension of the ratification of the agreement in 2021 has been widely commented upon, and the literature concerning it is considerable. Several leading Chinese researchers have published in English on the topic, providing invaluable insights into non-western perceptions of the situation. When the two major global trading partners could not finalize the accord, it became *de facto* a major IR event. As was widely reported at the time, the average daily trade in goods in 2019 between China and the European Union (EU) was two billion dollars. The stock Chinese direct investments to the EU in the same year was over 93 billion dollars, and the stock of the EU's investments in China was over 136 billion dollars (Chen, 2022). While substantial, there nevertheless existed a real potential for further development since EU investments in China only amounted for about 5% of the total foreign investment, and similarly China's investments only reached 3.4% of the EU's total foreign investment. The agreement that would improve these investment figures, as well as level the playing field, and improve access for European companies to the Chinese market was incontrovertibly impeded. However, in 2022 China remained the third largest partner for EU exports of goods (9.0 %), and the largest partner for EU imports of goods (20.8 %). For the period January 2021 to December 2022 EU imports from China increased by 39%, while exports increased by 1.6% (Eurostat, 2022). Trade thus continued, and grew, despite the suspension of the Agreement.

What brought about the suspension was not investment or trade-related differences, but was directly related to human rights issues and labour law issues, and sanctions imposed upon China on members of the European Parliament, and signed in the context of crackdowns in Xinjiang and Hong Kong (Nicolas, 2022). Mario Teló has suggested that the CAI must be seen not only as a new investment regime, but also as a relevant international event affecting international relations (Teló, 2021). This paper examines some of the events leading up to the EP decision, and considers the larger consequences of the decision. Teló makes what, in my opinion, is a central, yet often insufficiently emphasized point in discussions regarding the CAI and its fate, namely that the EU



elected assembly is under the influence not only of the general trade politicization, but also, more specifically of multiple very vocal public opinion campaigns based on large flows of information against the perceived authoritarian turn of the Chinese regime of Xi Jinping (Teló, 2021).

The CAI and Public Opinion

Regarding the economic relationship between the EU and China, it is the EU that has the formal responsibility for trade and investment (Freeman, 2022). Although the CAI was formulated by officials from the European Commission in dialogue with representatives of the Chinese government, over a period of seven years, it was known from the beginning of the process that the CAI eventually to be ratified by the European Parliament (EP). Since the members of the EP who are elected through a democratic process, represent a variety of national and political interests, a degree of diversity of opinions regarding issues related to trade and investment were to be expected. The leaders and governments of non-democratic nations are well aware of the democratic process, and know that it does not function in the same way as authoritarian regimes. Members of the European Parliament (MEPs) are directly influenced by the opinions of their constituents to a degree not experienced in authoritarian states. Public opinion can, and often does, develop into a political force in authoritarian regimes, but runs the risk of being quashed by the authorities, and is often quashed with violence. Examples of such outcomes are too numerous and well-known to require examples here. The suppression of public opinion is not the case in elections held in the European Union, although some EU citizens might beg to differ, and they have the legal right to do so. Indeed, it is the legal right to entertain and express different opinions, without threat of reprisal, which underpins the democratic system. The point here is public opinion campaigns have an importance in the democratic system that cannot be overlooked, and that a valid means to understanding how political change occurs in the EU is to consider changes in public opinion regarding specific issues.

This paper considers the changes that can be seen in public opinion regarding China, and regarding increased and enhanced trade and investment cooperation with China, primarily in the developed countries of the EU, that occurred over time from the years preceding the signing of the Comprehensive Agreement on Investment that was announced on 20 December 2020, and up to the decision by the European Parliament not to ratify the CAI on 20 May 2021. As Zhang Li notes, Europe's view of China is increasingly complex, and the complexity derives in part from the increasing number of member states, and as a result of China's developing relations with Central and Eastern European nations (Zhang, 2022). China's economic leverage, through the funding of projects in Greece and Hungary, appears to have enabled China 'to disrupt a united European policy on China' (Cooper, 2019). The results of three Pew Research Surveys are taken up, and set in context, and they are followed by examples of media reactions to the failure of the European Parliament to ratify the CAI that were published in China and the EU.



Chen Xin, Director of the Economic Division at the Institute of European Studies at the Chinese Academy of Social Sciences, identifies a central problem that conditions EU decision making processes, noting that, "Everybody knows that if Europe desires to gain its credibility, EU countries need to speak with a single voice and take concerted action." Chen continues to bluntly state, "if we look at concrete cases, the reality is totally different" (Chen, 2022). Chen raises a number of valid questions regarding the timing of the signing of the CAI, among which the questions of the participation of President Emanuel Macron at the video conference, the urgency to finalize the negotiations prior to the end of the German presidency, and the haste to sign the agreement before President Biden assumed office in January 2021. The haste was attributed to the Chinese by former NATO Secretary-General Anders Fogh Rasmussen who stated, 'The Chinese saw an opportunity to split the EU and the new Biden administration. The Chinese all of a sudden moved' (Burnay, 2022). Regarding the presence of President Macron, it is arguable that it was predictable since Macron had invited German Chancellor Angela Merkel and European Commission President Jean-Claude Juncker to take part in a meeting with President Xi Jinping in Paris in 2019. The efforts that Macron and Merkel exerted to reduce tensions between France and Germany in 2020, and their common desire to achieve the signing of the CAI. Placed in this light, Macron's participation is understandable.

At time of the signing in 2020, following the call with President Xi Jinping, at which European Commission President von der Leyen, European Council President Charles Michel, and German Chancellor Angela Merkel on behalf of the Presidency of the EU Council, as well as French President Emmanuel Macron were present, the President of the European Commission, Ursula von der Leyen, stated among other things that: "Today's agreement is an important landmark in our relationship with China and for our values-based trade agenda," and that, " The agreement will rebalance our economic relationship with China" (von der Leyen, 2020).

While it is clear that the possibility of a decision regarding non-ratification could be taken by the European Parliament existed throughout the seven years of negotiation that preceded the signing, the European Commission devoted considerable efforts towards mitigating criticism and alleviating concerns. In one digital conference in July 2020, Ms Maria Martin Prat, Director for Services and Investment, Intellectual Property and Public Procurement, DG Trade argued that while much had been achieved in negotiations with China, yet maintained that there existed broad support for the prioritisation of the substance of the agreement over the speed of its conclusion (Martin Prat, 2020). However, in responses to questions posed by several entities, Ms Martin Prat explained that the critical situation in Hong Kong was beyond the remit of the CAI, that the CAI does not cover cross-border trade of goods and services, and that the CAI would not include a specific IP chapter. Regarding the question of prioritisation of substance over speed, to which I shall return, it appears that in fact this was precisely the opposite of what both Angela Merkel and Xi Jinping intended, with an eye on the impending inauguration of Joe Biden as President of the United States of America on January 20, 2021. In other words, the ratification of the CAI was essentially a relevant international



event affecting international relations, and not only an agreement between two trading parties.

Matthieu Burnay and Kolja Raube argue convincingly that “the rise and fall of the CAI testifies to both, on the one hand, a growing (geo-) politicisation of trade policy and, on the other hand, a growing (geo-) politicisation of trade investments in the context of EU-China relations (Burnay & Raube, 2022)”. Burnay identifies the separation of trade and investments from other policy areas and fundamental values (such as human rights), and the legal and political commitment to coherence in the EU’s trade and investment policy, as a way to understand the growing tensions between the temptation to compartmentalize in times of (geo-) politicisation. At the same time, it is relevant to take note of the important point that while the EU seeks equivalence with China, simultaneously the leaders of the EU socially distance themselves from China with ethical forms to articulate their international identity (Song & Hall 2019).

The changing perception of the relationship between the EU and China since the establishment in 2003 of the strategic partnership between the two parties was first made, became obvious, from the EU perspective, with the publication in 2019 of the *EU-China Strategic Outlook*. In this document, four perceptibly different, and arguably incompatible, perspectives of China in the framework of EU-China relations that the EU entertains, were presented, namely, “a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance” (EU-China Strategic Outlook, 2019).

To a western reader, this statement could appear to embody challenging undertones to China to align itself more closely with the EU’s interests, and even reconsider its supposed rivalry. While the EU was categorical in its depiction, the official Chinese response, penned by Yao Ling, shrugged off any acceptance of the existence of diversities in direction, blankly avoided making any direct criticism, and took a higher moral stance. As often occurs, China preferred ‘to control the narrative’ by realigning the substance of the EU statement according to China’s own preferred perception of EU-China relations. Yao’s views were published in the *China Daily*, which is owned by the Central Propaganda Department of the Chinese Communist Party, and is relied upon to publish official statements. Yao Ling wrote,

'In March, the European Commission released a document "EU-China: A strategic outlook", which has been interpreted as the transformation of the EU's policy toward China. Although it assertively highlighted the EU's interests more, China-EU cooperation remains the mainstay of bilateral relations. In fact, China and the EU both regard each other as an important partner for strategic cooperation. In December 2018, China issued its third policy paper on the EU, identifying the direction, principles and specific measures to deepen the China-EU Comprehensive Strategic Partnership in the new era and promote greater development of China-EU relations. On its part, the EU



always looks upon the strategic partnership with China from the perspective of common development and prosperity' (China Daily, March 2019).

Having explained to the EU that, in fact, no great differences existed between China and the EU, and that the EU was actually in full agreement with China, this view of the fundamentally positive nature of EU-China relations was further reinforced by an article a few weeks later by an article titled 'Political trust has forged strong bonds' by Shi Mingde, former ambassador to Germany and Austria, who made it patently clear that the Chinese view of relations between China and Germany, specifically selected as the representative of the EU that China prefers, were that they were excellent. Referring to the issues raised by the EU, Shi Mingde simply stated that, "The steady progress in China-Germany relations can serve as a role model for cooperation between countries with different political systems" (China Daily, May 2019). In this way, China successfully diverted attention from the European Commission's recently formulated views on EU-China relations. Nevertheless, it is apparent that the EU-China Strategic Outlook statement still rankled in China more than two and a half years later, and required criticism. The Chinese Minister for Foreign Affairs and State Councilor Wang Yi stated, in his end of year summation of Chinese diplomacy in 2021, that "Europe's policy towards China seems to suffer from "cognitive dissonance". It is hard to imagine that on one hand, Europe seeks to build a comprehensive strategic partnership with China, and on the other hand, it defines China as a systemic rival. This logic has not only undermined China-Europe relations but also brought confusion to European friends themselves" (Wang Yi, 2021).

In December 2019, the European Commission President Ursula von der Leyen encouraged the DG for Trade to "step up negotiations with China" with the aim of reaching an agreement by the end of 2020 (von der Leyen, 2019). The same month Foreign Minister Wang Yi also supported the importance of reaching a conclusion concerning the CAI in 2020 (MERICS *China Essentials*, 10 September 2020). However, the CAI was not really ready for the EU and Chinese heads of state to sign. It lacked relevant agreements on climate change, standards, or COVID-19 cooperation (Garcia-Herrero, 2020). Furthermore, many of the commitments in the CAI were not novel, but were already covered by Chinese laws (O'Reilly, 2021) Not only were the negotiations far from completion, but during the seven years that they had taken, several EU Member States had perceived flaws weaknesses in the proposals, some of which were related to their own national interests (Burnay, 2022: 685), and within the European Commission itself 'promise fatigue' on the part of the Chinese (Lai Suetyi, 2023). At the same time, China urgently desired that the CAI be ratified before 20 January 2021, before Biden became President of the USA, since a magic strategic goal of the PRC's external policy was, in the words of the resolute MEP Reihard Bütikofer, "to drive a wedge between the U.S. and the EU" (Bütikofer, 2022).



A Disruption of EU-China trade relations

Once on 20 May 2021 the European Parliament passed a motion recommending a formal freeze on the EU-China Comprehensive Agreement for Investment, it brought an abrupt interruption, and possible final conclusion, to seven years of painstaking negotiations (van der Made, 2021). The vote of 599 in favour of the motion, 30 against and 58 abstentions signified clearly that resistance to continued discussions was fundamental, beyond any simple alteration of a number of specific provisions, and not likely to be reconciled for the foreseeable future. The resolution mentioned China's deteriorating human rights records, identifying violations in Hong Kong and Xinjiang, and denounced Chinese sanctions on members of the European Parliament and national parliaments that had followed shortly after the EU had imposed sanctions on Chinese officials accused of violating human rights in Xinjiang. The motion went even further calling on the EU to intensify cooperation with the USA in the *Transatlantic Dialogue with China*, and also took up the issue of trade with Taiwan. At the time that this motion was passed, the obvious question of 'What comes next in EU-China trade relations?' arose. The questions of how China reacted to this abrupt and unexpected block to future negotiation, and whether the EU Parliament vote could have been foreseen the debacle, are important to consider. Answers to these questions expose the power relationship between the EU and China in mid-2021, and whether there was any clear path by which the EU-China economic partnership could continue as previously.

The answer to the first question could have easily been predicted. Chinese media reacted with vehemence and indignation, at the same time as diverting readers from any consideration of the central reasons for the motion. The *Global Times*, the tabloid version of the People's Daily, as almost always spear-heading outrage and threatened repercussions, called the MEPs motion "preposterous", and stated that it made use of "groundless claims concerning human rights as an excuse to block progress on a deal that bodes well for European businesses and consumers (Global Times, May 2021)." The *Global Times* took the EU to task, stating that the EU had "displayed an *accelerating* confrontational attitude toward China, ... by trying to interfere in China's internal affairs", an accusation that is repeatedly made against any country that criticizes a point of concern in China, but does not appear to apply to China itself when it criticizes other countries. With the *Global Times* deploying its usual rhetoric of recrimination, the *China Daily* repeated the opinion of foreign ministry spokesperson Zhao Lijian who denied that China had any responsibility in the matter, stating "China is unwilling to see the current difficulties in China-European Union (EU) relations caused by the EU's unjustified sanctions, and the responsibility does not lie with China." In Zhao's opinion, "the EU disregarded facts, twisted right and wrong, and stubbornly made a wrong decision of unilateral sanctions based on lies and disinformation." Taking a position of moral superiority, Zhao diplomatically "hoped that the EU side will make serious reflections" on its actions, and stressed "Dialogue and cooperation is the right way forward." Zhao concluded by stressing that the "the China-EU investment agreement is a balanced and win-win deal." So much for the official Chinese response which projected the EU as being at fault, and as being confrontational and misrepresenting the situation.



The *South China Morning Post (SCMP)*, rather than castigating the EU Parliament for failing to acquiesce to the narrow parameters demanded by China for international cooperation, looked at how China appeared to have misread the future of Germany's trade relations with China. One day after a speech made by Armin Laschet, the CDU candidate for chancellor after Angela Merkel, who had promised strong trade ties with China, and had stated that he would vote to ratify the CAI, at the same time as informing his listeners that Germany accounted for 50% of EU exports to China, the European Parliament vote left the deal, to quote the SCMP "dead in the water" (Birmingham, 2021). Regarding voting in the EU Parliament, not one MEP from Merkel or Laschet's party voted to save the CAI. Only one of the 83 MEPs for Germany voted against the motion, along with a small number of abstentions. In other words, attitudes that may have been widespread in Germany in 2013 at the beginning of negotiations appear to have changed radically, and other priorities had come to the fore. Indeed, the only EU state whose EU parliamentarians voted *en bloc* to save the CAI was Hungary, which has 21 MEPs, with all twelve MEPs from the ruling party Fidesz voting against the motion. Not only did Laschet drastically misread his own MEPs, but so too did China.

Regarding the voting of the Fidesz bloc, of all the EU states, Hungary currently has the closest political relations with China. Hungary is the only EU member state to have issued Good Manufacturing Practice (GMP) certificates to Chinese producers of Covid-19 vaccine in 2021. The first was issued for the *Sinopharm* vaccine on April 5 (Pharmaceutical Technology, 2021), prior to the vote, and the second for *Convidecia* vaccine on 22 May, soon after the EU Parliament vote. As Feng Duoqia, president of the China Vaccine Industry Association, told the *Global Times* when *Sinopharm* was approved, certification increased confidence in Chinese vaccines in "small European countries" (Liu, 2021), and would lead to more recognition of Chinese vaccines in the EU. Whether the expected increase in Chinese vaccines was viewed as being a proxy for increased confidence in the CAI in smaller European countries, both within the EU and in the process of applying for EU membership, is not beyond consideration. Nevertheless, such confidence was totally lacking in the MEP representatives for these countries, apart from Hungary, which consequently made a public demonstration of its pro-China stance by approving the *Convidecia* vaccine.

Changing evaluations of China

Regarding the second question of whether the result of the vote could have been foreseen, this should not have been a surprise for anyone. In October 2020, during the Covid-19 outbreak, the Pew Research Center published a survey of changes in attitudes between the years 2007-2020 towards China in fourteen advanced economies (Silver, 2020). In the majority of countries surveyed a dramatic increase in negative evaluations of China are noticeable. The only country in the EU that did not demonstrate a significant change was Italy with an average 62% negative evaluation for the period. In the UK there had been an increase in negative evaluation from 16% to 74%, in Germany from 37% to 71%, in Spain from 21% to 63%, in the Netherlands from 34% to 73%, and in



Sweden most dramatically from 40% to 85%. Outside the EU, in the USA the increase had been from 35% to 73%, in South Korea from 31% to 75%, and in Japan from 42% to 86%, an even greater shift than for Sweden. In other words, increases of approximately 40% in negative evaluation had been widespread in the advanced economies with which China expects to cooperate, and not infrequently on its own terms.

When it came to the handling of the Covid-19 pandemic, a median of 61% of those surveyed expressed a negative evaluation of how China had conducted itself. The Pew Survey also found that a median of 78% of those surveyed did not have much, or any confidence in President Xi Jinping "to do the right thing regarding world affairs." Specifically, 78% of those surveyed in Germany had no confidence in Xi Jinping. This was a significant, and worrying figure, that should have alerted Chinese diplomats to a dramatic change in EU attitudes. At the same time, a plurality or majority in every EU country surveyed had expressed the opinion that "China is the world's leading economic power". Perhaps surprisingly, but also indicatively, different income levels and educational levels did not influence the negative perception of China. The fact that a negative view of China has grown continually in most cases since 2007, and has become pervasive across large sections of the EU population, must be considered as one of the central problems for China to successfully implement its international relations within the EU, where public opinion exerts influence on political decisions. China's failure to succeed in its soft-power initiatives, and to provide at least a satisfying degree of transparency regarding its ongoing activities and planned initiatives, was and continued to remain a stumbling block to achieving widespread acceptance for many of its singular achievements. However, at the same time, and perhaps not unexpectedly, there clearly existed a consensus regarding China's economic superiority.

The future of EU-China trade relations

The third question that this paper raises is 'What comes next in EU-China trade relations?' Once the rhetoric has abated, there still exist strong reasons for the EU to cooperate more closely with its prime trading partner. The business reality expressed in the following views of a Portuguese business developer, who will remain anonymous, provide a pragmatic perspective, prior to the freeze on negotiations. Firstly, he hoped that the CAI could allow for the definition of more equitable rules for the EU-China relationship, since it still remained relatively difficult for European companies to enter the Chinese market. European health companies were an example of European companies that would benefit from better access to the Chinese market in the developer's opinion. The second point that the developer made was that Chinese capital is not infinite, with the result that China needs to guarantee a constant flow of FDI. After the election of President Biden, China's need for a constant flow of FDI would become even more important due to the fact that the Biden administration was continuing to blacklist Chinese companies. This would mean that, sooner or later, Chinese companies would be forced to leave the US market and search for new possibilities. Consequently, this developer understood the CAI as potentially permitting Europe to position itself as the recipient for a new wave of



Chinese investment. What the developer was pragmatically arguing for was the need for more equitable and more transparent rules, and an adaptation to the presumed departure of a number of Chinese companies from the USA, with a corresponding influx to the EU, as a result of what we may call the 'Biden effect'.

While the *Global Times* had predicted on 24 March, that "those holding ideological prejudices in the European Parliament would ultimately lose ground to the prevailing trend within the bloc that advocates for cooperation to fit into the actual development needs" (*Global Times*, March 2021), this opinion was a total misunderstanding of the underlying adherence to values, beyond simple profit margins, that exists within the EU. The fact that the *Global Times* followed up its prediction with a warning that, in the case of a failure to sign the deal, it "could deal a blow especially to EU vehicle manufacturers", is indicative of the Chinese negotiating strategy — considerably more stick than carrot. It is now patently clear that the Chinese view, as expressed in the *Global Times*, that there is the "utmost urgency for the EU to return to its China strategy that has proven to be successful over the past decade", was not the central problem. As matters stood in June 2021, it was simply not possible to predict, with any degree of credibility, that in the future a 'return to the past' would occur, or that an improvement in cooperation in trade within the existing framework, without increased transparency, could take place. The failure of the CAI should have hammered home the realization that sustainable global trade would require China, as well as the EU, to make changes. While many of those in the EU Parliament who voted for the motion remained positive towards developing a new framework, it was now perfectly clear that there existed a resolve that it would not be at the price of fundamental European values.

On 30 June 2021, the Pew Research Center published a follow-up survey to the one of October 2020, that on this occasion covered results from seventeen advanced economies. In all but one country, Singapore, favourable views regarding the US had increased significantly. The overall median showed an average favourable view of the US being 61%, while only there was only a 27% favourable view of China, with only Greece and Singapore having a favourable view over 50%. The negative views of China had continued unchanged, and in some cases were even less positive than in the previous survey. For example, broadly negative views of China were found in Japan (88%), Sweden (80%), Australia (78%) and the US (76%). The only EU member state included the survey to have a relatively favorable view of China was Greece (52%). As the Pew Survey notes, "these unfavorable views are at or near historic highs". At the same time, confidence in President Xi Jinping remained low, with more than 50% of those surveyed in Australia, France, Sweden and Canada saying that they had no confidence in President Xi at all. On the other hand, confidence in President Biden at the time of the survey was dramatically higher than the figures for President Xi.

However, views regarding the handling of the Covid-19 pandemic rated China as having done a better job than the US with, among the EU member states surveyed, Greece, Spain and Italy all placing China considerably higher than the US. But when it came to choosing with which nation to have closer economic ties, the US outranked China in all the countries surveyed, apart from Singapore. Among EU member states, Sweden was



the most positive regarding economic ties with the US (82%), followed by the Netherlands (69%), Italy (66%), Belgium (64%), Greece (64%). The overall conclusion must be that negative views towards China remain prevalent, confidence in President Xi Jinping is minimal, and closer economic ties with the US, rather than China, are the public sentiment in all EU member states surveyed, as well as in Japan, South Korea, Australia, Taiwan, and New Zealand. This public antipathy towards China indicates that any Chinese soft-power initiatives aimed at the world's most advanced economies have demonstrably failed (Silver, 2021).

Chinese Policy towards the EU

The Diplomat pointed out that there exist three serious failings in China's policy towards the EU. Firstly, China has failed to treat the EU "as a serious political and security actor", and notes that the EU "holds strong soft power", projecting its influence globally. The author posits that China views the EU as being "a fragile bloc with deep divides", and considers the US as its unique target when making policy. Secondly, that China does not take normative concerns, embracing democracy, human rights and rule of law, as seriously as it should. China is overtly investment-oriented, and it has attempted to solve the problem of normative divergences with offers of investment and trade. Thirdly, China has failed to develop "a sophisticated diplomacy" to deal with Europe. This article provides a potential insight into Chinese thinking with the comment that "Beijing does not have a clear idea of its influence and potential threat to others (Xue, 2021)." The result is, for example, that China repeatedly declares that it "aims to establish a deep cooperative partnership with the EU, regardless of the changing perception the EU has of China". In other words, when China increasingly has deployed diplomatic 'wolf warriors', to whom compromise is weakness, it has lost any accurate perception of the impact of its policies on its partners, and the image it is creating and promoting.

There have been recent indications that a minor change of tactic, if not of policy, may have been attempted, focusing on national governments more positively inclined towards Chinese overtures. At the end of October 2021 Wang Yi, the Chinese Foreign Minister, visited Greece, and continued on to Serbia and Albania, before ending his trip in Italy. As noted previously, Greece is the only EU member state appearing in the Pew Survey that has a relatively favourable view of China. Wang Wenbin, a Chinese Foreign Ministry spokesperson stated that, "Greece, Serbia, Albania and Italy are important cooperation partners of China in Europe. China and these four countries [...] share fruitful outcomes in BRI cooperation (Shannon 2021)." When Wang Wenbin pointed out that Wang Yi was specifically visiting three of the members of the then so-called 17+1 group, formed by China and seventeen countries in Central and Eastern Europe, most of which are EU member states, e.g. Greece, and Italy, the only member of the G-7 to have joined the BRI, it was a demonstrative statement, reminding the EU that China will favour countries that are cooperating with China, particularly in connection with the BRI. Since the vast majority of EU member states have been unwilling to join the BRI, and Portugal which in 2019 signed an extension MoU with China regarding the BRI but has done little to



intensify its level of discussions since then (China-Lusophone Brief, May 2019), Wang Yi's visit may be viewed as a cautiously extended olive-branch, in hopes of resurrecting a positive dialogue with the EU. This previously planned visit by Wang Yi came, somewhat less than fortuitously, just a couple of weeks after a resolution passed by the European Parliament for closer ties with Taiwan, and consideration of a possible future EU-Taiwan bilateral investment agreement (Europa News, 2021).

Interestingly, the relative importance of the failure of the CAI, and the negative international public opinion in the seventeen most advanced economies revealed by the Pew Surveys, may possibly be less relevant for the direction that China's IR, its economic development and its economic diplomacy will take over the next five years. China's 14th Five Year Plan that was formally adopted in March 2021, and as researchers at MERICS noted, "marks a shift away from the qualitative growth-focus of Beijing's previous plans." China intends to prioritize a "great internal cycle (*danei xunhuan* 大内循环)", with the aim of achieving two targets, namely a strengthened domestic economy and a consolidation of social development (Grünberg & Brussee, 2021). The idea of self-sufficiency has thus emerged strongly. Self-sufficiency in essential resources, self-sufficiency in key technologies, without any stipulated targets for growth of the GDP; this is a departure from all previous plans. Ominously predicting "challenges unseen in a century", that may well be a reference to the sort of international negativity identified by the Pew Surveys, the plan remained vague about how the goals stated are to be achieved.

Generally, prominence is allotted to national security, strengthening the domestic socio-economic foundations of the country, and to supporting technology and innovation. While digitization (including smart solutions in the economy), "opening-up" and international economy, innovation and industrial modernization, and the economic system (including market reforms), are prioritized, other fields appear to have been deprioritized. Less emphasis appears to be given to agriculture and rural development, sustainability, urbanization and regional coordination, and public services, and the absence of mention of CO₂ emission caps and a restatement of a climate policy is noticeable. The inclusion of "opening-up" and international economy in the priorities marks the fact that de-coupling is not a current consideration. Instead, we see the concept of resilient, efficient and innovative domestic economy linked with a selective internationalization of the Chinese economy, currently referred to as China's Economic Dual Circulation. As the MERICS analysis concludes, the lack of specificity in the plan suggest that the guiding principle will be "upholding party leadership", and that "where no concrete targets exist, central party guidance will fill the voids ...".

China's Economic Dual Circulation in practice

In the summer of 2021, a "regulatory storm" shook markets in China, and resulted in a considerable loss of financial value, amounting to 1.5 trillion dollars, by high-tech moguls and celebrities. The government had already announced policies that had significant effect on high-tech companies, internet business and finance, as well as other sectors of society, in something that Professor Bary Naughton, at the time, called an effort to



exercise “grand steerage” of the economy. In fact, according to Bloomberg, the expression “disorderly expansion of capital” first appeared in a Politburo readout from December last year, and in the nine years of President Xi Jinping’s leadership, it had only appeared five times in documents connected to him — all in the previous ten months (Bloomberg, 2021). The expression appeared at least 38 times in the same period in the *People’s Daily*. As with the announcement of the OBOR, that became the BRI, an imprecise turn of phrase used by President Xi Jinping has become a central and irresistible force. Regulation, rather than free-markets, now became the lead policy, suggesting as Bloomberg wrote, a move “back toward more ideologically driven centralized planning.” While there have been comments that regulatory crackdowns will end efforts “to get rich overnight”, there has been a calibration of Xi Jinping’s message by leading authorities, such Vice Premier Liu He, who was quoted as saying that private business “has not changed and will not change in the future,” and Vice Premier Hu Chunhua who stated that China wants foreign investments in advanced manufacturing and modern services.

While President Xi Jinping may wish to promote self-sufficiency in essential resources and in key technologies, the Pew Surveys reveal that the world’s most technologically advanced nations appear to be disincentivized by ‘wolf warrior diplomacy’, and that will result in increasingly difficult negotiations concerning technology transfer. Cumbersome regulations, and uncertainties regarding future sudden restrictions in China, may curb the sort of rapid development that President Xi Jinping looks forward to. China’s bilateral partners in the BRI will not be able to provide the sort of assistance that China seeks to obtain. When these problems are coupled to a renascent US administration that, despite the chaotic Afghanistan withdrawal, will probably re-assert its position as a global economic leader. As a European Parliamentary Briefing published in December 2020 noted that “China is seeking to avoid the middle-income trap, while prerequisites for growth are disappearing with China’s rapidly aging working population and rising wage levels, which have led to government-supported industrial offshoring to low-cost Asian neighbouring countries”. This briefing also predicted the essence of the 14th Five-Year Plan when it continued to state that “at 2.25 %, China’s productivity growth has declined steadily since the 2008 global financial crisis, and that against this backdrop technological innovation and improving the efficiency of resource allocation are ideas crucial to raising total factor productivity.”

The push towards increased self-sufficiency, and promotion of indigenous innovation, is going to require a reform in China’s relationships with its technologically advanced partners as sweeping as the Economic Dual Circulation policy. This reform would entail greater transparency and an absence of arbitrary interventions, but while there is a clear need for such a step to create a new Chinese economic diplomacy, the Pew Surveys remind us that possible partners remain reluctant to enter any new negotiations or make any new commitments. Nevertheless, the mutual symbiosis of China and the EU as major trading partners means that solutions need to be reached to permit continued interaction.

The apparent trend towards a disarming tone in international diplomacy was continued when, in a meeting with ASEAN leaders, President Xi Jinping stated that “China would never seek hegemony nor take advantage of its size to coerce smaller countries” (CNN,



November 2021), emphasizing that China would be “a good partner of ASEAN”. This conciliatory tone comes when China is widely asserting its sovereignty in the South China Sea, with resulting tension between China and Vietnam, the Philippines, Brunei, Taiwan, and Malaysia, and a recent US warning that “an armed attack on Philippine vessels would invoke US mutual defence commitments”, a confrontation that could have far-reaching consequences. However, the likelihood that China will submit its disputes with ASEAN members concerning the South China Sea to international arbitration, as requested by President Duterte of the Philippines in 2016, remains distant.

Where the Pew Surveys consider the world’s most advanced economies, the opinions of less advanced countries towards China have until recently been more positive, particularly when the countries in question have benefitted from BRI infrastructural development projects. Among the EU member states, as noted above, Hungary has developed strong ties with China. When the *Global Times* highlighted the resilience of the rail transportation sector during the ongoing Covid-19 pandemic, it pointed out that the number of China-Europe cargo trains exceeded ten thousand by the end of August 2021. This was indeed a major achievement which came, as the *Global Times* could not fail to remind its readers at a time when “the EU’s increasingly hostile actions against China pose further risks to bilateral ties” (*Global Times*, September 2021), perhaps a reference to disappointment at the failure of the EU Parliament to endorse the CAI. Without more detailed information it is difficult to be able to concur that “the China-Europe trains have become crucial life-saving routes during the pandemic”, but the importance of the possibility of rail transport at a time when there was substantial global shipping disruption is understandable. The question is whether this sort of success has been widely enjoyed elsewhere in connection with rail transport development within the BRI.

Postscript

As of October 2021, it still appeared “very likely that some EU governments will seek to resurrect the CAI, since many industrial associations across Europe support the deal”, (Casarini & Otero-Iglesias, 2022), since China remained Europe’s second largest trading partner, and investment flows between the EU and China were very substantial. For example, the EU remained China’s third largest source of FDI. However, in 2023 the outlook is very different. Despite Ambassador Fu Cong, the new Head of the Chinese Mission to the EU stating that he would like to resuscitate the CAI (McElwee, 2023), and the fact that there may be some parties interested in a revival, given China’s stance in the war being waged by Russia on Ukraine, there is little likelihood of the CAI reappearing on the table. The compartmentalization that allowed the separation of trade and investments from other policy areas and fundamental values is no longer a possibility for European policy makers.



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