

CHINA-EU TRADE RELATIONS: ROCKY ROAD AHEAD?

Sarah Y. TONG & WU Dan

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Executive Summary

1. Bilateral trade between China and the EU has developed rapidly since China's WTO accession in late 2001 and the two economies are now the largest trading partner of the other. Between 2001 and 2011, bilateral trade grew by 21.5% for China. In 2011, the EU is China's most important export market.
2. EU-China bilateral trade continues to be highly imbalanced and in China's favor, amounting to \$144.8 billion in 2011 according to Chinese official statistics. Such imbalances have somewhat moderated since 2009, serving as an early sign of sustainable development in EU-China bilateral trade relations.
3. China's exports to the EU are highly concentrated on labor-intensive manufactured articles and various "machinery and transport equipment". This reflects the structural changes since the early 2000s where China's export competitiveness in medium- to high-technology intensive products has considerably strengthened. Meanwhile, its imports from the EU have significantly diversified.
4. Bilateral trade in services currently plays only a minor role in EU-China trade relations. The EU has a clear advantage over China in service trade. As China continues to grow, there is huge potential for growth in the service sector and bilateral service trade with the EU.
5. Foreign direct investment is an important element in promoting bilateral trade. As the Euro zone debt crisis prevails in some European countries. China is viewed as an important strategic market and an investor by the EU.
6. Numerous challenges to sustaining and further strengthening EU-China bilateral trade relations remain. EU's trade deficit with China and the related issue of RMB exchange regime remain a serious cause for concern. The EU is convinced that market access barriers, both tariff and non-tariff, persist in standardization and technical regulations as well as in services and investment.

7. Other issues of concern of the EU include the lack of strong intellectual property rights protection in China, government procurement, China's restriction on export of raw materials, and China's labor, environment and safety standards.
8. From China's perspective, some of EU's trade measures towards its products are protectionist in nature. China is the major target of EU trade defense instruments such as anti-dumping, countervailing, safeguard measures and other trade remedies.
9. China's non-market economy status, the 1989 arms embargo and the 1998 EU Code of Conduct on Arms Sales further strain China-EU trade relations.
10. The EU's unique political characteristic as a supranational entity rather than a nation state further complicates trade matters with China. Oftentimes, China has to reach out to different member states instead of the organizations of the Union.