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New ECIPE Policy Brief

## An EU-China trade dialogue: a new policy framework to contain deteriorating trade relations

**EU-China trade and economic relations have deteriorated. The rhetoric has become tougher on both sides, and the EU has imported the culture of “China bashing” from US politics. Increasingly hostile rhetoric and the danger of tit-for-tat protectionism are reason enough to establish a new process for bilateral trade relations. This Policy Brief assesses the opportunities to improve the souring economic relations between Europe and China offered by a new initiative to solve commercial problems and negotiate deeper integration: the EU-China High Level Trade and Economic Dialogue. The format of this dialogue is due to be announced in Beijing on the 24<sup>th</sup> of April 2008. In their paper, Iana Dreyer and Fredrik Erixon draw conclusions from a parallel US China Strategic Economic Dialogue launched in 2006. They analyse the risks and constraints under which the new EU-China Dialogue will operate.**

Europe’s institutional complexity is the major challenge to the success of the Dialogue, so the authors. According to Dreyer and Erixon, however, this forum can yield results if it fulfills several conditions:

- The Dialogue should start with a clear agenda. It is better to postpone the launch of the agenda beyond the current target date in late April if there are uncertainties about the agenda and what the parties can deliver.
- The design of the agenda should directly address the key issues that currently cause frictions in EU-China bilateral trade politics.
- The agenda should focus on what is feasible. The EU and China need to show restraint in their demands from the other party. They should only call for what is jurisdictionally and politically possible to achieve.
- To enable a structured dialogue focused on proper targets, the EU and China should set up a joint study group to screen the substantive matters at hand and to suggest methods to surmount jurisdictional dilemmas.
- The Commission should consider ways to involve key member states in the negotiations. This might be necessary to avoid distractions of the dialogue negotiations and to enable a strong focus on the negotiations that can yield the greatest outcome.
- European and Chinese firms with strong interests in each others’ markets should set up – outside the present business associations – a Council similar to the US-China Business Council, which keeps track of the dialogue and the other commercial negotiations. Involvement from such bodies can give the political support needed to take politically uncomfortable decisions.

Europe is China's main trading partner. China has quickly risen to the rank of Europe's second largest trading partner in goods, and fourth largest in services, since it joined the WTO in 2001. This accelerated integration causes frictions, and the politics of EU-China trade have soured in the last year. There are frustrations on both sides. Europe's frustrations stem from the perception that it is losing ground in China amidst a soaring bilateral trade deficit. It wants better market access in services, better investment conditions, better technical and sanitary standards, and effective IPR protection. China feels Europe is not appropriately appreciating a mutually beneficial relationship and is frustrated over the recurring calls for protective measures for its manufacturing products. Europe's very stringent technical standards, its persistent agricultural protectionism, and fear of Sovereign Wealth Funds are of growing concerns to China. China remains Europe's main antidumping target and wants recognition of its Market Economy Status.

The High Level Trade and Economic Dialogue, due to be launched in Beijing under the EU-China summit in April 24-25, was proposed in late 2007 and is clearly inspired by an initiative taken by the United States in late 2006 to tackle a bilateral standoff and an increasingly hostile attitude towards China in the US Congress. Although an EU-China dialogue cannot be an exact replica of the US-China dialogue, it can build on the experiences gained from this exercise. The US-China Dialogue has calmed protectionist passions in the United States and increasingly made it clear what the cost would be to America if it opts for protectionist policies.

Erixon and Dreyer stress that if the agenda is properly tailored, and if there is a genuine interest from both sides, there are opportunities for reciprocal bargains that improve the commercial climate and deepen economic integration. This new Dialogue is not about formal trade negotiations, but both parties have requests of further market openings that can be accommodated in a business-like manner.

If the Dialogue is appropriately structured, it can help oil the commercial pillar of the negotiations for the proposed EU-China Partnership and Cooperation Agreement. It can help solve commercial concerns in EU-China relations and push for new trade and investment liberalization. Sino-European bargains can be done, if their leaders stay away from rhetorical grandstanding and take a business-like approach, say Erixon and Dreyer.

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