

EU-CHINA RELATIONS

ENGAGING WITH A SYSTEMIC RIVAL





KEY MESSAGES

- 1 EU-China relations have faced considerable challenges in recent times. On the one hand, our trade and investment relations remain characterised by significant asymmetries, including a lack of reciprocity in market access and an unlevel playing field in some sectors. Therefore, the recommendations that BusinessEurope set out in its 2020 publication "[The EU and China: addressing the systemic challenge](#)" remain relevant today. With the increased politicisation of the Chinese business environment, the situation has become even more challenging for European companies in some areas, exacerbated by the lack of international mobility with China since February 2020. On the other hand, new risk factors have emerged such as China's increased assertiveness and the supply chain disruptions resulting from China's zero-COVID policy. It is therefore crucial for European companies to thoroughly assess the short- and long-term risks deriving from any overreliance and exposure to the Chinese market and take mitigating measures accordingly. At the same time, China is and will remain a major market for European companies.
- 2 Despite the challenging state of EU-China relations, the EU should keep in mind that China remains a necessary cooperation partner in certain areas – particularly where multilateral solutions are needed – besides being a competitor and a systemic rival. Our economies are strongly interdependent, and we face many common global challenges that need collective solutions. Therefore, the EU should keep engaging with China in areas of interest with the aim of creating conditions for a constructive and balanced cooperation. However, this cooperation will only be possible if there is political willingness and commitment on both sides.
- 3 Addressing climate change and its consequences is one of the biggest challenges of our time. The European Union is at the forefront of the global fight against climate change and European business is committed to achieving a climate-neutral economy by mid-century. However, the fight against climate change can only be successful with the full mobilisation of all countries, and especially China. European business thus calls for more cooperation between the EU and China on policies to tackle the climate crisis whilst ensuring a level playing field for industry, where costs are shared.
- 4 Standardisation is an essential tool to facilitate trade and interoperability, but it can also be used to erect barriers to international economic exchanges. Both the EU and China have an interest in avoiding a decoupling in this field, which would lead to market fragmentation and increased costs for research and development, unnecessary trade barriers and, potentially, unfair competition. The EU needs to work with like-minded partners and China to boost international standard-setting and the adoption of international standards to avoid such an outcome. Moreover, regulatory dialogue could play an important role in helping prevent trade barriers for EU exporters and encouraging regulatory convergence.



EU-China relations – engaging with a systemic rival

The political relations between the EU and China have faced choppy waters in recent times. For several years, concerns have been rising in Europe about the consolidation of China's state-led economic system and the market distortions it created in China and beyond. The EU's strategy of incrementally achieving a more balanced and reciprocal economic relationship with China had produced some successes, such as the conclusion of the Agreement on Geographical Indications or the Comprehensive Agreement on Investment, before EU-China relations deteriorated significantly in 2021. After China adopted disproportionate countersanctions to the EU's Human Rights sanctions in March 2021, political dialogue between the EU and China remained practically frozen for most of the year. By the time EU and Chinese leaders resumed discussions at the highest political level at the EU-China Summit in April 2022, additional irritants had emerged. The unacceptable economically coercive measures that China keeps imposing against Lithuania call the integrity of the European Single Market into question. They also showcased to European operators that an excessive dependence on the Chinese market can make them vulnerable to political pressure. China's ambiguity regarding Russia's unprovoked and unjustified invasion of Ukraine presents another risk factor to European companies. Finally, China's continued zero-COVID policy has impacted manufacturing and shipping operations globally, exacerbating the global supply chain crisis. The strict measures put in place to try to control the virus, with no end in sight, have resulted in a slowdown of China's economy and raised questions over how much the country will contribute to future global trade and investment. This is severely impacting European companies producing in or sourcing from China, and has pushed some companies to start considering shifting current or planned investments out of China.

Against this challenging backdrop, it will be critical for European companies to thoroughly assess the short- and long-term risks deriving from their exposure to the Chinese market. It will be up to them to address any overdependencies and uncertainties related to their reliance on China as an export and investment destination, as well as a place to source raw materials and components. At policy level, the EU should create the framework conditions to support companies in increasing their resilience, including through opening alternative markets. However, the EU should also keep in mind that China remains a necessary cooperation partner in certain areas – particularly where multilateral solutions are needed – besides being a competitor and a systemic rival. The conditions for engagement and cooperation with China are certainly not ideal at the moment. Nonetheless, our economies are strongly interdependent, and we face many common challenges that need global solutions. Although there may be others, such as healthcare or the modernisation of the multilateral trading system, we have identified two areas in particular where the EU has an interest in cooperating with China, namely **climate policy and standards**. However, this cooperation can only be possible if there is political willingness and commitment on both sides.

In this paper, the European business community calls for more engagement with China in these two areas that particularly depend on international collaboration. In both areas, numerous challenges will need to be addressed to create conditions that are conducive to meaningful cooperation. To achieve desired outcomes the EU will need to act unitedly and with a level of confidence commensurate with its economic weight whilst building alliances with like-minded partners. However, the European business community is



convinced that ultimately engaging China while firmly defending our interests and values remains crucial for the EU to achieve many of its strategic goals.

This position paper should be read in conjunction with the messages developed by BusinessEurope in its 2020 publication "[The EU and China: addressing the systemic challenge](#)", the purpose of which was:

- to raise awareness and explain how and where the level playing field between the EU and China is distorted due to China's state-led economy; and
- to outline concrete recommendations and demands that would lead to a more level playing field in our economic relationship.

While most of the problems set out in this paper remain the same, the situation for European companies has become even more challenging in some areas. Therefore, the content of this paper remains as relevant now as it was back in 2020.

Cooperating with China on climate policy

Addressing climate change and its consequences is one of the biggest challenges of our time. The European Union is at the forefront of the global fight against climate change and environmental degradation through its domestic commitments, including the European Green Deal. European business supports this agenda and is committed to the transition to a climate-neutral economy by mid-century. The European industry is ready to take its share of responsibility and be a strong contributor to the necessary global change, including through innovation.

However, addressing climate change will require a truly collective and global effort, involving all major powers, including the big emitters. Accounting for 8% of global CO₂ emissions, the EU must push others to step up their actions as well. Encouraging ambitious climate action is at the heart of the EU's external relations efforts and the EU is working together with its global partners to strengthen international engagement on climate protection and advance international efforts and initiatives.

It is vital that the EU continues these efforts vis-à-vis China, which is simultaneously the world's largest carbon emitter and the largest investor in renewable energy. Without China on board, the world cannot win the fight against climate change. Moreover, the responsibility to address climate change and the associated burden and costs should be shared, so as to ensure a level playing field for industry at global level. European business calls for more cooperation between the EU and China on climate policies to tackle the climate crisis and ensure a global level playing field for industry. This cooperation should be intensified in the following areas:

- ***Promote a strong bilateral and multilateral cooperation between the EU and China in accordance with the Paris Agreement***

European business supports the EU's engagement with China including initiatives such as the high-level EU-China Partnership on Climate Change. The EU should continue to cooperate with China in order to ensure that both sides deliver on their commitments made in the Paris Agreement. China's decarbonisation pledges will not be easy to meet due to the challenges it faces, including limited renewables in the energy mix (despite



China's recent mega investments in renewable energy) and coal dependency. The EU is in a good position to partner with China and collaborate in its decarbonisation plans, given the EU's experience rolling out the European Green Deal to its 27 Member States as well as the global decarbonisation pledges of European companies and their expertise in green technology manufacturing and deployment. At the same time, the EU also needs technology, components and raw materials produced and sourced from China necessary for the EU's own decarbonisation plans and green transition.

Maintaining an open and collaborative approach between the EU and China to achieve climate neutrality will be key given the scale of the challenge. Both sides must therefore remain engaged and keep the channels of bilateral communication and cooperation open.

Both sides must also remain committed to multilateralism and engage in strong international climate diplomacy and advocacy to spark an international 'race to the top'. The United Nations Framework Convention on Climate Change (UNFCCC) is evidently an important forum but other international fora like the World Trade Organisation (WTO) and the G20 remain key as well.

- ***Promote initiatives in the area of climate and the environment at WTO level***

In recent years, the WTO has pursued new initiatives¹ to put the environment at the heart of trade discussions. In particular, the **Ministerial Statement on Trade and Environmental Sustainability** issued in December 2021 sets out future work in areas such as trade and climate change, trade in environmental goods and services, circular economy, and sustainable supply chains.

Both China and the EU are co-sponsors of this initiative, recognising that trade has an important role to play in environmental sustainability. It is important that both sides continue to work and engage positively in this initiative including to adopt concrete next steps towards the 13th WTO Ministerial Conference.

- ***Intensify work in the area of emissions trading***

The EU Emissions Trading System (ETS), the world's first major carbon market, is the cornerstone of the EU policy to combat climate change. At the same time, the EU has plans to put a Carbon Border Adjustment Mechanism (CBAM) in place to fight carbon leakage.

Whilst the EU is going ahead with these measures unilaterally, a much more effective solution to addressing carbon emissions and tackle the problem of carbon leakage could be to create a climate club with the long-term goal of a common carbon floor price. This is a long-term goal not spared from obstacles, but the **EU should continue its efforts to advance these goals through its climate diplomacy**, bilaterally as well as in fora such as the G20, the WTO and UNFCCC. China will be a key actor in this regard. China is putting its own national ETS in place, and while improvements have been made since

¹ the Trade and Environmental Sustainability Structured Discussions (TESSD), the Informal Dialogue on Plastics Pollution and Sustainable Plastics Trade (IDP), and Fossil Fuel Subsidy Reform (FFSR)



its launch in 2021, its impact currently remains limited due to its restricted scope, the low price of carbon and the lack of an absolute cap on emissions, amongst other issues. At the same time the COVID-19 pandemic and its impact on the Chinese economy is further challenging the domestic roll-out plan of China's climate goals.

The EU should **continue to encourage China to fully implement its national ETS** including by sharing its expertise and experience of years of EU ETS implementation. Issues to address include: expanding the coverage to more industries, adopting an absolute emissions cap, and addressing emissions accounting and reporting issues. Regarding the last issue, it will be important for the credibility of the system to make sure that the Chinese method of calculating greenhouse gas emissions follows international standards and enables verification by outside parties.

- ***Intensify cooperation on environmental standards***

Environmental technology standards ensure interoperability, minimise costs and can help innovations to enter the market more easily. EU-China cooperation on international standardisation will thus be crucial for the green transition (e.g. for assessing product carbon footprints, new energy vehicles, new fuel sources, etc.).

Defining a common view on terms such as “green”, “sustainable” and “carbon neutral” is an important prerequisite for developing common environmental standards. In this regard, European business welcomes the publication of the EU-China Common Ground Taxonomy in late 2021, which will be expanded over time.

Cooperating with China on standardisation

Standardisation is a voluntary consensus amongst industry on technical matters or processes, allowing inter alia enhanced interoperability or safety. It can promote or accelerate innovation in various ways, but it can also be a barrier to innovation – if it is misguided or misleadingly initiated. Standardisation is an essential tool to facilitate trade and interoperability but can also be used to erect barriers to trade and investment. While long considered a niche topic, there is an increasing awareness that standards do not only fulfil technical functions, but also have economic, social, security and geopolitical implications. Moreover, at times standards may reflect the values of their developer, e.g. regarding human rights, personal freedoms or data protection. This is particularly true for the high technologies of the future and has led to a fierce competition over who sets the standards in this area.

The approaches of Europe and China to technical standardisation differ considerably. The European system is based on public-private partnership, prioritises harmonisation with international standards, and is open and transparent. While recent reforms significantly improved the situation, China's standardisation system remains state-centric, and informal barriers and a lack of transparency often make participation for foreign companies challenging. While China has become increasingly active in international standardisation bodies in high-technology sectors where it aims to achieve leadership, the identical adoption of international standards in China has declined over recent years. Moreover, China is actively promoting its diverging domestic standards in



third countries through its Belt and Road Initiative. This creates market access barriers for European companies and promotes decoupling and market fragmentation.

Rising international tensions coupled with emerging competition over high technology is leading to an increasing politicisation of standardisation. As a result, there is a growing risk of bifurcation, fragmentation of or decoupling from international standards. Such an outcome would not be in the interest of either the EU or China as it would make markets smaller, hamper international trade, and raise research & development costs, reducing efficiencies achieved over the past decades. It is thus essential that the EU and China keep cooperating in the field of standardisation. The adoption of international rather than national standards and reciprocal access to national standard-setting bodies are key in this regard. The announcement that 85 per cent of international standards will be incorporated into Chinese standards by 2025 must be quickly followed by action. The European business community has the following recommendations for creating the right conditions for enhancing the cooperation between the EU and China in this area:

- ***Promote international standardisation***

The EU must maintain its market-driven approach to standardisation, which made it a technical standardisation power. To counter the politicisation of international standardisation and promote a market-driven approach to standard-setting, the EU should **coordinate strategically** both with Member States and with like-minded partners. The new High-Level Forum can serve as an ideal interface between politics and business.

The EU should use the Global Gateway as well as its trade policy to promote international standards. The adoption of international standards should be incorporated and incentivised in all relevant projects funded completely or in part by the EU and its Member States.

Finally, the EU should keep encouraging China to adopt **international standards** and to contribute to international standard-setting. Where a Chinese standard is not identical to the relevant international standard, it should be easily available in English. Deviations shall be made transparent. Moreover, the EU should keep pushing for the **recognition of international testing and certification** in China in areas where Chinese and international standards are identical.

- ***Identify common interests with China in the area of standardisation***

EU and Member State dialogues with China should explore the scope for common interests in cooperation on technical standards in specific sectors, focusing on concrete deliverables. Some promising cooperation is already ongoing regarding the development of taxonomies for sustainable finance. In other cases, such as elevators and postal services, alliances of European actors with export-orientated Chinese businesses have helped to generate support for the adoption of European norms or have led to collaboration on developing an international standard based on European norms.



Moreover, the EU should support China's aspiration to conclude a **“Beijing Agreement”** and a **“Shanghai Agreement”** with the International Organisation for Standardisation (ISO) and the International Electrotechnical Commission (IEC). As these agreements would resemble the European Vienna and Frankfurt Agreements, which strengthen international standards by recognising their primacy and improving cooperation and information exchange between ISO, IEC and their European counterparts CEN and CENELEC, the EU could contribute with its experience and expertise.

- ***Encourage China to fully implement the reform of its standardisation system***

The 2018 **reform of the Chinese standardisation system** as well as the Foreign Investment Law from 2020 have improved the access to Chinese standardisation bodies for European companies. However, formal and informal hurdles, such as unclear access procedures, unavailability of information or inability to obtain full voting rights continue to exist. With China's increasing clout in standard-setting, this could impact European companies' ability to shape the standards they will have to abide by in the future. The EU should thus continue encouraging China to fully implement its rules and raise discriminatory practices in this area in EU-China dialogues. As standard-setting is a cooperative exercise benefitting from the involvement of multiple actors, China would benefit from the expertise of European companies in this area.

For the reform of its standardisation system, China partly drew inspiration from the EU's approach. The EU should **keep advocating the European approach to standardisation to a diverse set of actors in China**, coordinating its actions with the Standardisation Administration of China where relevant. The EU's seconded Standardisation Expert in China plays a key role in this regard.

- ***Facilitate regulatory cooperation between the EU and China***

Aside from voluntary industrial standards, **regulatory dialogue** on product regulations is both a way of trying to prevent trade barriers from arising and to drive regulatory convergence and consensus for ambitious regulatory standards. The EU should pursue such a regulatory dialogue with China as part of its market access strategy, particularly in areas that are strategic for EU producers.

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