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Notes on the Trade Relations between China and European Union (2008-2016)

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ABSTRACT

China is the second largest economy and the biggest exporter in the world. Its growth in 2016 reached 6.7% and it is expected that China may be in the way to become the world's largest economy by the end of this decade, with an internal market of over two billion Euro in potential consumers. China's rise as a major global economy was driven by its WTO accession in 2001 which allowed the opening of its economy. This led China to establish itself as a major global trader and largest world exporter. These notes outline a history of recent trade relations between China and the European Union, discussing its evolving dynamics and volume in international trade.

Keywords: *China; European Union; International trade; International economics.*

1.0 Introduction

China is the second largest economy and the largest exporter in the world. Its growth in 2016 reached 6.7%, and international estimates predict that China may be on track to become the world's largest economy by the end of this decade, with a domestic market of more than two billion euros in potential consumers. The history of economic relations between China and Europe dates back to the thirteenth century, when the commercial renaissance and the Crusades led to the resumption and expansion of the mercantile routes from Europe to the East. The transformations undergone by the development of Capitalism in the following centuries were reflected in the insertion of China into an international order controlled by Europe as a peripheral supplier of basic inputs and purchaser of manufactures.

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Episodes such as the Opium War, for example, reflect the characteristics of this insertion. From the Civil War, at the beginning of the twentieth century, which culminated in the Revolution of 1949, China would gradually transform itself into a power in the world order, making use of its differentiated scale in the endowment of productive factors and consumer markets (SPENCE, 2013). The rise of China as a major global economy was boosted by its accession to the WTO in 2001, which made it possible to open up its economy and expand markets. This has led China to establish itself as a major global trader and the world's largest exporter. China and European Union are trading more than € 1 billion per day (Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states>). Only two decades ago, China and the European Union negotiated almost nothing. Today, they form the second largest economic cooperation in the world. In a short period of time, the two economies have been integrated to a point where, at present, it is difficult to imagine one without the other. Bilateral trade in goods reached € 433.6 billion in 2016. Trade in services, however, is still ten times lower, reaching about 42.6 billion, showing that the possibilities of economic expansion of the country are still far from exhausted. These notes present a history of the recent trade relations between China and the European Union, discussing their evolution in dynamics and volume in international trade in the specific period after 2008.

2.0 China and Europe: Commercial Relations in the Last Half Century

2.1 Evolution

With the visit of then-US President, Richard Nixon in 1972, it was only a matter of time and organisation of the dominant forces on the European market in order that there would be a rapprochement between Europe and China (CASARINI, 2009). Of course, the establishment of asymmetric relations of the colonialist type, such as those imposed by the Europeans on the Chinese during the fourteenth to nineteenth centuries, was out of the question. If, on the one hand, the European continent ended its restructuring on the Western side, after two World Wars and a Depression caused by a capitalist crisis hitherto never surpassed; on the other hand, the Chinese came from the political and economic consolidation of the Revolution of 1949, which established a socialist popular regime, which at the time detached itself from the Soviet "leadership", seeking its own path, in which its strategy of insertion into the international scene (SPENCE, 2013).

Western Europe lived in an opposite context, exercising its dependence on the US at the level of making its own territory, subject to strategic-military conjectures of

the latter, via the North Atlantic Treaty Organization (NATO). Therefore, China's willingness to talk to the US opened up possibilities for capitalist Europe as well (LOU, 1997).

This provision was accompanied by a very proactive stance in the field of economic relations and international trade. On the western side, after the initial surprise, there were two immediate findings on trade relations with China: first, the scale of the market would gain hitherto unknown numbers from international trade statistics. Second, the scale of production of Chinese supply would make the international market in a much more competitive environment than it had ever been. But what about the Chinese? What did they expect of a rapprochement with the West under that new context? In this case, the issue is more complex than at first glance, since the scenario design for China took into account much broader and more complex variables than just the productive scale. The very time of the conjuncture, and of its analysis, would prove to be distinct between the European and Chinese points of view. Observing the commercial results and starting from plans that would go from one to five or ten years, from the perspective of the Chinese, would mean to work in a scope of very short term, insufficient for the correct evaluation of strategic objectives of economic planning of the country (WONG, 1997).

In any case, this mismatch between conceptions of time and space would not prevent the conclusion of trade agreements between Europe and China, and as the European market became more integrated, its adaptation to the commercial environment with China underwent a corresponding improvement. This shows that the cost of learning and the constitution of an institutional environment conducive to Chinese European trade has turned out to be much smaller for China. China's impressive growth in international trade, both in volume and in revenue generated or added value, in the last two decades of the last century, would only have been in its continuity for this first decade and a half of the present century. In it, China's role would go from being a "silent partner" on a large scale, to an influential agent not only in the dynamics of international trade, but also in the composition of the international supply of goods and services, the international division of labor, and the structuring of International finance. In a mostly reactive rather than premeditated fashion, the trading of Western nations had to adapt not only to size but to time and practices of the Chinese. On the latter, it is fair to say that they endeavored, on their part, to make the process as rapid and dynamic as possible to the West.

The European Economic Community and China established diplomatic relations on May 6, 1975, when Commissioner Christopher Soames visited that country. This would be the beginning of a relationship that completed 40 years in 2015 and lead to

several bilateral agreements of trade, technological development, energy research, geoprocessing exchanges, among others (BOULIN et alli, 1998). Three years later, in 1978, the signing of the European Economic Community (EEC) - China Trade Agreement would take place and a Joint Committee would be established for studies on the possibilities of exchange between the two partners. Concrete results would have been felt in 1983 when the first program of scientific and technological cooperation was officially launched, followed in 1985 by the signing of the Trade and Economic Cooperation Agreement leading to the establishment in 1988 of a permanent Delegation of the European Commission in Beijing.

Relations between the EEC and China were briefly shaken in 1989 by the Chinese government's violent crackdown on Tienanmen Square which led to the freezing of treaties and an embargo on the arms trade. In 1990, the European Council and the European Parliament decided to re-establish a bilateral stage of relations and initiated new dialogues with China, including the environmental area (BOULIN et alli, 1998 and MORITA, Ken, 2009).

Thus, although relations with Europe were not the main priority for China, such as its relations with the US, Japan and other Asian powers, the interest in closer relations led to an increase in economic contacts Between them in the 1990s, causing EU-China trade to rise faster than the Chinese economy itself, tripling in ten years. Thus, from about US \$ 14.3 billion negotiated in 1985, the volume transacted in 1994 reached US \$ 45.6 billion. In annual terms, trade between the EU and China grew by 63% in 1993 compared to the previous year, making China Europe's fourth largest trading partner at the time. Even after the financial crisis in 1997, EU-China trade increased by about 15% in 1998. Among the EU countries, France led talks to deepen trade links, and, along with Russia, was the first European country to establish strategic partnerships with China (Source: http://eeas.europa.eu/china/index_en.htm).

In 1998, the Agreement on Scientific and Technological Cooperation between the European Community and the Government of the People's Republic of China was signed, an important step towards the signing of the bilateral agreement on China's accession to the WTO signed in Beijing in 2000. The new century would intensify EU-China relations with the signing of new cooperation agreements and treaties such as the Cooperation Agreement in the Galileo satellite navigation program (2003) and the Agreement on Research and Development Cooperation in the Peaceful Uses of Nuclear Energy (2008). Finally, the years 2014 and 2015 would begin the rounds of dialogue on the possibilities of investment and opening of markets and joint financial operations, and the year 2016 would end with a significant growth of transactions, especially with regard to European exports towards To the Asian partner. Thus between 2008 and 2016, exports

from the European Union (EU) to China grew by almost 112% and China's exports to the EU grew by approximately 32%.

Also in the years 2000-2010, trade relations between China and the EU have suffered some shocks such as the textile dispute, where part of the EU countries have asked for embargoes or surcharges on the entry of such products into the European market in an explicit form of protectionism of the local industry . However, the partnership began to include riskier transactions. Thus, for example, China has joined the Galileo project, investing around € 230 million. An agreement was also reached for the purchase of 150 Airbus aircraft by the Chinese government in 2006. In contrast, despite the embargo on arms sales, US sources reported that in 2003 alone the EU would have sold a total of € 400 million in "defense exports" that included submarine and radar technology (ALON, 2009).

At the end of the decade, more specifically during the European debt crisis, while the governments of several countries of the Euro Zone resorted to rescue loans to the International Monetary Fund and the European Central Bank, China made purchases of billions of euros in bonds High risk of the Euro Zone, in particular Greece, Ireland, Italy, Portugal and Spain. Some analysts have suggested that China was buying political influence in the EU, but China argues that such operations are actually aimed at building strong trade ties (PICCIAU, 2016). Even so, the crisis was manifested by a drop of almost 10% in the volume transacted between 2008 and 2009, then rising by 34% in 2010, 9.1% in 2011, and ending the period with a total growth of 52 , 24% between 2008 and 2016.

By 2015, the EU has become China's largest trading partner accounting for about 14% of China's foreign trade. Bilateral trade between EU-China in terms of goods reached a volume of € 383.7 billion in 2016, and increased by 9.1% over the previous year. China is the EU's second largest trade partner, after the US. In 2016 alone, EU imports from China were worth € 244.6 billion, while EU exports to China reached € 139 billion (Table 1). The trends in the share of China in European Union trade are given in Table 2.

Exchanges in the area of services and investments are growing. In 2013, the EU and China had a total trade in services of € 49.9 billion, with a small EU trade surplus of about € 8.1 billion. In addition, Europe is one of the top five sources of FDI to China. However, European FDI has declined from € 10.0 billion in 2012 to € 8.2 billion in 2013. Although Europe remains one of the five largest sources of FDI to China, these investments represent only 4.8% of Of total EU FDI flows. That is, despite a slow expansion, China's investment in Europe accounted for around 4.2 billion in 2013.

Table 1: Trade of the European Union with China, 2008-2016*(millions of Euros)*

Year	Exports to China	Imports from China	Trade balance in millions ECU/EURO
2008	65.703	186.378	-120.657
2009	69.482	158.855	-89.372
2010	95.773	211.199	-115.425
2011	115.644	219.340	-103.696
2012	120.570	214.683	-94.113
2013	121.907	204.546	82.638
2014	131.957	218.463	-86.506
2015	131.254	249.312	-118.058
2016	139.177	244.599	-105.422

*Source: Eurostat database***Table 2: European Union trade with China (% of total EU trade)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports to China	4.2	5.4	6.2	6.6	6.4	6.4	6.8	6.4	6.8
Imports from China	11.4	12.5	13.5	12.4	11.9	11.7	12.4	13.8	13.8

Source: Eurostat database

2.2 China-EU foreign policy

The entry into force of the Treaty of Lisbon in 2010 created new mechanisms important for the conduct of EU foreign policy, creating the following positions:

- A permanent President of the European Council, representing the EU at important international meetings held with the Head of State or Government;
- A High Representative for Foreign Affairs and Security Policy appointed by EU Heads of State and Government, who chairs the EU Foreign Ministers' meetings, and at the same time, acting as Vice-President of the European Commission. As a result, the political dialogue with China came to be led by representatives of the European institutions (in the past, the country holding the EU rotating presidency presided over the meetings, together with the European Commission).

In Beijing, the EU has official representation in the European Union Delegation in China, which carries out all local efforts towards the Chinese authorities (except consular matters). In addition, the annual summit meeting was scheduled at the level of the Heads of State or Government in both China and Brussels. The EU is represented by the President of the European Council and the President of the European Commission, assisted by the High Representative for Security Policy / Vice-President of the External

Commission whose objective is to broaden the regular political dialogue on strategic policy issues and foreign affairs.

Extra meetings are held where necessary between the EU High Representative for Foreign Affairs and Security Policy / Vice-President of the Commission and the Chinese Minister for Foreign Affairs, in addition to annual meetings in parallel to the UN General Assembly.

There are also meetings at least once a year between the EU and Chinese experts on the control of small arms and armaments, as well as a meeting every six months between the Chinese Foreign Minister and the European Union Ambassadors Held in Beijing (Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china>).

2.3 Current position and new attempts of mutual agreements

In comparative terms, trade between the European Union and China is second in terms of volume of transactions, with China being the second largest trading partner in the EU, only behind the US (EICHENGREEN et al., 2010). Not only is the EU the largest importer of Chinese products but it also enables its large-scale exports to that market. According to data from 2013, total transactions between the two markets exceeded one billion Euros per day (Source: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/china>).

The Chinese exports to the EU are dominated by industrialised and final consumption products such as machinery and equipment, footwear, clothing, furniture, toys and the like. Already the European export agenda for China is dominated by chemicals, air and land vehicles, machinery and equipment. In the services sector, however, bilateral trade does not reach 20% of the total traded in products. Such a picture leads to a deficit in EU performance, compounded by barriers to access to the Chinese market. In the area of Investment, China represents 2 to 3% of the total external investments of the European Union. In early 2014, delegations of the two giants met to try a joint plan to increase the investment agreements in place. Negotiations for a Comprehensive Investment Agreement between EU-China began in 2013 to remove restrictive barriers to the performance of foreign investors in their markets.

3.0 Trends in Trade by Product Groups

China has become one of the fastest growing markets for European exports. In 2012 exports to China increased by 5.6% to a record € 143.9 billion. The EU is also China's biggest export destination, with € 289.7 billion of goods in 2012 (Tables 1 and

2). This produced a trade deficit of € 145.8 billion with China in the same year, down 6.6% from 2011, down 13.9% from the 2010 record of € 169.3 billion. Europe's trade deficit with China is mainly caused by sectors such as office and telecommunications equipment, shoes and textiles, iron and steel. Tables 3 and 4 show European exports to China and European imports from China by SITC product group.

Table 3: Euro Exports to China by SITC Product Group, 2008-2016 (as % of total)

Product Group	2008	2009	2010	2011	2012	2013	2014	2015	2016
Machinery and transport equipment	61.32	60.46	63.3	62.6	60.1	59.05	60.9	57.2	56.7
Other manufactured goods	17.57	17.31	15.64	15.89	16.8	17.6	16.7	17.2	17.4
Chemicals and related products, n.e.s.	10.76	12.11	10.8	10.53	11.36	11.37	11.5	12.8	12.8
Raw materials	5.77	5.95	5.7	6.27	5.9	5.92	4.9	5.32	5.03
Food, drinks and tobacco	1.54	1.78	1.89	2.35	2.97	3.19	3.3	5.14	5.60
Mineral fuels, lubricants and related materials	0.23	0.29	0.82	1.07	1.58	1.38	0.9	0.74	1.15
Other Commodities and transactions not classified in SITC	2.80	2.10	1.81	1.33	1.24	1.43	1.5	1.55	1.26

Source: Eurostat database

Table 4: Euro Imports from China by SITC Product Group, 2008-2016 (as % of total)

Product Group	2008	2009	2010	2011	2012	2013	2014	2015	2016
Machinery and transport equipment	47.26	47.98	51.62	49.03	50.67	50.06	48.78	50.19	50.72
Other manufactured goods	45.14	44.94	41.17	42.47	41.51	41.81	43.10	41.90	41.27
Chemicals and related products, n.e.s.	4.04	4.08	4.28	4.84	4.79	5.07	5.15	5.03	5.13
Food, drinks and tobacco	1.46	1.60	1.44	1.54	1.51	1.57	1.45	1.44	1.50
Raw materials	1.27	0.95	1.02	1.17	1.09	1.03	1.02	0.92	0.90
Other Commodities and transactions not classified in SITC	0.36	0.30	0.36	0.84	0.36	0.37	0.44	0.39	0.37
Mineral fuels, lubricants and related materials	0.47	0.16	0.12	0.11	0.07	0.09	0.07	0.13	0.11

Source: Eurostat database

About half of the products exported from China are produced by foreign companies from neighboring countries such as Japan, Taiwan, Hong Kong and South Korea which have a dominant role in this so-called "trade transformation" process where

the imported components are assembled in China And exported as finished products. The role of European companies in China's processing trade regime, however, is limited (HU, 2011, p. 31). Moreover, while imports from China have increased, the share of total EU imports in Asia has remained relatively stable over the last decade as we can see in the tables above.

EU trade defense instruments cover only about 1% of their total imports from China because of their trade defense measures, which are not protectionist instruments, which are legal procedures in line with international standards and aim to reduce unfair commercial practices. The EU bases its trade defense instruments on rigorous rather than political procedures. On 9 April 2013, the EU had 52 anti-dumping measures and two anti-subsidy measures in force against Chinese imports according to the reports of the Delegation of the European Union to China of that year.

Since the beginnings of the XXIth century, EU has highly relied on investment from China (FU, X, 2004). Only 1.4% of the total flow of foreign direct investment (FDI) in Europe comes from China, according to EUROSTAT data. Thus, in 2011, Chinese investments to the EU only accounted for 1.4% of total foreign direct investment in the EU. On the other hand, the share of total FDI inflows from the EU to China is around 20% of the total FDI, making 27 EU Member States together representing one of the top five FDI providers for FDI. China, along with Taiwan, Hong Kong, Japan and USA. EU companies invested € 17,800,000,000 in China in 2011, with Chinese FDI to the EU worth € 3.1 billion in 2011. Part of the Chinese foreign investment is however routed via Hong Kong.

Given the expansion of trade between China and the European Union, one cannot fail to draw attention to its contrast. At the end of 2011, foreign banks accounted for only 1.93% of the Chinese market according to the Delegation of the European Union to China. Not for lack of interest of the European financial services companies but, apparently, the limit of Chinese trade openness is well defined.

4.0 Final considerations

The study of the results of recent trade relations between China and Europe lies between two historical processes, initially distinct but with a common denominator. Their understanding necessarily passes through the mapping of this context, without which one has only the aridity of analysis of the identification of fluctuations, conjunctures or disconnected, without great relation between themselves or with some identity.

First, there is the process of China's expansion and opening up to international trade, which must be seen under the strategy of supply agent and consumer market. In both perspectives, there is a significant increase in the scale and increase in the intensity of the labor factor, which undoubtedly pressured the productive and transactional costs structures of the rest of the world. In this sense, China's strategy found some degree of alignment with that of the core of the capitalist system, which made China one of the main trading partners and protagonist of the broader process of capital globalization, especially its productive side.

Under the scope of Chinese demand, the relevant role of the country as a buyer on a growing scale, not only of technology-intensive products but also of primary products, has been masked to some extent by the deterioration of terms Exchange of primary-exporting countries, and also alleviating some pressure on the domestic policies of macroeconomic adjustment of these national states, which would otherwise be tightened in particular on exchange rate and balance of payments adjustments, Periods of "high" economic cycles, in the form of "exchange welfare"(OECD, 2004).

Secondly, there is the integration of the European continent into a commercial, financial and, to a lesser extent, political and territorial sphere. This decade-long integration movement sought to adapt the European institutions to the standards desired by the dominant center for trade, financial and economic practices in general to the end. The standardization of macroeconomic policies, and ultimately, the restraint of national economic policies, followed this line.

It is also necessary to understand the two movements mentioned above within a larger one, namely the productive and capital globalization, which imposed a whole set of relations in a new international division of labor. The fact that China offers competitive advantages *vis-à-vis* other markets thus presents itself in its inverted form, under the globalization logic: Chinese competitiveness is presented earlier as effect than as the result of the adaptation of the country's economic structure to logic Capital and international trade. Europe, in turn, presents itself as a passive agent in the adoption of macroeconomic adjustment policies and not as the result of structural adaptations that give it the status of creatures, not creators. The dynamics of the relationship between China and Europe is still unclear about the future. The Chinese insertion in the European market, although it occupied spaces, did not realize the expectations of full transformation of the new territories. Foreign companies still face a series of trade barriers in China, whose government uses country-specific rules that foreign competitors find difficult to meet. Restrictions on the export of raw materials also apply. Other issues that concern international business in China are the lack of fair competition conditions for foreigners, subsidies and funding issues, transparency and predictability in

government and regulation (NAVARRO, 2010). As for the main common partner - the USA - there are identities, but also important differences in the relationship. Although they are essential trading partners for Europeans and Chinese, the United States has well-defined treatment disparities with NATO allies and major trading partners.

In the long run, China's importance as a strategic market can only increase. Each year, 20 million Chinese families exceed the family income limit of \$ 13,500 (UN data), a threshold where middle-class families become capable of paying for essential goods and services, such as cars. This translates into extraordinary growth opportunities for European companies. It should also be noted that even if China's GDP growth rate is gradually slowing down, its nominal GDP should continue to grow at an intense pace by Western standards.

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