



Updated January 7, 2019

# The European Union and China

## Background

The European Economic Community (EEC), the predecessor to the European Union (EU), and China established diplomatic relations in 1975. The EU-China relationship, which began as a framework of economic cooperation, has evolved into a comprehensive political and economic relationship. Today, the EU's China policy prioritizes reciprocity, a level playing field, and fair competition in political and economic relations. It also seeks to advance European values, such as the promotion of democracy, rule of law, human rights, economic and social reform in China, and respect for the U.N. Charter's principles, and to raise the EU's profile in China

Since 1998, the EU and China have held annual summits, alternating between Brussels and Beijing. These summits affirm the EU's long-term interest in, and maintenance of, its political and economic relations with China.

At the 16<sup>th</sup> summit, held in November 2013, the EU-China Strategic 2020 Agenda for Cooperation was launched ([http://eeas.europa.eu/archives/docs/china/docs/20131123\\_agenda\\_2020\\_en.pdf](http://eeas.europa.eu/archives/docs/china/docs/20131123_agenda_2020_en.pdf)). The agenda established the framework intended to guide EU-China relations until 2020. The Strategic 2020 Agenda is being implemented through three pillars of EU-China relations: a High-Level Strategic Dialogue, a High-Level Economic and Trade Dialogue, and a biannual People-to-People Dialogue established in 2012.

Today, according to the EU, the EU and China have over 70 high-level and senior-level dialogues, working groups, and steering committees reflecting the wide-ranging scope of the relationship, including in areas such as cyber, transnational crime, economics, high-tech innovation, tourism, energy, and the environment. The EU and China also have agreed to further develop exchanges on legal affairs and digital connectivity.

## China's Perspective

In June 2015 remarks to the China-EU Business Summit, Chinese Premier Li Keqiang described the EU as "a major pole on the global political arena" and declared that "no geopolitical conflicts or clash of fundamental interests" exist between the EU and China. Li credited the EU for offering "many advanced technologies to help China's modernization" and promised that China would continue to support "a united European Union and a strong euro."

## Political Dimension

According to EU leadership, the EU's commitment to a political dialogue with China reflects Europe's recognition that China, as a growing economic and political power, and an increasingly active member of the international community, can exert significant influence on an array of

issues of global concern. In a world increasingly bound together by the forces of globalization, the EU sees cooperation with China, bilaterally or within multilateral structures, as crucial to achieve progress in any number of issues of mutual importance to Brussels and Beijing.

The EU's relations with China, while predominantly economic in nature, are also designed to promote EU influence in other areas. The EU and China hold an annual Strategic Dialogue to discuss bilateral relations, with a focus on foreign and security policy, at the level of the High Representative/Vice President on the EU side and the State Councilor for Foreign Affairs on the Chinese side. This political dialogue attempts to address critical global issues, such as such as human rights, the South China Sea, North Korea, and China's "One Belt, One Road" initiative.

### The European Union and China at a Glance

- EU: 28 member states
- Population: EU: 500 million; China: 1.3 billion
- EU GDP (2016): approx. €14.0 trillion
- China GDP (2015): approx. \$11 trillion
- China is now the EU's second-largest trading partner, behind the United States. The EU is China's largest trading partner.
- EU goods exports to China (2017): €198 billion  
EU goods imports from China (2017): €374 billion  
EU services exports to China (2015): €37.3 billion  
EU services imports from China (2015): €26.4 billion
- China's investment in Europe is growing rapidly. EU foreign direct investment in China was approximately €6.8 billion in 2014, and China's investment in the EU reportedly was around €35 billion in 2016.

**Sources:** European Commission, Eurostat, Rhodium Group.

**Note:** Exchange: €1 = \$1.1

Through the people-to-people exchange, the EU and China have committed to the continued development of sustainable tourism, which, according to both sides, is booming. Some 600 flights run daily between European and Chinese cities. Approximately 6 million Chinese visitors traveled to Europe in 2017.

Another aspect of the EU-China dialogue is designed to promote intellectual exchanges between major cultural, scientific, and educational institutions. As part of this dialogue, the China-Europe International Business School and the EU-China School of Law have, for years, successfully trained business and legal experts to promote exchanges between China and Europe. More than 200,000 Chinese nationals are studying in Europe, and some 40,000 EU citizens are studying in China.

## Economic Dimension

The EU and China are two of the biggest trading partners in the world, with EU-China trade increasing dramatically in recent years. China and Europe now trade an average of well over €1 billion each day. Bilateral trade represents approximately 3.3% of the EU's GDP and close to 6% of China's GDP, underlining the large interdependence of China and the EU in terms of trade. Chinese investment in Europe in 2009-2017 amounted to approximately \$300 billion. Chinese construction contracts in that same period came in at close to \$40 billion.

Although both sides view the economic dialogues as essential for planning, guiding, and taking strategic decisions on the future of EU-China relations, problems have begun to arise. Both sides have committed to cooperate on issues such as industrial policies, non-tariff measures in China that may discriminate against foreign companies, unequal access to subsidies and cheap financing, and the protection and enforcement of intellectual property rights. In June 2018, the EU launched a World Trade Organization case against Chinese legislation that the EU considered would undermine European companies' intellectual property rights. During the 2018 EU-China summit, the EU raised concerns over market access, state-owned enterprises, intellectual property, and technology transfer practices.

## Looking Ahead—Growing Concerns

As the EU has attempted to become a preferred partner and new influence in Asia through a series of recent free trade agreements with Japan and South Korea, it knows it can only marginally compete economically in the region with China or with China and the United States for influence. Conversely, the EU has begun to express concern over China's growing economic presence in Europe and potential influence on EU policymaking.

Over the last decade, the EU has become a top destination for Chinese investors. In 2016, the China Ocean Shipping Company (COSCO) acquired the majority stake in Greece's Port of Piraeus, which is considered to be the main entry point for Chinese exports into southern, eastern, and central Europe. The size of the Chinese market and the amount of money Chinese investors can bring to the table has alarmed some in the EU and has led some critics to suggest Chinese money could rival Russian energy as a source of influence in Europe. Critics have pushed the EU Commission for more transparency and screening of Chinese investments, more controls over potential Chinese product "dumping," and more scrutiny of China's offers to provide debt-based infrastructure financing and low-cost loans. In response, some believe China has become more aggressive in pushing back policy developments by Brussels seen as challenging China's current favorable business advantages in Europe. In some cases, critics have suggested that China has simply threatened to scale back investment plans or stop buying French wine, German automobiles, or Airbus aircraft as a way to counter EU policy direction.

The 2018 U.S. National Security Strategy also has raised caution by observing that China was "gaining a strategic

foothold in Europe by expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure."

At the same time, a security dimension has raised concerns within the EU. As China has begun to pursue a more global military outreach designed to protect its economic interests, Chinese naval ships, for instance, have appeared in the Baltic Sea and requests for naval "ports-of-call" in Europe may be on the increase.

## Central and Eastern Europe—16+1

Separate from the broader EU-China dialogue, a 16+1 format was established after the first China-Central and Eastern European (CEE) Countries Economic and Trade Forum in 2011. The countries include China, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, and five EU hopefuls: Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia. All have been the target of aggressive Chinese investment initiatives.

At the 16+1 summit held in Budapest in 2017, Chinese Premier Li Keqiang launched the construction of a €3.2 billion Chinese-funded upgrade of the high-speed rail link between Belgrade and Budapest. China hopes to use the rail link as part of its "One Belt, One Road" initiative. The railway project helped to boost Chinese investment in the CEE region to over €7.5 billion.

Critics point out that as some CEE countries become more dependent on Chinese investment to help rebuild or stabilize their economies, those countries may become more reluctant to take positions that would anger Beijing. These observers believe that although a constructive economic relationship between CEE countries and China is important, it comes with potential risks that require China's activities in that part of Europe to be subject to a maximum of transparency and openness and to rigorously conform to EU law and regulation so that China cannot create a wedge between the region and Brussels. At the 2018 16+1 summit in Sofia, Bulgaria, Li Keqiang told the group that China was ready to fund a Global Partnership Centre in Sofia that should help Chinese companies understand EU market rules and adhere to them in the region.

Some observers contend that China's investment strategy in some cash-starved CEE countries already has caused ruptures in overall EU solidarity and cohesion on several issues of interest to Beijing. Others argue that the concern over the potential threat of China's influence on EU decisionmaking and member state solidarity has not yet become problematic in most EU member states. However, they contend that because there has been some detection of Chinese influence in a few instances among a few member states, the issue needs to be watched carefully by the EU Commission and others.

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