SUMMER 2016

EU-CHINA RELATIONS

NEW DIRECTIONS, NEW PRIORITIES

DISCUSSION PAPER

friends of europe les amis de l'europe

This publication brings together the views of Friends of Europe's large network of scholars, policymakers and business representatives on the future of EU-China relations. These articles will provide immediate input for the Europe-China Forum and the EU-China Summit in July 2016, but their value and relevance goes well beyond this year. They set the tone for EU-China relations over the next decade.

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FOREWORD

FRIENDS OF EUROPE'S CONTRIBUTION TO THE EU-CHINA RELATIONSHIP

The EU-China relationship is an evolving one, growing and changing as the EU and China grow and change. Forty years after they established diplomatic ties, China and the EU have been moving rapidly to broaden and deepen their cooperation on a range of issues. The strategic partnership is now rooted in strong practical projects and initiatives which reflect both sides' key priorities and interests.

China and the EU agreed at the Summit held in Brussels in June 2015 to explore synergies between China's 'One Belt, One Road' Initiative and the European Investment Plan, to set up an investment working group and to establish a Connectivity Platform. Both sides also decided to strengthen cooperation in the development of the digital economy. In addition, new opportunities for cooperation are opening up as China begins implementing its 13th Five Year Plan and chairs the Group of Twenty (G20) leading developed and emerging economies.

WHAT ABOUT THE WAY AHEAD?

First, in different ways, China and the EU are not just changing within – they are also changing the world outside. China's re-emergence has been the defining global story of the last decade. The deepening and widening of the EU has also changed the world. It is clear that China's economic transformation and diplomatic coming of age will continue for years to come. And despite current troubles, the EU is also making its mark on the global stage.

Second, the EU-China relationship is the EU's most developed and dynamic relationship with an Asian country and an emerging power. The partnership is varied, diverse and dynamic, including 70 or so sectoral dialogues, and constant engagement at many levels. The partnership involves all of the EU, including the European External Action Service, the European Commission, the European Parliament, the Committee of the Regions and EU member states.

Third, the EU is well placed to play a pivotal role in China's transformation given its solid and varied relationship with Beijing. Over the next few years, as the 13th Five Year Plan is implemented, there will be even more focus on innovation and green growth – where the EU can provide technology and expertise. Issues such as the common challenge of ageing populations, inequality and urbanisation will continue to be addressed. There will be more cooperation in the security sector and on 21st Century Global challenges – including non-traditional security issues like climate change, illegal immigration and disaster management.

But as in the past, there will be challenges ahead. The greatest challenge is to make their relationship more robust and resilient and to focus on long-term interests, not short-term friction. Policymakers from both sides need to keep an eye on the bigger picture, not narrow sectoral difficulties as we are facing today on granting China Market Economy Status or global steel oversupply.

The EU-China conversation is intense, multifaceted – and marked by occasional disagreements and bitterness. But China and Europe are bound by mutual curiosity and growing economic connections. In an unpredictable, divided and volatile world, such bonds are important and valuable.

These articles and the publication will provide immediate input for the Europe-China Forum in July 2016, but their value and relevance goes well beyond this year. They set the tone for EU-China relations over the next decade.

Shada Islam
Director of Policy
Friends of Europe

HOW CAN WE ENSURE A CONTINUED SOUND AND STABLE CHINA-EU PARTNERSHIP?

Among China's external relations, the China-EU relationship is one of the most important, not only for the two parties but also for the rest of the world. And I am happy that the China-EU relationship is by and large moving forward on a positive and stable track.

Since the 17th China-EU Summit last June, fresh progress has been made in the implementation of the China-EU 2020 Strategic Agenda for Cooperation, and especially the priority areas. We have built synergy between the 'Belt-Road' initiative and the Investment Plan for Europe. We have established a new Connectivity Platform to improve our infrastructure links. We deepened dialogues and cooperation in areas of ICT. We established a China-EU Legal Affairs Dialogue for policy exchanges, mutual learning and cooperation in legal affairs. And we completed the first stage of the roadmap of our Migration and Mobility Dialogue, and signed an Agreement on the Short-stay Visa Waiver for Holders of Diplomatic Passports.

Equally encouraging, our teams are working hard for the expeditious conclusion of an ambitious and comprehensive China-EU Investment Agreement, which will hopefully lead to broader ambitions including a deep and comprehensive China-EU FTA. But our cooperation clearly goes far beyond the economy and trade. Bilaterally and multilaterally, we have worked together on regional issues such as Afghanistan, Iran's nuclear programme and on global issues such as climate change, global governance, non-proliferation, anti-terrorism and food security.

Obviously, our bilateral cooperation is extensive and comprehensive, and our achievements are positive and impressive. We should feel proud yet not conceited. With so many profound changes and challenges taking place in this hyper-connected world, China and the EU have to do more and better together. With the China-EU relationship now having entered its fifth decade, both China and the EU have to be sure of making the right choices so our relationship may move forward along the right trajectory.

Personally, I believe four factors are key to ensuring continued sound and stable China-EU partnership.

First, foresight and world vision. We are living in a world of growing global issues demanding collective efforts, especially coordination and cooperation among major powers. As the two great forces for peace and prosperity, China and the EU should base our strategies and policies on full recognition of 21st century challenges, and cooperate with each other, transcending differences of social systems and ideologies to embrace win-win opportunities.

Second, having the right perceptions of each other. In recent heated debates in Europe over China's excess steel capacity, Market Economy Status as well as the country's economic performance and future prospects, I could read misunderstanding and misconceptions. To make a long story short, as a beneficiary of reform and opening-up, China is firmly pushing forth further restructuring so its economy will become stronger and more resilient, and its development more innovative, coordinated, greener, more open and inclusive. And as a true champion of building a community for the shared future of mankind, China is committed to peaceful development and win-win outcomes. While pursuing its own interest, China sees to it that others' interests are taken care of. The 'winner-takes-all' or 'zero-sum' approach is not a choice for China, now or in the future.

As we are all in the same boat, we can only work closely with each other with better understanding. China sees the EU's building of the Single Market not only as an asset for the EU but as good news for the world. Similarly, China's shift to a medium-high growth rate and medium-high-level development focusing on quality, efficiency and sustainability should be applauded by the EU.

Third, the wisdom and ability to focus on broader common interest. China-EU relations have become stronger and more mutually-beneficial and mutually-reinforcing than many people have realised. Economically, we are among the largest economies in the world. Consolidating, expanding and upgrading our cooperation would mean a great deal for both China and the EU. It will enable us to draw strengths from our complementarities and better achieve success on our respective domestic agendas. Given this, it is highly advisable that we concentrate on broadening and deepening our cooperation across the board and not allow our overarching common interest to be hijacked or even derailed by vested interests, narrow-mindedness and short-sightedness.

Last but not least, the will and skills to manage our differences. Unsurprisingly, there are always differences between China and the EU. The key is to recognise that our common interests are much larger than any possible differences, and thus we should not allow differences to dominate our bilateral agenda. Furthermore, we should manage differences in a constructive and creative manner through dialogue and consultation, and try to turn them into possibilities and opportunities for cooperation. Pointing fingers at each other and resorting to confrontation is undesirable, meaningless and counter-productive.

That said, on issues pertaining to core national interests, all should strictly abide by their political commitment to respect each other's sovereignty and territorial integrity. Whereas on the issue pertaining to compliance with international legal obligations, namely Paragraph 15 of the Protocol on China's Accession to the WTO, the EU and all other WTO Members should respect the rules of the WTO and comply with their due treaty obligations.

Having come a long way, the China-EU relationship is faced with opportunities and challenges. As an optimist, I have every confidence that China and the EU have the strategic vision, wisdom and capability to scale new heights of excellence in their Comprehensive Strategic Partnership. Most importantly, we have a huge reservoir of good will and enthusiasm for promoting mutual trust, understanding, friendship and cooperation between our peoples. The Europe-China Forum Discussion Paper 2016 entitled 'EU-China Relations: New Directions, New Priorities' is just a case in point.

I wish to express our appreciation to Friends of Europe and all the contributors for their effort and contribution. And I hope their studies and observations on direction and priorities for China-EU relations will attract wider interest and generate more thought-provoking ideas and recommendations.

Yang Yanyi
Ambassador of the People's Republic of China to the EU

THE FOUR PILLARS OF EU-CHINA COOPERATION

The 40th anniversary of the establishment of EU-China diplomatic relations in 2015 spurred energy into a bilateral strategic partnership. With the EU-China Strategic Agenda 2020 remaining the common framework for EU-China cooperation, new fields of collaboration are emerging, highlighting the increasing roles and responsibilities of Europe and China as global players and their willingness to further deepen their comprehensive strategic partnership.

Foreign and security policy, the first pillar of our cooperation, is becoming a major aspect of EU-China relations. Given that today's major international problems cannot be solved by acting unilaterally, our cooperation is increasingly essential for us to carry our weight in maintaining regional and global security. The EU and China have successfully fought piracy in the Horn of Africa, joined forces on the nuclear capabilities of Iran and are considering expanding the joint cooperation on security, defence and development issues. We hope to work more closely together in Afghanistan, Africa, and the Middle East. North Korea's defiance of multiple United Nations Security Council resolutions remains a common concern, as is the fight against terrorism. The forthcoming Strategic Dialogue between High Representative Federica Mogherini and State Counsellor Yang Jiechi will be an important occasion to further strengthen our cooperation. The visit of the Chinese Minister of Defence to Brussels later in 2016 could also create a new momentum in our cooperation on security and defence policy.

The second pillar of our cooperation, trade and investment, remains at the core of our relationship, with our peoples reaping the benefits of growth, employment and dynamism. While Europe is leaving the prolonged economic crisis behind and is returning to growth, albeit slowly, China has embarked on an ambitious transition to a new model of economic development based on consumption and innovation. EU support for reforms in China aimed at moving towards sustainable and inclusive growth would be best achieved by China further opening up its markets to European and foreign investment. China's reforms will also have to address the problem of huge overcapacities in a number of industrial sectors, including steel. For our future economic relationship the Comprehensive Investment Agreement will be key. Both the EU and China share the same ambitions and look forward to good progress. However, China's new wave of security legislation could undermine business confidence and impact European companies operating in China. As the next phase of our relationship will increasingly involve the high-tech sector, it is essential that China's technological upgrading is based on openness to the contribution of EU business. Focusing on mutually beneficial policy initiatives, the High-Level Economic Dialogue could play an increasingly important role in our cooperation on all trade, economic and financial developments, but also in building an ever deeper, ambitious and balanced relationship.

The ‘new agenda’ that emerged in recent years relates to connectivity, ICT and innovation. Alongside the first high-level meeting of the Connectivity Platform, we have also made good headway in defining a roadmap of China's participation to the European Fund for Strategic Investment, linked to China's One Belt One Road initiative. Innovation remains essential in the transformation of China's growth model and its importance could further be harnessed this year, as it is also a G20 priority. But we need to ensure a level-playing field for innovation cooperation, including reciprocal access to respective research and innovation programmes. Therefore, both the EU and China have begun setting the right framework conditions for successful cooperation activities of mutual benefit for both parties.

The EU is committed to a rules-based, transparent, and accountable system of global governance; a commitment which it hopes is shared by China. With the priorities of China and the EU largely aligned, there are high expectations from EU officials regarding China's presidency of the G20. European support of the Asian Infrastructure Investment Bank (AIIB) and China's accession to the European Bank for Reconstruction and Development (EBRD) were important new milestones in our infrastructure cooperation. It offers huge potential if it is based on high social and environmental standards and respect of established rules and principles. We will need to implement commitments taken at the 2015 United Nations Climate Change Conference (COP-21) in Paris, as well as look for a new momentum for the World Trade Organisation (WTO) beyond Doha. Strengthening cooperation and dialogue with China on development cooperation with third countries would facilitate working together to implement the 2030 Agenda for Sustainable Development, aimed at addressing some of the most pressing issues on the global agenda such as climate change, environment, health, and disaster resilience of developing countries, notably in Africa.

Finally, through the fourth pillar of cooperation’s ambitious people-to-people initiatives, we have made enormous progress on issues ranging from visa facilitation and increased flows of tourism to student mobility, academia and cultural cooperation. We will particularly encourage stronger exchanges between young leaders, business people, academia, think tanks and civil society organisations. We should also reinforce cooperation on human rights, a very important and integral part of our agenda. To more effectively deal with well-known differences in our respective approaches, a meaningful human rights dialogue could play a key role in future dialogues between the two parties.

Hans Dietmar Schweisgut
Ambassador of the European Union to the People's Republic of China

CHINA'S 13TH FIVE YEAR PLAN

General trends in economic transformation and upgrade

Chi Fulin, President and Chief Researcher of the China Institute for Reform and Development (CIRD)

The 13th Five Year Plan (FYP) period (2016-2020) is critical for China's modernisation and growth. By 2020, China should have made considerable progress in the economic restructuring and transformation of its growth model. During this period, China will further these efforts to overcome the risk of the middle-income trap and build a moderately prosperous society in all respects.

Structural reforms and institutional innovation are the sources of economic vitality. In the 13th FYP period, the economic transformation China is advancing will bring new trends of structural upgrading and tap into the domestic demand potential. When entering the economic 'new normal', as well as pursuing sustainable economic development, the focus is to promote economic transformation and upgrade through structural reforms.

China's top priority is to upgrade its current economic structure through transforming and reforming the existing model, thereby laying a solid foundation for the building of a moderately prosperous society.

To successfully transition towards a service-led economy, China needs to upgrade its manufacturing industries and develop service sectors. If the share of value added of service sectors in GDP could reach around 58% of the total GDP by 2020 from the current level of 50.5%, it would result in an average annual growth rate of 8%. Industrial upgrading will increase the share of service sectors (with R&D, finance and logistics as priorities) in GDP from 15% to more than 30% by 2020; thus these sectors will become an indigenous driver for manufacturing upgrading.

The service-led industrial structure will lead the economic 'new normal' by creating jobs and ensuring green development. According to preliminary calculations, if the share of services in GDP could increase from 50% to 55% in the coming years, the total energy consumption in China will be reduced by 14% and carbon dioxide emissions by 18%.

By ensuring a successful transformation from physical urbanisation to population urbanisation, China will unleash new demand and new supply. If we extend the reform of the *hukou* system and promote equal urban-rural access to basic public services in the 13th FYP period, it's possible that by 2020, China's physical urbanisation rate will be as high as 60% and population urbanisation rate with urban *hukou* will increase from 36.6% in 2014 to around 50%.

What is most important is to make the term 'rural migrant worker' become a word of the past. It is essential to accelerate the implementation of relevant policies so as to fulfil the target set by the central authorities to ensure that roughly 100 million rural migrant workers and other non-registered permanent residents in cities get urban *hukou*. Deepening reform of the *hukou* system in the 13th FYP period should focus on the following three transformations.

Firstly, it is vital that China reforms the current system by changing the mindset and means of administration from controlling migration to managing and facilitating migration. Secondly, there should be a fundamental change from the decades-long urban-rural dual *hukou* system to a nationally-unified residence card system. Thirdly, residents' management should become the responsibility of the department of population services rather than the department of public security.

In order to achieve a successful transition towards a consumption-led economy, the mainstay of consumption in China need to shift from material consumption to services consumption in the 13th FYP period. Our estimate is that by the end of 2020, the urban residents' share of expenditure on service-based consumption will increase from 40% in 2014 to about 50% by 2020, possibly even rising to 60% in certain better developed regions.

Consumption will increase quickly during the 13th FYP period. We estimate that China's total retail sales of consumer goods will maintain a growth rate 2-3% higher than the GDP growth, with an annual average growth of 8-9%. We predict that during the 13th FYP period, consumption will contribute about 65% to GDP growth, indicating that consumption will become the main driver of economic growth.

China has become the largest global trader of goods, but its share of service trade remains relatively low. In 2014, global service trade accounted for 20% of total trade, but China's foreign service trade only took up 12.3% of China's total foreign trade. Hence, we should make the growth of service trade a priority in optimising our trade structure. By 2020, the share of China's foreign service trade in total foreign trade should reach at least 20%.

It's also essential for China to contribute to the promotion of bilateral, multilateral, regional and global free trade processes, with trade in services a priority. To expand services trade and accelerate trade liberalisation, promoting an orderly opening up of the service market and lifting export control on service trade by developed economies are key tasks if China is to expand services trade and accelerate trade liberalisation.

Research conducted on a potential China-EU Free Trade Agreement (FTA) suggests that the potential for an expansion of China-EU trade is enormous. China and the EU account for 1/3 of the world economy while total trade between them only accounts for 1.5% of the world's total. The largest potential of China-EU trade lies in service trade. By 2020, if China's total volume of service trade reaches $1.2tn and the share of its bilateral service trade in the total bilateral trade with the EU increases from 13.2% to 20%, the total volume of bilateral service trade will reach €200-220bn. To this end, the two sides should take the development of service trade as common priority, promote win-win cooperation in the areas of the service sector and strive to make major breakthroughs in building China-EU FTA during the 13th FYP period. Therefore, China and EU should, as soon as possible, launch FTA negotiations.

China and the EU account for 1/3 of the world economy while total trade between them only accounts for 1.5% of the world's total.

To achieve the desired results in growth, China needs to accelerate the building of pilot free trade zones (FTZs), with a special focus on promoting trade in services. Adapting to the needs of the new round of trade liberalisation process and China's economic transition and upgrade, the four FTZs should make greater breakthroughs in service trade so that their experience can be copied and promoted across China.

The 13th Five Year Plan is not just for China

Duncan Freeman, Senior Research Fellow at the Brussels Academy for China and European Studies, Belgium

China's economy is undergoing a transition that has global consequences. Policy outlines in China's recently-launched 13th Five Year Plan (FYP) help determine how the transition period will directly impact Europe, while EU policymakers and companies must take this into account.

Over the past year attention outside China has focused on the slowdown in its GDP growth rate. According to official statistics, in 2015 the growth rate was 6.9%, the slowest since the early 1990s. The rate projected for 2016 is between 6.5-7%, and the target for the 13th FYP, covering 2016 to 2020, is for growth to be greater than 6.5%. This planned growth rate for the FYP will be required to meet the overall growth targets for the Chinese economy of doubling GDP between 2010 and 2020, or achieving 'moderate prosperity' by the end of this decade.

The slower growth rate and the declining stock market indices in China have prompted a great deal of hysteria in the Western media. Even at the slower growth rates, China remains a huge contributor to global economic growth, but how this occurs is changing rapidly.

The transformation of China's growth model has been a government policy goal for a decade, with multiple dimensions and as a long-term approach. Although progress has been uneven, it has accelerated in recent years and it is this rather than the slowdown which has had the greatest impact on the external world. The structure of China's economy and its growth has changed since the crisis in the US and EU in 2008, when the Chinese government responded with a major stimulus package that focused on investment. The trend of indicators that once held so much attention, such as the share of investment, and also net exports, in China's GDP has been reversed as they have both declined. Similarly, other indicators show the rising share of services over manufacturing.

The business and policy cost of miscalculating the direction of the Chinese economy can be enormous.

This transformation has had direct effects on economies outside China as demand for resources such as iron ore and coal has declined. The impact has not only been in resource-exporting countries themselves. Resource companies in the West have also been brought to their knees. This has primarily been the result of their belief that the Chinese economy would continue to grow as seen in previous years. Thus, mining companies listed on the London Stock Exchange such as Rio Tinto, Glencore Xstrata, BHP Billiton and others have seen their share prices collapse, primarily due to huge investments in capacity that became unneeded as demand for iron ore and other resources slowed. In the coal mining sector, the global demand for imports has fallen dramatically, leading to a collapse in prices which has affected companies both in China and abroad. Companies such as Peabody, the largest private coal producer in the world and other major US coal miners, have been brought to bankruptcy or close to it, in significant part because of the shift in demand from China and its impact on world prices. The business and policy cost of miscalculating the direction of the Chinese economy can be enormous.

The impact of policy decisions made in China can be both positive and negative. The announcement of the 13th FYP by the National People's Congress (NPC) in many respects represents continuity rather than a new departure for China. Many of the policies discussed in the FYP are continuations of those which were already in existence, notably under the reform programme outlined after the 3rd Plenum in 2012 and in the 12th FYP. The policy of reform and restructuring of the economy will continue, there will be no return to the past pattern of growth relying on investment and services will continue to outgrow other sectors.

Recent developments indicate a shift in policy intensity visible in the current priority given to supply side economics by the Chinese government, which attempts to address imbalance between supply and demand. One of the key aspects of this is a new emphasis on the reduction of excess capacity in the economy. In the 13th FYP, reform and restructuring will remain a central goal underlying the headline numerical targets. This is based on the underlying policy assumption that development goals cannot be reached without continued reform efforts.

China's ongoing focus on environmental and energy issues in the 13th FYP will create demand and opportunities for the EU.

The policy direction will have an impact on the EU's trade and investment relationship with China. The European winners in recent years will not necessarily be the winners in the future. Following shifting patterns of development in China, demand will no longer come from traditional sectors. Already trade impacts are becoming clear, not only in resource producing countries but also in Europe. After the financial crisis in the EU in 2008, Germany was the primary European beneficiary of China's continued strong growth, which largely came from government stimulus and investment. By 2014, Germany accounted for 46% of EU exports to China, and had a healthy surplus on bilateral trade. But there are signs that this may be shifting. In 2015, according to EU statistics, German exports to China fell, but those from several other Member States accelerated. This resulted in Germany only accounting for 42% of EU exports to China in 2015.

One clear trend in the Chinese economy is the rise of consumption. This is already having major impacts externally. China's deficit on service trade has risen rapidly since 2008 from $11.8bn to $192bn in 2014, and the most important cause is rise in tourist spending by Chinese citizens travelling abroad. In 2008, according to Chinese balance of payments statistics, tourist spending by Chinese citizens abroad was $36.2bn, and by 2014 it had reached $164.9bn. Unfortunately for the EU, so far only a relatively small proportion of Chinese tourists choose to come to Europe.

The key headline targets for the FYP as usual focus on broad economic development goals. But there are many that concern the environment and energy, which is now top of the agenda. This will be one policy area that will have an increasing external impact, especially on the EU. Already structural transformation in the Chinese economy combined with its changing energy system as use of renewables rises is having a major impact on global energy markets, but also trade in technologies in both renewables and non-renewables sectors. China's ongoing focus on environmental and energy issues in the 13th FYP will create demand and opportunities for the EU, but will also create challenges as China becomes an increasingly dominant global player in quantitative terms in these sectors and Europe becomes less important. At the same time qualitative challenges are also possible, as Chinese technology in these sectors reaches the level of the developed world.

As China's economy expands and its global impacts increase, European companies and policymakers will have to take account of the 13th FYP not only in their consideration of their approach to China, but increasingly also in their domestic policy deliberations. The 13th Five Year Plan will not only impact China, but the rest of the world as well.

Opening new avenues for China-EU cooperation

Cai Fang, Vice President of the Chinese Academy of Social Sciences (CASS)

More often than not, when two economies share similar development levels, they tend to compete rather than complement one another. In 2020, when China completes its 13th Five Year Plan (FYP), it envisions the country's per capita GDP to be closer to that of a high income country, even with a lowered target of 6.5% annual economic growth. In contrast to most trends, the economic cooperation between China and the EU will remain complementary instead of one that is in constant competition, especially in view of the fact that the EU and China hope their relationship will reach new heights in 2020. For both the EU and China to achieve this, one needs to understand what challenges China faces in the near future and how it is going to sustain its economic growth in the new FYP period.

Perhaps the most challenging task for China will be its focus on tackling a new trend of demographic transition. The working-age population between 15 and 59 years peaked in 2010, indicating an important turning point for the Chinese economy. The period is characterised by the demographic rise of the working-age population and a fall of the dependence ratio. The unprecedented fast growth of the Chinese economy has benefited from its demographic dividend prior to 2010. The growth of the working-age population and the drop of dependence ratio in those years guaranteed: (1) sufficient supply of labour and human capital; (2) a high savings-rate and high return to capital; (3) rapid expansion of labour migration, from low-productivity (agricultural) to high-productivity (non-agricultural) sectors that contribute to the enhancement of productivity. All these factors have helped boost the potential growth rate in the supply-side of the Chinese economy. Coupled with factors such as consumption, investment, and net-export, China realised nearly a two-digit economic growth rate in the period.

The demographic turning point achieved in 2010, therefore, has lowered China's potential growth rate in 12th FYP period, and is expected to lower it further in the next FYP period. According to estimations, China's potential GDP growth rate, which is determined by supply of production factors and possible productivity growth, has slowed down from 10% between 1978 and 2010 to 7.6% in 2011-2015 (the 12th FYP period). Predictions suggest that this will further decline to 6.2% between 2016 and 2020 (the 13th FYP period).

The 13th FYP is critically significant as far as the timing is concerned, because 2020 is the deadline for accomplishing the task of building a comprehensive society in China. Among others, one goal that must be realised is to double China's GDP in real terms on the basis of 2010, which requires an annual growth rate of 6.53% in the FYP. One can immediately notice that this required growth rate is higher than the estimated potential growth rate of 6.2%.

The working-age population between 15 and 59 years peaked in 2010, indicating an important turning point for the Chinese economy

Whether China can accomplish this task depends on how successful its development patterns are, based on five new development concepts proposed by the 13th FYP – innovation, coordination, greener, open, and shared development. As China's demographic dividend disappears, traditional sources of economic growth are significantly weakening. For example, the labour shortage and resulting wage inflation tend to reduce the comparative advantage in manufacturing production. This is not helped by slower improvements of human capital, which consequently prevent labour productivity from rapidly improving. But more importantly perhaps, it is the potential of a diminished return to capital which makes the traditional growth driven by investment unsustainable, resulting from weaker labour mobility from rural to urban sectors with an exhaustion of the gain of resources reallocation efficiency. Therefore, the five new concepts of development are essential to seek new sources and driving forces of the growth in the near future.

The growth pattern that the Chinese economy is moving towards based on the previously mentioned five new concepts has significant implications for China's cooperation with the EU. Since the transformation of growth pattern is necessary for China to sustain its moderately high rate of economic growth, the need for China-EU cooperation is inevitable.

As China transitions to a new pattern of development and continues to grow both economically and also on the global platform, several new opportunities may emerge which deserve consideration within the framework of China-EU cooperation.

Firstly, as China transitions to a high-income society, economic growth will become more innovation-driven. This requires a substantially strengthened cooperation with foreign partners in a number of fields, such as research, science, and technology. As China becomes more aware of the impact of growth on the domestic and global environment, there will be a focus on advancements in technologies in renewable energy, carbon emission reduction, environmental protection, and other areas in which the EU has achieved high standards.

Secondly, there will be an expansion in the middle-income population which will lead to an increase in consumer demand. In its 13th FYP, China has promised to help 70 million of the rural poor to climb out of poverty and enable 170 million rural-to-urban migrant workers and their family members to have equal access to public services in urban areas. Also, China has promised to improve income distribution between rural and urban areas, among regions, and among income groups within the general population. Consequently, residents' consumption will not only expand domestically but also create a demand for foreign suppliers of high quality goods and services. An increase in tourism is also to be expected.

Finally, a new window of opportunity will be opened for foreign direct investment. Ongoing transformations deserve attention as part of China's opening up strategy. The manufacturing production base is being transferred from the coastal regions to inland China as part of the construction of new infrastructure as the result of the 'Belt and Road' initiative. Furthermore, as China enters a new stage of development, it will experience a structural change marked by a faster growth of service sectors compared to manufacturing in the years to come.

China's ongoing economic transformation and the new priorities of the 13th Five Year Plan therefore include several priorities which open the way to new avenues for China-EU cooperation.

Beyond the 'New Normal'

Bogdan Góralczyk, Director of the Centre for Europe at the University of Warsaw, Poland

The adoption of the 13th Five Year Plan (FYP) proves that China is starting a new chapter in its history and transformation, the so-called 'new normal'. So what does it mean? First of all, gone are the times of the double-digit growth China has been experiencing over the last three decades. Instead, in the years to come, we will see 'sustainable growth' of GDP at an annual rate of - as Beijing authorities claim - 6.5 %. Nonetheless, China's economy is bigger than ever before, exceeding $10tn, and its growth, estimated at $500m per year, is still impressive in international terms.

According to Hu Angang, economics professor at Tsinghua University, even under the 'new normal', China can bring about an annual growth comparable with the annual GDP of, say, Saudi Arabia, suggesting that China has much more growth to experience ahead. In addition Chi Fulin, President of China Institute for Reform and Development, has stated that the fundamentals of both the economy and its growth are 'strong and healthy'. In other words, domestic experts 'do not buy' the recent Western predictions and concerns of the 'middle-income trap' or even 'hard landing'. While the West seems to be concerned, China, or at least its officials and technocrats, remain optimistic.

The reason for Chinese optimism is based on the main goals of the 13th FYP. Namely, in the years between 2010 and 2020, China wants to double its GDP, combined with a doubling of wages and income per capita. This is the essence of the 'new normal'. The state must continue to play a strong role, but its citizens now also have a part to play and share in the new wealth. Now it is not only GDP and growth rates which are at stake, but the well-being and security of society are also at risk, including nearly 270 million domestic migrants (*liudong renkou*) who left their villages for more opportunities in the major cities. They have thus far been neglected by government officials, even at the local level. This must change, as public expectations are different than they were before, and social stability is at stake.

The state must continue to play a strong role, but its citizens now also have a part to play and share in the new wealth.

Another important dimension of the 'new normal' era is the current focus on innovation. It is not growth and expansion at all costs, as was the case before. Greater focus is now being placed on the quality of life and the quality of products. As was announced by Prime Minister Li Keqiang, in 2020 China would like to replace the 'assembled in China' by a brand new one: 'invented in China'. Once again, quality is preferred to quantity.

As regards the ruling system, some observers, like Daniel A. Bell of Tsinghua University, see it as more meritocratic. While others, like renowned experts Willy Wo-Lap Lam from the University of Hong Kong or Mingxin Pei from Claremont McKenna College, see the current strong leadership of China under Chinese Premier Xi Jinping as more assertive, not only in domestic terms, but also on the international scene. There is no common ground or consensus among observers.

The international community will remain as divided as ever, especially in view of Xi Jinping's multiple geopolitical visions and projects, including the well-known 'One Belt, One Road' initiative (OBOR), and the Asian Infrastructure Investment Bank (AIIB). These show that China wants to progress west, towards Europe and elsewhere. Secondly, it also demonstrates that China appears not only to be the self-defined 'largest developing country', but a fully-fledged geopolitical player. Western countries must adjust to this new dimension of the Chinese 'new normal' as well.

The Chinese, however, are focused on another visionary, but assertive project put forward by Xi Jinping, called the 'Two Centenary Goals' (*shuang yi bai*). The first goal concentrates on the creation of a 'moderately prosperous society' before July 2021, the 100th anniversary of the creation of the ruling Party. The second goal, to be achieved sometime in 2049 (the 100th anniversary of the proclamation of the People's Republic of China), is for China to become a 'prosperous, strong, democratic, culturally advanced and harmonious' society. To the West, this means the emergence of China as a new, big and modern power, as so evidently illustrated by Michael Pillsbury from Hudson Institute in his recent, important and detailed, but for some provocative, volume 'The Hundred-Year Marathon'.

Once again, opinions on what can be achieved by China, and when, are deeply divided. While the Chinese remain optimistic, outside observers after the recent stock-market turmoil seem to be much more concerned. Here as well, no consensus is seen on the horizon. One thing seems to be clear, however. An ambitious China, with an even more ambitious and strong leader at the top, is changing. The goal of the game is the implementation of the new model of development, with completely new engines than before. Instead of big infrastructural projects, huge investments and export, China now wants to accelerate domestic consumption and enlarge its local capacities, including those in such important fields as green economy, alternative energy consumption and innovation as a whole.

Is all of this possible to achieve? As a country embarking on a journey in unchartered waters it is not clear – even in China - just how the modern Middle Kingdom will manage to achieve all the goals it has set itself and exactly when. An interesting, topsy-turvy, maybe even turbulent, experiment to modernise the state and society could be on the horizon.

The OBOR initiative is dedicated to cooperation with the West. Both the land and maritime Silk Roads are oriented towards Europe, proving that China still wants to be open under the pressure of the 'innovation era' and that Beijing would like to have as many Western partners as possible. With growing amounts of FDI and infrastructure projects being exported to the world, China wants more fusions and mergers, while also seeking to develop well-known local brands.

Xi Jinping wants a modern, socially stable, globally open, yet strong China. He even dreams of the 'great rejuvenation of the Chinese nation', one of the greatest such exercises in the long history of China. Greater China, counting with all the diaspora, is also being discussed in Beijing. How best should Western powers cooperate with this great newcomer to global power status? Is China a challenger or even as some claim, an 'enemy'? We need to judge for ourselves and determine just how and if we want to be included in the visionary new Chinese projects.

The Chinese are ready to engage with Europe. Is Europe ready to do the same?


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The rise of a middle-class society

and its implication for China-EU relations

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The ongoing demographic transition in China has generated critical dynamics not only for the domestic socio-economic transformation, but also for China-EU relations. While China's population is ageing rapidly and has resulted in immense social and economic stress, the explosive growth of China's middle class is expected to become one of the most productive and innovative driving forces in the development course set by the 13th Five Year Plan (FYP).

China's burgeoning new middle-class society is mostly a 'good news story' for China, the EU and the China-EU relationship, but it also generates some challenges that need to be addressed. This commentary begins with a brief note on some important characteristics of China's new middle-class society, followed by a discussion on two strategic responses the EU may consider: market penetration and social engagement. It is argued that the EU will have to build new capabilities to accompany the growth of a new middle class. Therefore, the EU should play a more active role not only in meeting the enormous purchasing power of China's middle class, but also in accompanying the progressive evolution of socio-political conditions that would shape the aspirations of this new middle class. In general, a productive and engaged middle class will make the Chinese economy and society stronger, while also consolidating China-EU relations in the long run.

The middle class is an evolving social category in China, which is made up of diverse social actors ranging from self-employed private sector entrepreneurs to salaried government officials and professionals. Despite the fact that there is no clear definition of an individual who is considered to be middle-class, it is widely predicted that China will become the world's largest middle-society market by 2020. Central to this huge surge is China's rapid industrialisation and urbanisation. China's rebalancing towards domestic consumption as a source of economic growth during the 13th FYP will stimulate the further expansion of a consuming class that is overlapped with the formation of a middle-class society.

Apart from the sheer size of Chinese consumption and its middle class, there have been some important structural features regarding its composition and attitude. In particular, the upper middle class is poised to be the major engine of consumer dynamics over the next decade, which will drive the development of a more attractive business market. Regional distribution of the middle class is also changing. This is due to more and more middle-class consumers emerging in the smaller and inland cities.

Equally notable is that the millennials born after the 1980s will become a key component of China's middle-class society. Alternatively called 'Generation 2', they were born and raised in relative material abundance, with high expectations for further growth in their standard of living. Market research has found that this group appears to be much more confident in consumption than the older generation. Meanwhile, as the 'little emperor generation' associated with the one child policy, millennials' social attitudes tend to be worldly, more risk averse and individualistic. This would significantly reshape Chinese society and its economy.

China's transitional middle class presents new market opportunities for both domestic and EU companies. It has been generating new consumer markets and new opportunities for EU businesses - in tourism, advanced education, and the myriad of other services that EU companies have been successfully selling to China. With comparative advantages in advanced manufacturing and services, education products, matters of finance and other professional services, EU exporters in these sectors will continue to benefit from China's growing middle-class market.

Sustainable market penetration relies on a nuanced understanding about the distribution and aspirations of the Chinese middle class. Companies can tailor their product portfolios to the needs of sophisticated and diversified consumers. Public authorities may work with

The explosive growth of China's middle class is expected to become one of the most productive and innovative driving forces in the development course set by the 13th Five Year Plan.

its stakeholders in creating a more flexible and adaptive environment for business ties. In the field of tourism, for example, a more relaxed visa-application process is not sufficient, while there is a particular demand for more cultural sensitivity and cross-culture communication. Furthermore, understanding China's regional and city sub-cultures are crucial to market strategy.

While China's middle class in general maintains relatively strong ties with the Party-state, there is a creeping feeling of insecurity. In an age of uncertainty, middle-class society tends to economically anticipate further expenses of the household and extended family. They may save a particularly high share of their disposable income in anticipation of hardship, given the underdeveloped welfare system and the rising cost of healthcare, education and housing.

There are also profound political implications. While the democratic aspirations of China's new middle class remain debatable, socio-economic pressures caused by factors such as skyrocketing housing prices and environmental degradation has generated widespread cynicism and shattered public confidence in the government. With the growing right consciousness of the new middle class, discontents have become ever more evident in some policy domains such as environmental protection, education and public health. There is a political risk that this middle-class society will eventually become radically politicised. As a consequence, domestic disturbances would have negative consequences on China's foreign policy, including China-EU relations.

To address the multi-dimensional interests of China's middle class and make it a constituency for social stability and economic prosperity, the Chinese government will have to develop new policy tools to secure and safeguard security and wellbeing, namely in order to balance different group interests and deliver a viable framework for social engagement. Acknowledging the principle of non-intervention in internal affairs, the EU should still be able to play a constructive role by sharing its experience of implementing successful social cohesion in Europe, specifically by creating a sense of belonging, trust and the opportunity of upward mobility for all members of society.

In conclusion, middle-class society in China will play a transformative role in the social and economic development that has been articulated in the 13th FYP period. In the context of deeply interconnected trade and economy between China and the EU, the influence of China's middle class should not be underestimated. Overall, China-EU relations will benefit from a sizeable, stable and moderate middle-class society. Maximising the economic potentials not only depends on a nuanced market strategy, but also on a social engagement strategy that can facilitate the building of China's social solidarity and stability. This will enrich and consolidate the China-EU partnership in the long run.

EU-CHINA COOPERATION IN MULTILATERAL FORA

What does the world expect from China's G20 Presidency?

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For some time, the People's Republic of China (PRC) has been under pressure from its fellow members of the G20 to undertake the presidency of the G20. In spite of its huge population, its cultural traditions and its growing economic clout, the PRC has not fully embraced global governance institutions such as the G20. This is in accordance with its foreign policy paradigm of *taoguang yang hui* – keep a low profile and wait for a suitable situation. Therefore, the 2016 G20 Hangzhou Summit signifies a marked change in Chinese foreign policy, and it comes at a time when the pain of transitioning from an export-led economy to a consumption-driven economy is palpable. Given this shift in Chinese foreign policy and the developments in the Chinese domestic economy, what can we expect from the Chinese G20 presidency?

Driven by domestic and international factors, the Chinese presidency will focus on three main agenda areas of global affairs: (1) to increase global trade and investment, (2) to increase the power of emerging economies in global economic governance, and (3) to further expand the role of the G20 in non-traditional security.

Although China is moving away from a model of export-led development, the export sector will continue to be a significant driver of growth of the Chinese economy in the near to medium future. Therefore, global trade and investment will remain central to political stability in China. Although the G20 has played a limited role in trade policy, expect China to push for the G20 to deepen its agenda regarding trade. While the World Trade Organization (WTO) continually finds itself mired in deadlock, China will push within the G20 to support free trade agreements – such as the Trans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership – in the hope that it will stimulate global demand, particularly in China's key export markets: the United States, Japan and the European Union. Also expect China to put a heavy emphasis on technology transfers within these trade agreements. Such transfers will allow China to enjoy particular success in the area of green technologies.

In terms of investment, there will be a greater focus on the role of development banks as global investors. As China has increased its overseas investment with initiatives such as the Asian Infrastructure Bank (AIIB) and the BRICS New Development Bank, it will seek greater support from the G20. Pressure to diversify China's huge foreign reserves is the primary motivation for China's focus on development banks. However, this issue holds wider importance for China for two reasons. Firstly, the desire to integrate China into a global transportation network through the 'One Belt, One Road' (OBOR) initiative, funded by the AIIB, will force the development bank issue to the top of the G20 agenda. Secondly, such a huge infrastructure project will also have the added advantage of creating demand for Chinese cement and steel – two industries that are suffering from overcapacity. Therefore, expect development banks, particularly those funding infrastructure projects, to be a topic of discussion at the G20.

Discussing the topic of global governance reform at the G20 summit in Antalya, Chinese president Xi Jinping stated that, 'We need to increase the representation and voice of the emerging-market economies and developing world so as to enhance the capabilities of the world economy to resist risks'. Increasing the voice of the developing world in bodies such as the International Monetary Fund (IMF) and the World Bank has been a core part of Chinese foreign policy for the past decade. China will push for greater voting rights for developing states and for a greater focus on developmental issues in such bodies. China already has enjoyed some success; for example the renminbi (RMB) will be included in an IMF calculation of

The 2016 G20 Hangzhou Summit signifies a marked change in Chinese foreign policy.

the value of its international reserve asset – that is, the Special Drawing Right (SDR) – from October 2016. This is a boost for the Chinese equity markets and will be a driver of further domestic market reforms. It is likely that China will call for greater reforms of such bodies at the Hangzhou Summit. It is possible that China could seek to reform the IMF's structural adjustment programmes, removing the neoliberal-derived aspects and introducing a system that is more favourable to developing states. As alternative sources of capital, the AIIB and the BRICS New Development Bank could be employed by China to force through reforms of the IMF. However, this may be a step too far for the 2016 summit. It is more likely that China would seek to reform the staff structure of such bodies, including directorship, in order to increase the representation of developing states.

The success of the 2015 United Nations Climate Change Conference (COP 21) will mean that climate change will be a core aspect of the G20's agenda at the Hangzhou Summit. While China will focus on the food-energy-water nexus, which has been a central theme of the agenda of many BRICS summits, China's main goal will be to reform global energy governance. Therefore, Beijing is likely to call for an end to fossil fuel subsidies, encourage data transparency on fuel supply and demand, increase energy access, encourage efficiency, and increase the transfer of green technology from advanced to developing nations. In essence, China will aim to create a system of global energy governance that will allow access to energy for all to enjoy while permitting countries to transition to low carbon economies. Such a transition is vital to China domestically; as its reliance on fossil fuels has a high environmental cost which is not sustainable.

The Chinese presidency of the G20 will be driven primarily by Chinese domestic concerns. However, these concerns – such as the need to increase global trade and investment and the need for a focus on non-traditional security threats – have a wider global impact. Expect China to push these issues to the fore of the G20 agenda. Reforming global economic governance to give a greater voice to the developing world has been a key part of China's foreign policy since the establishment of the G20 in 1999. There is very little to suggest that this position is unchanged. Therefore, China will push for further reforms of the Breton Woods institutions and a greater role for Chinese-created development bodies.

Increasing the voice of the developing world in bodies such as the International Monetary Fund (IMF) and the World Bank has been a core part of Chinese foreign policy for the past decade.

China as a proactive financial power

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Following the global financial crisis, China has arguably changed its approach towards the global financial system. China has changed from being pragmatic in its accommodation with pre-existing institutional structures, to becoming a more proactive financial power. Recently China reached two milestones: the renminbi's (RMB) inclusion in the International Monetary Fund's (IMF) special drawing rights basket (SDR) and the establishment of the Asian Infrastructure Investment Bank (AIIB). Below, I briefly examine the road leading to these milestones, as well as the key challenges ahead.

Chinese officials and leadership have prioritised the role of finance as reform of the financial system over the last decade has lagged behind industrial development. China's domestic bond markets were a decade ago practically non-existent, while its stock market is still prone to speculative bubbles. Until recently, Chinese interest rates were also administratively set and not reflective of true financial risks. As a result, the available investment options for Chinese domestic investors have been severely reduced by capital controls, which have spurred bubbles in real estate and large inflows to dubious alternative financial products.

In order for the country's economy to continue developing, finance is a key area that needs to be reformed. In late 2013, the Chinese Communist Party's Central Committee publicised a 60-point extensive reform agenda, with domestic financial system reform given high priority, including exchange rate reform and capital account convertibility—key prerequisites for the renminbi's increased international use.

The renminbi's future role in the international monetary system and the currency's internationalisation caught people's attention when the Chinese central bank governor, Zhou Xiaochuan, penned three articles that addressed the issue in 2009. Zhou argued that the world should gradually move away from a financial system based on national currencies as reserve currencies and pondered options for giving a greater emphasis to the IMF, including strengthening the role of the IMF's SDR in the global financial system. Since then, a long raft of government measures has been launched to promote this political aim. These range from cross-border trade settlement and direct investment in RMB, to 'dim-sum bonds' and bilateral swap arrangements with other central banks. The international use of the Chinese currency has leapfrogged in a short time, exceeding 2% of all global payments, based on value. However, recently progress appears to have stalled, possibly an early indication that there are clear limits to the underlying international demand for the RMB, in the absence of sufficiently deep, mature and open domestic financial markets.

China's effort to promote its currency's wider international use resulted in the November 2015 IMF review's conclusion that the renminbi will be included in that most exclusive international club—the SDR currency basket. Earlier, the IMF had maintained that the currency was not yet ready to be included in the basket, because of formally still relatively tight controls on the capital account.

The eventual political goal of making the Chinese currency convertible had been set already during the third Central Committee plenary meeting of the Communist Party's 14th Party Congress in November 1993. Yet, amid massive capital flight and a mini stock market crash in 2015, Chinese leaders' actions have recently been sending mixed signals with regard to further liberalisation of the capital account. The fact that the IMF accepted the RMB may be taken as a sign of China's growing financial power. It is, however, doubtful how much more space there is for further expansion of the RMB's use, if capital controls are maintained—or even re-tightened—as now seems increasingly likely.

In order for the country's economy to continue developing, finance is a key area that needs to be reformed.

With the rise of large emerging economies, the old institutional set-up of the global economy has become outdated. The main pillars of this system, the so-called Bretton Woods institutions (the IMF and the World Bank Group), reflect the dominance of Western economies in the post-War period with EU member states accounting for roughly 1/3 of quotas and votes in the IMF, while the United States effectively has held the power of using a veto.

The reform of the Bretton Woods institutions came onto the G20 agenda in the October 2005 Xianghe meeting of finance ministers and central bank governors. This was at a time when the G20 issued a statement exhorting that quotas and representation should reflect changes in economic weight while the selection of senior management should be based on merit and ensure broad representation of all member countries. The BRICS (Brazil, Russia, India, China and South Africa) summits have hence often called for greater voice and representativeness.

There was cause for celebration in 2010, as the IMF Board approved a reallocation of quotas and voting rights for member states. Yet progress was stalled, with the United States Congress foot-dragging on ratification of the IMF reform package until 18 December 2015. Unsurprisingly, the Chinese response was to put more effort into promoting multilateral financial institutions initiated by itself. First, the so-called (formerly BRICS) New Development Bank (NDB) was set up in 2014. The Bank, headquartered in Shanghai, promises to pool the resources of China and the other BRICS countries. The NDB will provide capital for development projects, as the World Bank does, and will also maintain contingent reserve arrangements, similar to the IMF. A noted difference is that the NDB adopts a 'one country, one vote, no vetoes' decision-making system, whereas the decision-making structure in the IMF resembles more that of a corporate shareholder structure.

But it was the launch of the AIIB—with the purpose of providing financing to infrastructure projects in the Asia-Pacific region and headquartered in Beijing—that truly attracted global attention. The AIIB attracted attention because of American opposition and because it was perceived as a competitor to the Asian Development Bank (ADB), headquartered in Manila, in which the Japanese government traditionally has had a strong voice.

Some years ago, academic conversations on the BRICS theme tended to end up as discussions on China. The shift of focus from the NDB to the AIIB is therefore symbolic. With the AIIB China will be more dominant, with its current 30.34% of shares and 26.06% of votes giving a de facto veto and a position even surpassing the US position in the IMF. Beijing has been keen to stress that it won't exercise its veto and that its votes will later be diluted as other countries join. Yet, Beijing will face an uphill struggle to convince sceptics that the AIIB will not be dominated by China and used to further China's political and strategic objectives.

Since Premier Zhou Enlai's famous 'eight principles' from 1964, Chinese leaders have emphasised that in their dealing with other developing countries, they are neither imposing any conditions, nor asking for any favours. Chinese state-linked lenders, e.g. policy banks, also contend that they do not apply 'political conditionality' in their lending decisions. However, this is true only in a qualified way, to the extent that conditionality is understood to mean the kinds of policy conditionality required by e.g. the IMF. Chinese aid and bank credits are given to countries with which China maintains diplomatic ties. The political condition of adhering to the 'One China' principle may also be enshrined in diplomatic agreements that incorporate the framework agreement for concessional loans. Recent research indicates that there may also be other kinds of conditions embedded in projects financed with Chinese lending.

Nevertheless, since Chinese state-linked lenders commonly do not have many upfront conditions for their loans, it is also harder for them to deny loans to other developing countries with which China maintains diplomatic and good political relations. Clearing the 'One China' hurdle is a small barrier compared to the conditionality, feasibility studies, transparency and reporting requirements typically imposed by Western or other multilateral lenders.

How Beijing deals with issues of structural dominance, policy conditionality and financing criteria in the AIIB are crucial to its success, and a test for the kind of financial power that China will be.

Beijing has been keen to stress that it won't exercise its veto and that its votes will later be diluted as other countries join. Yet, Beijing will face an uphill struggle to convince sceptics that the AIIB will not be dominated by China. and used to further China's political and strategic objectives.

China, Europe, and the Political Economy of Eurasian Connectivity

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Connectivity has become a new buzzword in global affairs. Though no clear definition currently exists, regional and global discussions have begun to focus on the question of how to increase the degree and quality of interaction amongst countries and people by envisioning and creating the ideational and practical conditions for a more efficient and effective flow of goods, investments, services and information.

Connectivity is to be the centre focus at not only the G20 held in September this year in Hangzhou, but also in the upcoming summit of Asian and European leaders (ASEM) in July in Mongolia's capital Ulaan Baatar. In both cases, it is the Chinese government that is actively pushing connectivity into the agenda, particularly as China holds the G20 presidency in 2016 and is therefore very vocal about reaching a Free Trade Agreement (FTA) amongst the groups' members.

Regarding ASEM, Beijing wishes to enhance the connectivity between Asia and Europe through an expansion of infrastructure projects between the two continents, while also supporting the creation of an open trade and investment regime. The construction of Eurasian transport infrastructure lies at the heart of the ‘One Belt, One Road’ (OBOR) initiative, also known as the New Silk Road, which is the boldest and most ambitious foreign policy strategy of China’s history, as it aims at the economic integration of Eurasia. Europe’s aim should be to play a decisive role in the G20, ASEM and OBOR, as the implementation of policy and the fluidity in the decision-making process depend on Europe’s willingness to collaborate. A newly developing Eurasian dimension in their relationship thus increasingly links the EU and China.

These developments are driven by factors that cannot be reduced to the political or economic sphere alone, but are influenced by politics and economics interacting with one another as the evolution of the international political economy of Eurasia plays out. One important factor in this is the establishment of investment and trade regimes between China and the EU. In this ongoing process, negotiations for an EU-China Bilateral Investment Agreement (BIA), which have started in 2012, are of pivotal significance. The inclusion of substantial market access for European companies in China is most important for the European side. The existing openness of EU member states to Chinese investments benefits China greatly, as does access to an EU-wide uniform level playing field. Therefore, successful negotiations on a BIA would have a crucial effect on Eurasia’s international political economy, as it is likely to open the door for negotiations on a future China-EU FTA.

In the past, Brussels pushed for the BIA to be a pre-condition for potential discussions on a bilateral FTA with Beijing. The EU and China are seeking to develop a common interest in connecting their regional and domestic plans for economic growth, triggered in large by the OBOR initiative, the formation of the Silk Road Fund and the establishment of the Asian Investment and Infrastructure Bank (AIIB) by China in 2015. As a result, the European Investment Bank (EIB) is providing technical support to the AIIB while also allowing for future co-funding of AIIB projects. In addition, a joint working group consisting of the European Fund for Strategic Investments (EFSI) and China’s Silk Road Fund was set up in September 2015 and an EU-China Connectivity Platform established.

An ASEM plan on Eurasian Connectivity could lay the foundation for a political project and roadmap for Eurasian connectivity.

These very recent developments need to be contextualised regarding the global proliferation of regional and bilateral FTAs at a point of time when the future of negotiations within the World Trade Organization (WTO) remain uncertain. As long as the Doha development round is stalled, trade-expanding regional and bilateral solutions are considered an alternative. The EU has already established a FTA with the Republic of Korea in 2011 and negotiations with Japan and India as well as individual members of the Association of Southeast Asian Nations (ASEAN) are at different stages, with the EU-Singapore and EU-Vietnam FTAs waiting for ratification.

However, the EU is not entirely interested or involved in all regional FTAs in Asia. The EU is not participating in the Transpacific Partnership (TPP), an ambitious FTA signed in February 2016, which aims at setting the standards for regional economic integration in the Asia-Pacific. At the other end, as a non-member of TPP discussions, pushed forward under US leadership, Beijing suspects a hidden agenda and perceives the TPP as an American move to counter the further development of China. Such thinking is also reflected in the Chinese government's suspicion of the ongoing negotiations between the US and the EU on the Transatlantic Trade and Investment Partnership (TTIP).

Seen from Beijing's perspective, the EU thus treats China as a secondary actor when it comes to the establishment of trade regimes – even though China is the EU's second largest trading partner behind the US, while the EU is China's biggest trading partner.

From this geo-economic and geo-political perspective, the OBOR initiative opens up China to make it more accessible, as it enlarges the stage for EU-China economic integration by facilitating functional cooperation with the EU, China and other Eurasian economies. As EU-China economic and financial cooperation deepens, the interests of the countries and peoples located between the EU and China need to be increasingly taken into account. Otherwise projects facilitating Eurasian connectivity will be perceived as a threat to national security. One practical way for the EU and China to counter such a scenario is utilising the ASEM process, which as of now includes 51 countries. At the next summit, ASEM leaders could ask their foreign ministers to draw up a report on the topic to be considered in 2018.

An ASEM plan on Eurasian Connectivity could lay the foundation for a political project and roadmap for Eurasian connectivity that would address the interests of a vast majority of European and Asian actors. Multilateral institutions are increasingly in demand to shape and manage the international economy of Eurasian connectivity. Therefore, for this to be successful, the EU and China should be striving to make this become the norm.

IMPLEMENTING THE 'ONE BELT, ONE ROAD'

Synergies

between Chinese and European connectivity policies

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China's 'One Belt, One Road' initiative (OBOR) is recognised by the EU and European governments as a vision that adds a new dimension to EU-China relations and merits serious attention by both policymakers and within international business circles. China's strategy for improving connectivity among some seventy countries in Asia, Europe and Africa fits in with EU connectivity policies, such as the Neighbourhood Policy, the Central Asia Strategy and the Trans-European Transport Network policy. The OBOR initiative itself offers many new opportunities for economic cooperation and trade between Europe and Asia.

China's new initiative, however, also raises many questions. There are concerns regarding China's intentions by announcing the OBOR to the world, particularly the political and security risks involved by implementing the new initiative.

Other concerns also include OBOR's economic viability and the sustainability of the new project. For example, concerns may focus on whether or not the OBOR can be a sustainable force in less developed and often unstable countries. One of the most important questions occupying policymakers and businessmen, however, is how the vision and ambition of the OBOR initiative can be translated into concrete projects that will benefit European partners.

The Chinese government's vision and ambition for the OBOR initiative is clear. It seeks to facilitate the movement of goods, services and people between Asia, Europe and Africa with the aim of boosting intra-regional trade and investment while simultaneously stimulating economic development. Less clear, however, is what China has in mind in terms of engaging European companies in concrete programmes and projects. When asked to provide more details, Chinese officials call for patience saying the initiative has just been released and that they need time to fill in the specifics of a vision that spans 30 to 40 years.

The initiative is certainly a plan for the future; therefore a long-term perspective is what many officials and business leaders are choosing to take. However, many projects that are part of the initiative have been underway for some time. Most Chinese provinces have completed their plans for the initiative and many Chinese companies are already well-involved in the OBOR projects. They include state-owned construction enterprises as well as private firms and well-known multinational telecommunication companies, such as ZTE and Huawei. With Chinese private firms teaming up to participate in the OBOR construction and supported by an alliance of 80 think tanks dedicated to research on the initiative, Beijing should now be able to specify how European companies can participate in the initiative in ways that will bring equal benefits to all parties involved.

It is also up to European policymakers and business leaders to take steps towards identifying and creating synergies and develop concrete projects.

At the same time, it is neither realistic nor fair to expect that the Chinese government will do all the homework needed to provide European parties with ready-to-go programmes and projects. It is also up to European policymakers and business leaders to take steps towards identifying and creating synergies and develop concrete projects. At the EU-level some steps in this direction are being taken, for example with the establishment in September 2015 of the EU-China Connectivity Platform. This Platform, which had its first working group meeting in January 2016, shared information, developed vital synergies between European and Chinese initiatives, identified cooperation opportunities and found the necessary sources for funding.

At the national European level, however, policymakers and companies need to step up their efforts to study what the OBOR initiative could contribute to their countries' economies. There are reports detailing the challenges and risks, but documents that lay out the opportunities are hard to come by. What position should European countries take? The first category of opportunities concerns participation of European companies in projects in countries along the new Road. The Eurasian continent has a huge need for investment in infrastructure. For many countries economic development requires the construction of roads, railways, ports and airports. Furthermore many countries will need to increase their power generation capacity. This calls for European expertise on hydropower, nuclear power, wind power, solar power and other clean, renewable energy sources.

The development of trade along the OBOR will also require logistical and financial services, distribution systems, and custom facilities. These are other sectors in which harnessing Europe's expertise will reap benefits for all parties involved. Cooperation on financing the initiative will be facilitated by ongoing financial integration between China and Europe, reflected in 2015 by the participation of 18 European countries in the Asian Infrastructure Investment Bank (AIIB) and China's membership of the European Bank of Reconstruction and Development (EBRD).

The strengthening of digital connectivity across the Eurasian continent and the development of digital economies provides another set of possibilities for European companies. As Europe too faces the challenges of the digital transformation currently taking place, this is an area where synergies could and should be developed. Companies from both sides could build upon the 2015 EU-China agreement to work together to develop 5G, the next generation of wireless network communications expected to be a game changer for industries and society.

The second category of opportunities lies in increasing European exports to China. The new rail, sea and air links being built in combination with newly developed logistics hubs in China and trade facilities across the Eurasian continent will facilitate the expansion of outgoing trade. The hub of Chongqing, for example, an area in China that is still growing with more than 11% GDP per year, is committed to unlocking Southwest China's huge consumer market to foreign products. Transportation by rail to Southwest China now takes roughly two weeks, much faster than sea freight and cheaper than air. Furthermore the development of advanced cooling systems for containers transported by rail opens possibilities for exporting temperature sensitive and perishable goods to Asia.

The third category concerns Chinese investments in Europe. The initiative gives new impetus to China's long-standing go-out strategy. China's outbound investment is rapidly growing, supported by Chinese companies investing a record €20bn in the EU in 2015. Many Chinese companies have become more experienced and more confident in outbound investment and are eager to find opportunities. With Chinese interest shifting to investment in technology, logistics, e-commerce, agro-food, brands and other high-end areas, Europe is an attractive destination.

Policymakers and companies need to step up their efforts to study what the OBOR initiative could contribute to their countries' economies.

China needs European expertise and overall support to realise its ambitious plans and continuously emphasises it welcomes foreign participation. Nonetheless, Europe remains somewhat cautious towards China. Without downplaying the importance of studying and taking into account the challenges and risks of the OBOR initiative, the EU and European governments should also invest in finding opportunities. Expanding cooperation will be good for our economies but there is more to it than economic benefits. Europe's expertise in sustainable development and corporate social responsibility may support the initiative's vision to develop sustainable projects that meet internationals standards, contribute to local development and benefit all parties involved. These are goals worth investing in.

China, Europe and OBOR:

a bridge between civilisations

Zhao Lei, Chief Expert of the OBOR 100 Forum and Professor at the Institute for International Strategic Studies of the Party School of the Central Committee of the Communist Party of China

Shared interests have led to China-Europe cooperation on the 'One Belt, One Road' initiative (also known as the Silk Road Economic Belt and Maritime Silk Road). The significance of the 'One Belt, One Road' (OBOR) initiative does not simply lie in pragmatic economic projects, but rather in the focus on cultures and institutions. The popularity and success of the OBOR initiative will depend not only on the economic gains and benefits, but also on successful cooperation on issues linked to civilisations.

Since September 2013, a portfolio of policies including the OBOR initiative and the establishment of the Asian Infrastructure Investment Bank (AIIB), Silk Road Fund and BRICS Development Bank have involved China's neighbouring countries as well as Western countries.

Compared to similar proposals from other major countries such as Japan's 1997 Silk Road Diplomacy, the United States' New Silk Road Strategy of 2011 and even the EU's New Silk Road Plan in 2009, China's OBOR initiative is more appealing and has prompted high expectations. For example, when China improved relations with Myanmar and Kazakhstan, many other countries took a closer look at these countries as well. The goals of the OBOR initiative do not in any way compete with other countries. On the contrary the aim is to explore China's own vast potential.

The OBOR initiative is a global public product with Chinese characteristics. It is an attempt to increase China's contribution to the global commons. However, China needs to assure the world that it is committed to playing an important and responsible role on the global stage. The goal for China is to ensure that it can provide global public goods as other major powers have done through history. Britain for example, as the most competitive country in the 18th and 19th centuries, assumed the responsibility of ensuring the security of sea lanes around the world. The OBOR proposal is a sign of China's transformation from a regional power to a global power, commensurate with its economic development. The OBOR will aim to respect the diversity of different countries and their unique development models. Therefore, China will be able to make greater contributions in its own style to the international community.

The two ends of OBOR respectively stretch to the vibrant Eastern Asian economic belt and the developed European Economic Area (EEA). Therefore, the funds, techniques and experiences from developed economies are valuable for the advancement of the New Silk Road. At the same time, Western European countries in particular are the important members of the OBOR initiative. In addition to the economic interests, the OBOR has been trying to fill the knowledge gap between China and European countries. China should seek to acquire a good command of Europe so that it can be flexible and skilful when communicating and cooperating with these countries.

Last but not least, it should be stressed that OBOR will have an important impact on the diplomatic, economic and trade relationship between China and Europe. As such, the initiative should be studied calmly and all misunderstandings should be cleared. Joint efforts should be made to understand the concrete goals of the initiatives. Concerns that countries across the route could be exploited should be dispelled, with China underlining its interest in promoting sustainable development.

In addition, the Chinese central government should regularly and systematically release the information on the countries and regions

The OBOR proposal is a sign of China's transformation from a regional power to a global power, commensurate with its economic development.

along the New Silk Road and provide updates as regards the cities and enterprises in these countries which are going to be involved. Such transparency will help to enhance cooperation and create the conditions for European enterprises to join in when they think it is appropriate. The model for the cooperation between China and Europe on OBOR could become a template for other countries.

In conclusion, China is determined to make OBOR a success. The initiative will boost China's own economy, opening up new opportunities for enterprises. Cooperation with the EU will make it a 'win-win' project for both sides.

What challenges and opportunities for European ports?

Eddy Bruyninckx, Chief Executive Officer of the Antwerp Port Authority, Belgium

The 'One Belt, One Road' initiative, focusing on interconnectivity and cooperation between the continents of Asia, Europe and Africa, will have a direct impact on world trade. Since 90% of world trade is shipped by sea, it will have an impact on maritime ports, presenting both challenges and opportunities.

As a major European gateway for China and the world, the Port of Antwerp in Belgium welcomes and embraces the 'One Belt, One Road' (OBOR) initiative. We have installed an OBOR Task Force as a pro-active body within the Port Authority to identify the challenges and opportunities as well as the ways and means to meet them. To further ensure that all corners are covered and the Port itself is prepared for the OBOR initiative, officials have been sent on a regular basis to China, largely to engage with political and economic decision-makers. Just as officials in Europe are doing so, the permanent Port representatives in China keep a close eye on facts, figures, and developments on a daily basis.

Strengthening its position as the 'second port of Europe', the Port of Antwerp turned over 208.4 million tonnes and 9.6 million TEU* of maritime cargo in 2015. Maritime traffic with China increased significantly (+40% in total volume) and contributed considerably to the Belgian port being the fastest growing major port in Europe in 2015.

The role the Port of Antwerp plays in trade between China and Europe is a specific and crucial one. Antwerp's maritime access allows the largest container vessels to access the Port. As Antwerp is 80km inland, its location

The Port of Antwerp reflects the essence of the OBOR initiative as promoted by the Chinese leadership: interconnectivity and cooperation.

places the Port in the best position to serve the hinterland. Closer to the German Ruhr area than any other European port, the whole European market can be easily and frequently reached by barge, rail and road from Antwerp.

But there is more in the Belgian port than a world-class capacity for loading and unloading maritime cargo. A covered storage capacity of 6.5 million square meters makes Antwerp the most important logistical platform in Europe. In relation to its capacity, the area also hosts the largest integrated chemical cluster in Europe, which creates cargo flows to and from China.

The unique synergy in Antwerp of cargo handling, logistics and industry explains in large part its past and present success, but more importantly the future success of the Port will also depend on it. It creates opportunities that can meet the demands and expectations of the OBOR initiative. This is true not only for the ocean-going Maritime Silk Road, but also for the land-based Silk Road Economic Belt. While the Port of Antwerp receives around 15,000 sea-going vessels yearly, it also handles well over 250 cargo trains per day and has an average of 925 barge calls per week. Therefore, like any other major port, the Port of Antwerp is a link in the global supply chain. We have to pay close attention to the performance and cost-efficiency of the port itself. It is vital that the Port be improved when possible, as negligence in ensuring regular maintenance could result in falling short of our mission as an engine for economic growth.

Effective interconnectivity and a two-way flow of goods are embedded in the DNA of the Port of Antwerp. Not only does the Belgian

(*) number of containers expressed in “Twenty-foot Equivalent Unit”

For European ports to play their full part in the development of the OBOR initiative, European officials and business leaders must also take responsibility to promote interconnectivity within Europe and cooperation amongst themselves.

port attract cargo, but it also generates cargo. Therefore, it is a true European hub for trade between China and Europe, in both directions. In this respect, the Port of Antwerp reflects the essence of the OBOR initiative as promoted by the Chinese leadership: interconnectivity and cooperation.

The OBOR initiative is sometimes presented as a possible 'game changer' for Europe itself. For European ports to play their full part in the development of the OBOR initiative, European officials and business leaders must also take responsibility to promote interconnectivity within Europe and cooperation amongst themselves. The two leading ports of Europe, Rotterdam and Antwerp, could benefit from establishing common transhipment platforms for traffic flows to and from Central and Eastern Europe.

It is clear that the OBOR initiative will not be built in a single day or by a single action. But, as another Chinese proverb says, 'a journey of a thousand miles begins with a single step.' The initiative definitely can be described as such. The initial step has been taken by President Xi Jinping of the People's Republic of China, while many steps have already followed since. For the Port of Antwerp the journey is promising, and we are ready to join.


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How can Europe embrace the ONE Belt, ONE Road?

Wang Yiwei, Director of the Centre for EU Studies at Renmin University, China, and author of 'The Belt and Road: What will China offer the world in its rise'

The 'Belt & Road Initiative', or 'One Belt, One Road' (OBOR) initiative, is the revival of the ancient Silk Road, and consists of railways, highways and other forms of infrastructure, as well as oil and gas pipelines, power grids, Internet networks and aviation routes. Being a diversified network, the OBOR initiative is vital to connecting China and Europe with the greater Eurasian market. In 1984 Robi Ronza argued this point by suggesting that 'if Europe does not want to become the periphery of the world, it has to culturally and economically engage with Asia following the ancient Silk Road'.

Signing a memorandum of understanding (MoU) in order to set up a 'Connectivity Platform' (CP), the EU and China are committed to the synergy of the OBOR initiative and the Investment Plan for Europe, otherwise known as the Junker Plan. The CP is a major economic priority for the European Commission, as is the potential participation of China in the European Fund for Strategic Investments (EFSI). As a forum for discussions on transport-related issues, the CP offers an opportunity to share information on our respective plans and policy programmes, with the aim of creating an environment conducive to transnational infrastructure investment, transport services improvement and market access along the EU-China corridors.

There are a number of major economic corridors linking Europe and China to other regions and countries. The economic corridors provide a number of functions that allow countries such as Mongolia to be linked to Russia and China, or Myanmar to China and neighbouring countries. Both are significant in their own way and should be embraced. The China-Pakistan corridor for example provides the transportation of crude oil along the corridor linking China to Myanmar, India, Bangladesh and Pakistan.

China's OBOR initiative effectively integrates the maritime strategies of the EU. Take Greece for example, which could become China's important gateway to Europe and a broker in the cooperation among China, Europe and the Middle East. During the third meeting among leaders from these regions, China and the EU reached a consensus to create a new channel for Asian-European sea-and-rail intermodal transportation built out of the Hungarian Railways and Greek Piraeus port, proving Europe maintains a pivotal role in the construction of the 'One Belt, One Road' initiative.

Brussels and Beijing share common ground and mutual interests in the maintenance of maritime security, meaning maritime cooperation should become a new highlight in China-EU cooperation. With maritime development strategies between China and Europe, both will make joint efforts to maintain the security of freedom of navigation. For instance, maritime shipping and logistics centres need to be established as seen in the anti-piracy programmes off the coast of Somalia. Once conditions develop, a Maritime Cooperation Organisation should be established to maintain maritime order and build a new version of Asia-Africa-Europe cooperation. Promoting bilateral and multilateral coordination, along with effective control of differences, would prove a viable way for Sino-EU cooperation in the Maritime Silk Road. Besides, Arctic cooperation between China and Europe is also future-oriented, since the trade line connecting China and Europe through the Arctic has been successfully tested.

For Europe to fully embrace the OBOR initiative, China and the EU should join hands to ensure the OBOR initiative faces no threats.

The EU's response to the OBOR should be the Digital Silk Road

Alice Rezkova, Research Fellow, Association for International Affairs (AMO), Czech Republic

The 'One Road, One Belt' (OBOR) initiative poses many questions for decision-makers and business representatives throughout Europe. Undoubtedly, infrastructure projects and physical connectivity via rails and roads enables the transport of goods between China and Europe. These interactions further support the usual archetype of traditional China-EU trade relations. But is such a setting the right one for the 21st century? For which role should the EU strive in the OBOR to appropriately reflect the reality of the current and future global trade flows?

As the EU's share of the world's trade in services currently stands at around 23.5%, the EU's response to the OBOR initiative should be the Digital Silk Road. In order to take full advantage of the new possibilities and opportunities the OBOR and the Digital Silk Road present, companies in Europe need a more competitive plan rather than relying on cooperation in traditional industries and infrastructure. The focus should be on new markets created in innovative areas such as smart cities, e-health, intelligent transport, energy, and the Internet of Things (IoT).

Managing leadership in the above-mentioned areas is important to secure the fast communication networks for the future. By 2020, the EU has committed to invest €700m to accelerate internet connections through the new 5G technology within the Horizon 2020 research program. Both the EU and China are vying to secure 5G technology in their domestic markets and strongholds. The winner of this race will have a 1,000-fold increase in mobile data traffic, 100 times more connected devices than today, and data transmission 100 times that of the 4G standard.

The 5G standard however remains a work in progress as a lot of research must be completed to build truly global 5G technologies by 2020. An agreement signed by the EU and China allows EU telecommunications and ICT firms more access to the Chinese market, including China's government-funded 5G research. Europe could find itself outclassed by China or South Korea if it is not the home market for the new wave of technology.

Faster connectivity could also play an important role in the advancement of e-commerce activity between Europe and China. A tale of two Internets characterises the global e-commerce divide. Any successful European digital strategy has to view Silicon Valley's creativity and the existence of the Chinese Internet as an independently evolving entity. So where does Europe fit into the picture?

China has already overtaken the United States to become the world's largest online retail market, although the fastest growing e-commerce segment is B2C, the greater share is comprised of B2B transactions. Third-party platforms like Alibaba typify China's connection to the outside world. Although European businesses increasingly connect with their Chinese customers via platforms like T-mall, their B2C e-commerce presence remains underdeveloped.

While it may be common in the West to build brand awareness via social media and simultaneously have easy access to customers all over the world, Chinese social media can prove challenging for European businesses. This is because small and mid-sized companies struggle to successfully target Chinese customers, and therefore

In order to take full advantage of the new possibilities and opportunities the OBOR and the Digital Silk Road present, companies in Europe need a more competitive plan rather than relying on cooperation in traditional industries and infrastructure.

their inability to reach Chinese customers online creates an unnecessary detriment to EU-China trade relations. 70% of Chinese luxury goods purchases are made overseas and European companies could offer an alternative in high-quality luxury products with the standard demanded in China.

Chinese e-commerce is governed by a number of laws and governmental authorities that can be very demanding to handle. Evolving regulations potentially discourage many willing European entrants. The struggle to promote a joint digital economy is impressive, but must also be equitable. Foreign web services firms need licenses that can be difficult to obtain in order to operate web services in China, and technology companies have to host Chinese data on local Chinese servers and find themselves beholden to investment restrictions in many Chinese sectors. Recent news of Chinese regulation of foreign-owned media content, ambiguous in interpretation, is another example of this.

Conversely, EU-China cooperation on the Digital Silk Road could allow Europe to better engage the Chinese cyberspace evolution. Indeed, the EU could better leverage a constructive approach towards the Chinese regulatory agenda. The digital economy offers a vast space for cooperation - provided both sides contribute equally to the relationship. Europe should find ways to deepen EU-China digital cooperation, and summon the strength to enter the relationship as a co-creator, whether in the 5G-network space, in smart cities applications, or via strong e-commerce links. Failure to do so will find the EU upstaged by others.

TRADE
&
INVESTMENT

Chinese global value chains' expansion can provide great opportunities for European SMEs

Zhang Haiyan, Associate Professor and Director of the NEOMA Confucius Institute for Business at NEOMA Business School, France

Globalisation is characterised by the rapid emergence of global value chains (GVC), of which different stages such as knowledge creation, operation and production, distribution and supporting services become fragmented geographically. Given that various stages of GVCs take place in different geographical locations, local small and medium-sized enterprises (SMEs) have opportunities to participate in the value added activities of GVCs thanks to their location specific advantages. While GVCs are often ensured by Western multinational enterprises (MNEs) across different sites, local SMEs in developing countries tend to participate in its forward or backward linkages. Yet, economic globalisation is no longer restricted to the deployment of GVCs by MNEs from developed countries; it involves firms from emerging economies like China. The rapid expansion of Chinese multinational enterprises in Europe and their impact on European SMEs can be analysed by observing GVCs.

According to data from the Chinese Ministry of Commerce, the stock of Chinese investment in the EU reached $54bn by the end of 2014. While more than 2000 Chinese companies are operating in the EU, GVCs account for a huge number of European SMEs at different stages of their value added activities.

Technology exploration is the most important motive driving Chinese companies to expand their knowledge creation activities into industrial countries. The establishment of research and development (R&D) facilities by Chinese MNEs in Western European countries is predominantly motivated by knowledge learning rather than technological

The establishment of research and development (R&D) facilities by Chinese MNEs in Western European countries is predominantly motivated by knowledge learning rather than technological exploitation.

exploitation. Chinese R&D units are expected to gradually fit into the local innovation system and act as knowledge contributors and creators. This type of investment can be illustrated by Chinese research centres in Europe such as Huawei, ZTE and Shanghai Automotive Industry Corporation (SAIC).

Partnerships with technological research institutions in Europe, high-tech SMEs and engineers may link up with Chinese investors to transfer their existing production and product technology or cooperate with them in new technological ventures. For instance, in the case of SAIC's R&D centre, it is clear that the investment of SAIC provided opportunities for local engineers and service companies to continuously upgrade and innovate in car designing technology and know-how. Consequently, this type of investment might be able to create opportunities for local knowledge intensive companies, research centres and university laboratories to speed up their technology exploitation process in China, especially through their linkages with Chinese MNEs searching for new technology to upgrade their home and global operations.

Besides obtaining additional resources for knowledge creation activities, the linkages with Chinese MNEs result in increased market size, especially if these operations could create forward linkages with the Chinese market for diversification or expansion of current customer portfolio, such as in the case of Sany's acquisition of Putzmeister in Germany. The main benefits European SMEs could draw of being part of the GVCs of Chinese MNEs could be related to the opportunities to supply components, materials and services through

GVCs of Chinese MNEs. Such linkages may range from arm's-length market transactions to deep, long-term inter-firm relationships.

Recent cases showed some insights into the evolution of Chinese investment in Europe. First, as a result of rapid development of e-commerce in China combined with increasing demand for European products in the Chinese market, some key Chinese players in the e-commerce, such as JD.com, Alibaba, ICBI-Online Shopping Malls, expanded their e-commerce platform into Europe to allow European SMEs to directly sell their products in China. For instance, ICBI-Online Shopping Malls provides an unconventional and innovative business model, which can be called 'e-export'. On the basis of their corporate and individual customer portfolio, ICBC first developed an e-commerce platform to extend their value chain into non-financial products, i.e. providing B2C and B2B online shopping portal. In 2015, this platform was opened in France to help European SMEs export to China. All steps in the export process are carried out by ICBC as an extension of their customer services.

In recent years, Chinese original equipment manufacturers (OEMs) appear to be interested in taking over the knowledge being developed in their OEM partners, frequently related to design-intensive and high-quality branded products such as in the case of the acquisition of Belgium based Hedgren Creation by League, the largest luggage manufacturing in China to supply OEM products to world leading brands. The linkages between Chinese and European companies in these cases have been likely 'reversed'. These companies have started to move up on the GVC and switched their position from local suppliers to global players. They have reversely acquired their former brand owners and adopted a more expansive strategy on the basis of their cost leadership position on the one hand and strengths of acquired branded products on the other. After the acquisition, Chinese companies usually quickly adopted a new strategy to focus more on Asian and global market and to boost their internationalisation process.

Yet, there are also challenges for European SMEs to link up with GVCs of Chinese MNEs. Firstly, it is very difficult for SMEs to fully understand the complexity of Chinese companies, especially regarding their corporate governance, management structure and decision-making process. As compared to European MNEs and large corporations, most of Chinese companies have a very loose organisational structure and diversified business portfolio. The capacity of their businesses, organisation and financing structure are quite difficult for Western companies to understand. The complexity is due to the management structure and decision-making process. Chinese companies experienced rapid and radical changes in the management style over last the 30 years. Differences in the management system, i.e. from state-owned enterprises (SOEs) to private and foreign owned companies, further complicate the transition of businesses from the entrepreneurial generation to a more

Western educated professional management in private and family structured companies. The decision-making process in Chinese companies is further complicated by the impact of the government on SOEs on the one hand and the family business nature in private sectors on the other hand. Secondly, European firms in the business service sector have often felt vulnerable when partnering with Chinese companies due to constant pressure to lower costs and time, which heavily threatens their profitability. Finally, the cultural and language barrier is another major challenge for most European SMEs which often lack international and cross-cultural communication and management skills.

Given the opportunities and challenges to link up with GVCs of Chinese investors, European government institutions and business representative organisations could certainly provide support to their SMEs. It is important to raise the awareness of local SMEs of the opportunities and challenges they will face when linking up with Chinese direct investors. Special programmes could be organised to support networking, business matchmaking, information and databases on suppliers and business alliances. Supporting local SMEs to link in to the GVC of Chinese MNEs at different stages is another vital measure to consider. For instance, at the knowledge creation stage, special measures, such as tax incentives for encouraging MNEs to localise their R&D activities and promoting technology transfer between SMEs and MNEs, public-private partnerships in connecting research centres, universities and industry. In the forward linkages, special policy attention and financial supports for business exploration are important when SMEs connected to GVCs expand or diversify their markets structure and product portfolio. While in backward linkages, more attention needs to be paid in facilitating cooperation for joint marketing or joint bidding in the procurement contracts of Chinese MNEs. It is also important to take Chinese GVCs into consideration when promoting and supporting the internationalisation process of SMEs. Fourthly, given the difficulty in overcoming cultural and language barriers, it is important to organise competency training and cultural awareness programs for SMEs to facilitate their business relationship with Chinese MNEs.

The characteristics, changing patterns and motivations of

Chinese investment in Europe

Agnes Szunomar, Research Fellow and Head of the Research Group on Development Economics at the Hungarian Academy of Sciences

Traditionally, Chinese firms invest mainly in Asia, Latin America and Africa where they explore viable market opportunities and enjoy easier access to natural resources. Traditional partners of China in the European Union have also become a viable option as of late, offering markets for Chinese products and assets that Chinese firms lack such as advanced technologies, managerial knowledge and distribution networks. Consequently, Europe has emerged as one of the top destinations for Chinese foreign investment. Compared to the aggregate inward foreign direct investment (IFDI) stock, Chinese FDI in the EU remains moderate. However, given the trends and dynamism of Chinese inward FDI, the economic 'footprint' and impact of Chinese FDI in the EU is expanding.

In 2000, before joining the World Trade Organization (WTO), the Chinese government initiated the 'go global' (*zou chu qu*) policy aimed at encouraging domestic companies to become globally competitive. They introduced new policies to encourage firms to engage in overseas activities in specific industries, notably in trade-related activities. In 2001 this encouragement was integrated and formalised within the 10th Five Year Plan

(FYP), which also echoed the importance of the 'go global' policy. This policy shift was part of the continuing reform and liberalisation of the Chinese economy and also reflected the Chinese government's desire to create internationally competitive and established companies. Both the 11th and 12th FYP's continually stressed the importance of promoting and expanding overseas foreign direct investment (OFDI), which became one of the main elements of China's new development strategy.

Chinese OFDI has steadily increased in the last decade, particularly after 2008, due to the Chinese government's wish for globally competitive Chinese firms, the possibility that OFDI can contribute to the country's development through investments in natural resources exploration or other areas, and the global economic and financial crisis. The crisis indeed created more overseas opportunities for Chinese companies. Chinese OFDI over the last few years has continued to increase, while OFDI from European countries has declined due to the 2008 financial collapse. For example, between 2007 and 2011 OFDI from middle-income and high-income countries dropped by 32%, while China's grew by 189%. As a consequence, China moved up from sixth to third largest investor in 2012 in a list of the top ranked global investors. Third in line behind the United States and Japan, and the largest among the developing countries, outflows from China continued to grow.

Although the majority of Chinese OFDI is directed to the lower and middle-income countries, investments from China into North America and Europe have increased significantly over the past decade. Chinese OFDI in the European Union increased from $400m in 2003 to $6.3bn in 2009 with an annual growth rate of 57%, far above the growth rate of Chinese OFDI globally. Better still, Chinese investment over these six years averaged an estimated $10bn annually.

Europe has emerged as one of the top destinations for Chinese foreign investment.

Generally speaking, Chinese OFDIs are characterised by natural resource-seeking and market-seeking motives. However, in countries with financially stable economies, including Europe, Chinese investors are more concerned with a wide range of objectives, including market-efficiency and strategic assets-seeking motives. The main reason for the growing interest in acquiring European firms, is that by doing so Chinese companies can have access to important technologies, successful brands and new distribution channels.

Diversification characterises Chinese OFDI to Europe in a number of aspects. To begin with, Chinese investors are attracted by new sectors such as real estate, food, and financial services, while traditional sectors such as energy and automotive remain popular. In addition, Chinese companies invest across Europe: the majority of Chinese FDI goes to the United Kingdom, Germany, France and Portugal but all the other member states of the EU – including Central and Eastern European countries - are also experiencing a growth in Chinese investment. Thirdly, Chinese state-owned enterprises (SOEs) are still dominant players in Chinese OFDI although private firms make the greater share of deals. Finally, in addition to greenfield investments and joint ventures, China's merger and acquisition (M&A) activity in the more economically strong countries of Europe has recently gained momentum and continues to demonstrate an upward trend since more and more Chinese firms are interested in buying brands from overseas to strengthen their own.

Without doubt, the dynamism of Chinese investment in Europe is just the beginning of a long-term process. The European Union's Chamber of Commerce in China questioned in 2013 a sample of 74 Chinese enterprises that had already invested in the EU. They found that 97% of these firms intend to make future investments in the EU, mostly even higher amounts than before. Still, Chinese investment is often seen as a threat in Europe. But why are we more afraid of China accounting for only around 3% of total extra-European investment in the EU than we are of the United States accounting for one third of total EU inward FDI? The answer probably lies in the frequent uncertainty of the investors' intentions, or their relationship with the Chinese government and Chinese Communist Party. European market actors are also concerned about market access asymmetries; since Chinese public procurement process is often closed to outsiders, European investors do not have the same room for manoeuvre in China as Chinese companies in European markets. Therefore, the EU has long wanted to negotiate a Bilateral Investment Treaty (BIT) with China, a deal China has resisted for several years in order to protect its key industries. But as the Chinese economy is transforming, it needs more diversification in its investment strategy as well as more stable and safer locations for investments.

The global economic and financial crisis created more overseas opportunities for Chinese companies.

An EU-China BIT, which would be the first of its kind since the EU's Lisbon Treaty, could bring benefits to both sides as it would set out the 'terms and conditions' for investments in both directions. Uniform rules would

Why are we more afraid of China accounting for only around 3% of total extra-European investment in the EU than we are of the United States accounting for one third of total EU inward FDI?

replace 27 bilateral investment treaties which China signed with almost all EU member states, with the only exception being Ireland. Nonetheless, removing market barriers, with some minor protection provisions, could help Chinese and European companies enter each other's market.

Although negotiations are progressing well, there are and will surely be conflicting interests and tensions on both sides as there are significant disagreements on the existing treaties. Some of the treaties are more favourable while others are more restrictive. Nonetheless, Europe must make sure Chinese investors are ready to adapt to local circumstances by clearing requirements for foreign investors and by creating an EU-level common investment framework. Member state-level investment treaties create a large room for protectionist moves which is far from the common European interest. Therefore, an EU-wide strategy with uniform requirements would be vital for Chinese investors just as equal rights on Chinese markets would be essential for European companies. In addition, the BIT could create a new kind of competition, which would help the Chinese economy to continue its willingness to open up to foreign investors and markets, in line with the recently announced 13th FYP.

CAN THE EU AND CHINA COOPERATE IN IMPLEMENTING THE SDGS?

Shifting wealth in Africa

How the EU and China can learn from each other to advance Africa's development

Mario Pezzini, Director of the Development Centre at the Organisation for Economic Co-operation and Development (OECD)

A slowdown in China captures headlines in the interconnected global economy. Yet, the story behind the headlines reveals China's expected GDP growth to average still around 6% between 2016 and 2020. This less rapid growth — what is called China's 'new normal' — is changing the pace and quality of Chinese trade and investment relationships with other economies around the world. African economies are among them. What we see in the changing nature of Chinese-African relations offers the European Union (EU) valuable lessons for how it too might redefine interactions with the African continent moving forward. Now is the time to study these evolving dynamics and explore if new synergies for triangular engagement and mutually beneficial cooperation among Africa, the EU and China are possible to promote more inclusive and sustainable development.

Much has been written about China's engagement with Africa, encompassing a broad range of tools including trade, investment and foreign aid. China's assistance to the continent includes grants, zero interest loans and concessional loans, is motivated by a mix of diplomacy, development cooperation and business objectives and very much focuses on infrastructure and productive activities. I regret that China's engagement in Africa often is portrayed in a simple, binary way – too negative or too positive – preventing us from thinking ahead. Some see China's actions in Africa driven by interests to help Chinese companies gain access to resources and criticise those actions as undermining the aid principles agreed upon, for example, in the OECD's Development Assistance Committee (DAC). Others praise what they see as an example of a mutually beneficial partnership on equal footing between countries of the south. No matter how we judge China's engagement with Africa, China undoubtedly has had and will continue to have a strong development impact in Africa. Whether or not China's engagement in Africa fits existing standards shouldn't preclude us from exploring the 'value added' of China's engagement, which is particularly significant, compared to other countries' cooperation.

China has been a crucial driver of Africa's growth, contributing nearly 30% to it (in relative terms), as our forthcoming African Economic Outlook (AfDB, UNDP, OECD Development Centre) will show. China's trade engagement with Africa has risen strongly since 2000. China has grown to be one of Africa's major trade partners. In absolute terms, this trade dynamic has seen African exports quadruple from \$142.4bn in 2000 to \$566.6bn in 2014, with China heavily contributing given, among other factors, its demand for natural resources over the last decade. Yet, lower commodity prices, less rapid growth in major emerging economies and overall weaknesses in the global economy are providing Africa´s economies and commodity exporters with significant headwinds. Commodity prices are unpredictable, highly volatile, subject to downfalls, and booms and busts can move prices by as much as 40% to 80% for as long as a decade. African policymakers need to advance their structural transformation against this backdrop.

Despite significant short-term challenges, China's 'new normal' coupled with its 'going global strategy' provide African policymakers with mid-term opportunities. Beijing's plans to move up the value chain and upgrade high-tech production capabilities increasingly target developing countries as potential spots where China can outsource and build industrial capacities for the production of lower-end manufacturing goods. Relocating low-end manufacturing from China might reinforce positive income effects of lower commodity prices in oil-importing countries. Africa's growing population – set to double by 2050 from 1 billion in 2010 – provides another asset to harness. Similarly, China´s Belt and Road Initiative, especially its maritime belt to Europe, includes East Africa. With increased infrastructure investments from China's new Silk Road Fund and other financing, China already is targeting East Africa to establish manufacturing hubs.

Africa's industrialisation ranks high on China's agenda. During the December 2015 Forum on

Africa's structural transformation doesn't necessitate convergence – but rather complementarity – among the ways China and the EU reach out to Africa.

China-Africa Cooperation in Johannesburg, President Xi Jinping announced a China-Africa Industrialisation Programme to construct and expand industrial parks in African economies. This coincides with the priorities of China's G20 presidency that include supporting industrialisation in Africa and other developing countries.

China's outreach to Africa, however, goes beyond fostering industrialisation, productive activities and infrastructure. China increasingly is exploring knowledge sharing as a means to advance policymaking for development in partner countries. President Xi Jinping announced the establishment of the Centre for International Knowledge on Development (CIKD) during the United Nations historic General Assembly last September on the adoption of the post-2015 agenda. CIKD's creation signals China's deepening willingness to share its own development expertise and experience. China, after all, lived through the largest poverty reduction in recent times: between 1990 and 2011, the number of Chinese living below $1.25 a day dropped from 689.4 million to 84.1 million.

While China's 'new normal' provides opportunities for African economies, it also suggests a new model for triangular cooperation among Africa, the EU and China. With the 2015 adoption of the Sustainable Development Goals (SDGs) that go beyond the Millennium Development Goals' (MDGs) focus on providing the poor with basic services and with the unveiling of Africa's own Agenda 2063, now is the opportune moment to redefine business as usual and promote greater engagement and cooperation to fuel Africa's structural transformation. The African Union's Agenda 2063 provides a comprehensive framework for Africa's post-2015 development to which every donor, be it an emerging one like China or one from the DAC, should be committed. Indeed, China and Europe need to support Africa's own development agenda, not the other way around.

So, realising Africa's structural transformation doesn't necessitate convergence – but rather complementarity – among the ways China and the EU reach out to Africa. The EU together with its member states remain Africa's biggest donor. The EU's development agenda, building until recently on the political framework of the MDGs, aims to eradicate poverty and put the world on a sustainable path. This explains the EU's strong focus on the social aspects of development and less on productive activities. China's interactions with African economies on these activities now present some important lessons for broadening the EU's cooperation with the continent. Similarly, the universality and multi-dimensionality of the SDGs offer real potential for new forms of triangular collaboration. For example, SDG 9 to 'build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation' acknowledges the importance of industrialisation and infrastructure for a country's sustainable development.

Towards this, I believe an organisation like the OECD Development Centre that counts the EU, China and 10 African countries as fully fledged members can provide analytical and comparative policy expertise, knowledge sharing and crucial dialogue platforms — at global, national and regional levels. Such frank exchanges support the development, coordination and coherence of better policies on inclusive growth, economic restructuring and global value chains. These avenues can leverage the EU's and China's comparative advantages for Africa and advance aid, trade and investment relationships between and among Africa, China and Europe to usher in a new era of mutually advantageous economic engagement and broader cooperation for inclusive and sustainable development.

You can't succeed ALONE: China's soft power and Sino-EU cooperation in Africa

Yao Yao, Director of Research of the China Public Diplomacy Association (CPDA) and Director of the Centre for National Soft Power Research at China Foreign Affairs University

According to Joseph Nye, soft power factors in a country's culture, political values and foreign policy approach as essential components of national strength. So, how can we best describe China's diplomatic soft power?

The unique features of China's diplomacy as a major country originate from its history. Confucius, the great philosopher of ancient China, once pointed that the life meaning of a person is absolutely 'for self' since it is human nature. However, he also made it clear that the 'self' is never independent; in order to perfect oneself, an individual should take care of others just as equally. 'You must help others achieve success if you want to achieve success yourselves.' This is not only because of moral reasons, but also realistic reasons: If you only seek the success of yourself, or even in the price of other's interest, your success will not last long.

An appropriate example would be in the western African country of Guinea-Bissau. Guinea-Bissau has rich fish resources, with many fishery companies from Europe and North America working near the country's coast. However, most strange is that although the fisheries have caught many tonnes of fish over the years, there once remained a lack of domestic fish being sold in Guinea-Bissau's markets. In 1984, a Chinese company came for help and focused on two key issues. Firstly, it helped Guinea-Bissau produce its own fish boats; secondly, it helped train local fishery technical personnel so that Guinea-Bissau people could catch fish by themselves. Only one year later, local people eventually were able to buy and consume fish off their coast. This story perfectly personifies the very popular proverb: 'If you give a man a fish, you feed him for a day; but if you teach him how to fish, you feed him for a lifetime.'

We all know that Africa is a large continent with rich resources. It's actually even bigger than the total size of China, the US and Europe. However, such a large continent is still the least-developed and suffers from poverty even today. The fundamental reason for the poverty levels in Africa is that the majority of the continent does not have independent industries and the necessary capacity needed for self-development. According to China's own experience, enhancing capacity of self-development is the most urgent priority for developing countries to rid themselves of such high levels of poverty and instability.

Enhancing capacity of self-development is the most urgent priority for developing countries.

At the end of last year, Chinese President Xi Jinping announced 10 cooperation plans for China and Africa when attending the Johannesburg Summit of the Forum on China-Africa Cooperation (FOCAC). The most important feature of these plans was the commitment China made to the continent to help accelerate the industrialisation process, while also assisting to boost Africa's capacity for self-development. As of today, more and more African countries are involved in actively strengthening the production capacity cooperation Africa has with China.

Regarding the cooperation between China and Africa, the EU should not simply be a bystander. Over the last decade, the EU-China Strategic Partnership has focused mainly on bilateral economic cooperation. However, at present China and the EU share common views on poverty reduction and working towards the sustainable development goals (SDGs) in various sectors. There is the potential for China and the EU to take responsibility in solving African problems and encourage capacity building. Some policymakers in Europe and China have suggested to not only look at a bilateral relationship but to focus more attentively on a ‘trilateral dialogue’ and further cooperation with Africa.

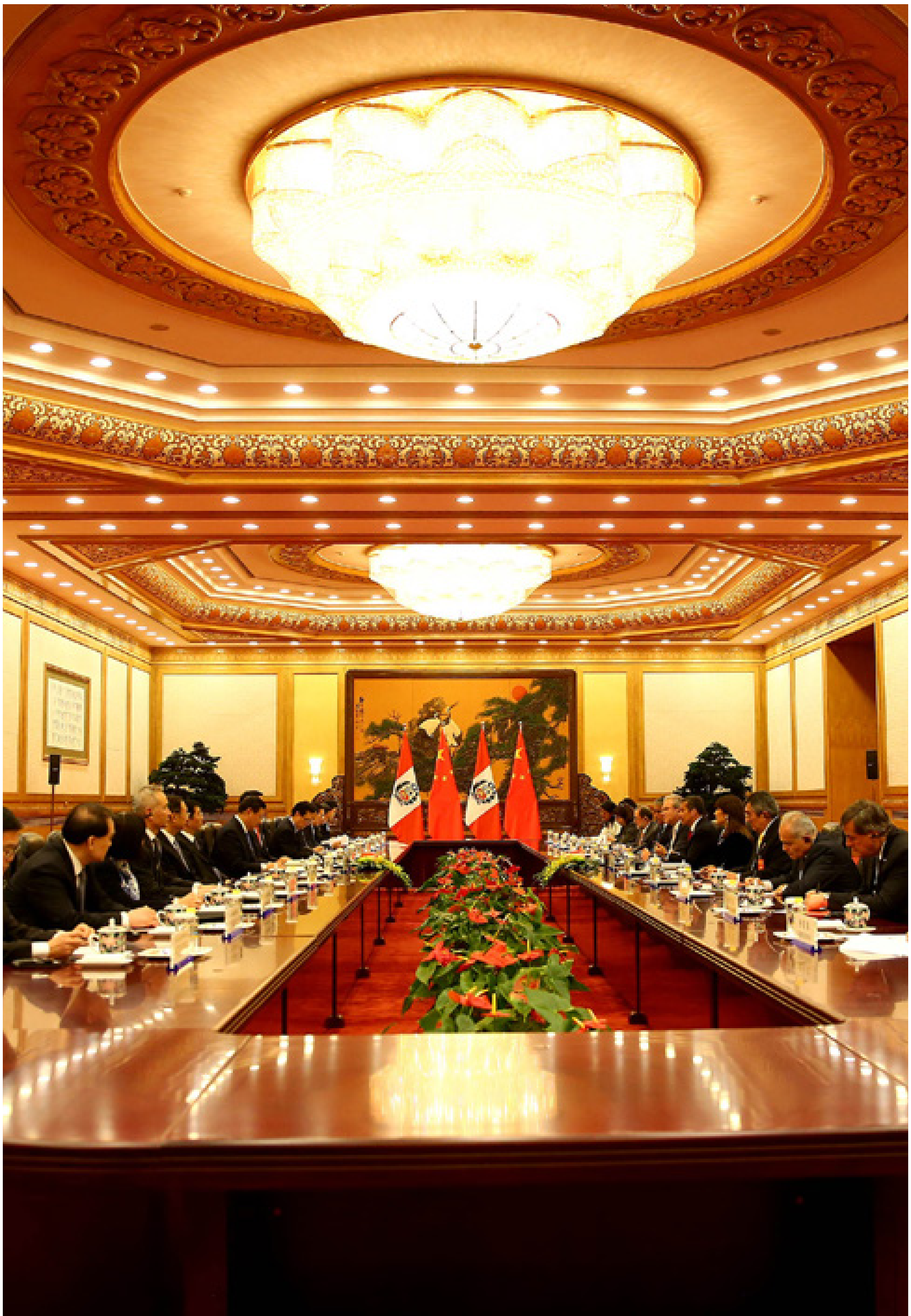
In June of 2015, as a member of Chinese Premier Li Keqiang’s delegation to Brussels for the 17th China-EU leaders' meeting, I witnessed positive feedback from EU leaders regarding China's proposals on exploring third-party markets through production capacity cooperation. China and the EU decided to integrate the ‘One Belt, One Road’ initiative with the Investment Plan for Europe and establish a China-EU joint investment fund. The initiative involves international cooperation that would bring Europe and China together to develop third-party markets in Asia, Europe and Africa.

On one hand, European countries possess advanced technologies in comparison to other areas in the world. While on the other hand, China possesses the strong manufacturing capacity and ability needed to commercialise such advanced technologies. Therefore, by working together the EU and China can avoid unnecessary competition against one another while also increasing their individual market shares. At present, many African countries need to solve power problems and improve their infrastructure urgently. Economic development relies on railway, power, telecommunication and other high-end manufacturing equipment. While carrying out production capacity projects in Africa, Chinese enterprises will need to purchase some equipment from European countries. With China's cost-effective production capacity and the EU's world-class equipment and technology, all parties involved in the deal benefit.

In contemporary terms, the momentum generated by scientific and industrial revolutions over the last century are fading, while the potential for growth under the traditional economic system and model for development are diminishing. Therefore, the test we are faced with today is, how do we overcome such challenges?

In dealing with such challenges, China and the EU should not only address the immediate problem by stabilising growth, but also tackle the root causes by gathering momentum for long-term development. We should manage our own affairs well by taking effective measures at home, and pay attention to the challenges others face through closer cooperation. In addition, encouraging our enterprises to support interconnection projects between China, Europe and Africa is necessary. Supporting the fundamental development of developing countries will also help the EU and China achieve their goals.

No single entity or nation today can succeed alone. As passengers of the same boat, let us continue to forge ahead in the spirit of partnership, make concerted efforts to secure multiple win-win co-operations, and open up a bright future for world.



China: a partner for the development of Latin America?

Mario Esteban, Senior Analyst at Elcano Royal Institute and Senior Lecturer at the Autonomous University of Madrid, Spain

China's re-emergence over the last few decades coincides chronologically with the process of diversification in Latin America's pattern of international insertion. We have witnessed Beijing grow from a marginal factor in Latin America, to become a key player in shaping the evolution of countries in the region and their process of regional integration. Deepening relations with non-traditional partners has opened a more pluralistic scenario for Latin American countries, extending the range of their international cooperation options in all spheres.

The economic dimension of Chinese-Latin American relations has blossomed in the areas of trade and finance. Beijing has become the second largest trade partner and the main source of international public finance for Latin America. With that being said, the economic development of some Latin American countries is so dependent on the performance of the Chinese economy that a fall of one percentage point in the growth rate of Chinese GDP would reduce Latin American growth by 0.6%, according to the World Bank. Therefore, it is particularly relevant to analyse

Beijing has become the second largest trade partner and the main source of international public finance for Latin America.

whether engagement with China is healthy for the economic development of Latin America or not.

Before the recent slowdown of the Chinese economy, the demand for commodities in Latin America benefited the region and its countries. The exports of raw materials from Latin America to China are key to explaining the successful performance of the region's economy in recent years. The sales of energy resources, minerals, and foodstuff have involved a considerable transfer of wealth from China, which has helped boost economic regional growth above 5% of GDP. Under these circumstances, the region has managed to reduce its macroeconomic imbalances and its vulnerability to external shocks, while largely tip-toeing around the consequences of the international financial crisis.

However, Chinese investment in Latin America should not disguise the limitations and the sense of fatigue that seems to plague the strategy employed by Beijing to favour its presence in the region. Chinese trade, foreign direct investment (FDI), and loans are quite concentrated in a few countries and sectors. Brazil, Mexico, and Chile comprise 60% of all Chinese trade with the region, which peaked at $274bn in 2013; Brazil, Peru, and Argentine receive 80% of total Chinese FDI to Latin America, around $50bn; and Venezuela, Brazil, Argentine, Ecuador, and Bolivia count for over 90% of the $120bn lent by Beijing to the region. Almost 75% of Latin American exports to China are commodities (energy resources, minerals and foodstuffs with scarcely any processing) and 80% of Beijing´s loans are devoted to infrastructure and energy.

In addition, the asymmetry in the trade between China and Latin America may have acted as a barrier to industrial development in the region. Whereas the region essentially exports raw materials to China, Beijing sells

Chinese strategy in the region seems to be moving towards investment of higher quality, incorporating sectors characterised by more advanced technology and greater knowledge content.

manufactured goods of varying degrees of technological sophistication to the region. This trading pattern could lead to a reprivatisation of Latin American economies and the development of various industries may be impeded as a consequence of the wholesale entry of Chinese products. This point is illustrated by the way the structure of Brazilian exports changed between 2001 and 2010, when manufactured products declined from 57% to 39%, whereas raw materials climbed from 26% to 45%.

Moreover, China has resorted mainly to a State-to-State model of interaction as a means of securing the provision of energy sources and commodities, and opening doors for its companies. This is evident in the $56bn in loans to Caracas that is equivalent to the stock of Chinese direct investment in the whole of Latin America. In this way, Beijing uses its considerable liquidity to underwrite contracts for its companies in questionable conditions, with little competition and relatively lax working and environmental standards. These practices reduce the positive contribution of China to the development of Latin America, and have triggered violent protests in different Latin American countries. A significant part of that discontent has come from communities affected by investments in the energy and mineral sector, such as in the Zamora-Chinchipe mine (Ecuador), in Piura (Peru), Colquiri (Bolivia), and Cerro Dragon (Argentina).

In this context, Beijing understands that its relationship with Latin America would be more effective and sustainable if it benefitted from greater knowledge of the region. For example, if its companies knew how to deploy themselves better in these markets and adhered more scrupulously to local laws and norms; and if its financial commitments translated into greater economic development for the recipient countries. If China was to take such action into consideration, Chinese investment probably would not be so heavily protested. The desire on the Chinese side to move relations forward with Latin America in a more sustainable way offers new opportunities for the development of the region, even if the times of Chinese skyrocketing demand of energy and raw materials are gone.

Various official pronouncements issued last year have helped matter progress further in this direction, such as during the first China-CELAC ministerial summit and Li Keqiang's tour of Latin America. Chinese strategy in the region seems to be moving towards investment of higher quality, incorporating sectors characterised by more advanced technology and greater knowledge content. Thereby, China is helping contribute to the region by achieving a qualitative leap forward in its industrial fabric. A recent joint report issued by the OECD, CEPAL, and CAF, entitled 'Latin American Economic Outlook 2016: Towards a New Partnership with China', underlines how China could contribute to break some of the central structural barriers which hinder economic development in the region, improving infrastructures, increasing the capacitation of the local labour force, and providing new sources of investment.

The China-Latin American and Caribbean Countries Cooperation Plan (2015-2019), signed in Beijing on 23 January 2015, includes commitments to mutual investment in manufacturing construction equipment, petrochemicals, agricultural product processing, clean energies, mechanical equipment, automotive, aviation, ship and marine engineering equipment, transport equipment, electronics, digital medical equipment, information and communication technology, reciprocal transfer of technology and knowledge on biotechnology, food and medicine.

If that new pattern of China-Latin America economic interaction materialises in practice, it would foster sustainable and long-term economic development in the region, through deeper insertion of the Latin American countries into global value chains and the diversification of their economies. China will not be associated anymore with just a commodity boom that brought short-term economic gains and the reprivatisation of the Latin American economies, but be regarded as a key partner for the development of the region.

This scenario has a double-edged impact on EU's interests. On the one hand, in order for China to reduce the attractive influence of the EU, it would need to convince countries whose prospects of joining the global value chains would be made easier with the help of China. On the other hand, China's greater presence has the capacity to contribute to the development of the region and is giving rise to opportunities for cooperation and synergies with EU players, both public and private, across multiple spheres. It is important, therefore, to avoid simplifying China's presence in Latin America, with the danger of succumbing to all-or-nothing interpretations that have little connection to reality with the consequence that attractive opportunities for cooperation are overlooked.

GREEN GROWTH IN EU-CHINA RELATIONS

How will the 'green' and sustainability aspects of OBOR be assured?

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Alexander Van de Putte, Professor of Strategy and Strategic Foresight at IE Business School, Spain

Globalisation and the economic gravity shift from Western countries towards the East are primarily driven by international trade. Without trade, people would only have access to the goods and services produced within their respective country's borders. Trade has achieved more than just economic growth, and provides opportunities for innovation and stronger productivity growth. Other benefits from trade include lower prices, broader consumer choice, and poverty reduction. According to The Economist, over the past 20 years globalisation and international trade have lifted almost 1 billion people out of poverty.

Historically, China's coastal regions have been locations for low-cost manufactured products destined for export. The China coastal regions provide easy access to labour and a convenient location for the import and export of raw materials and finished goods. The historical Silk Road, a 6,500 km trade route, was central to the development of the Indian subcontinent, China, Persia, Arabia, and Europe. Given the accelerated development of manufacturing hubs in the western part of China, the New Silk Road, or 'One Belt, One Road' (OBOR) has the potential to create an economic corridor and promote stability and energy security, while opening up trade.

The McKinsey Global Institute estimates that between 2013 and 2030, $57tn of infrastructure investment will be needed globally, or about $3tn annually. A large share of this amount will go to Asia to raise the level and quality of infrastructure to the standard of the Organisation for Economic Co-operation and development (OECD) countries. Not all of this investment will be allocated to make the infrastructure backbone of OBOR a reality, but it is likely to be very significant, and could easily reach several trillion dollars over the next 20 years.

New initiatives, such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (the BRICs Bank) have been created to finance sustainable infrastructure in developing countries. These initiatives, while necessary, are young and need to develop innovative sustainable infrastructure financing models such as project bonds, green bonds, pooling finance, syndicated loans, etc. In addition, the securitisation of bank loans could improve lending capacity and help with diversification of risks.

Infrastructure projects have been plagued by dramatic cost overruns and delays. These are often caused by bureaucratic regulatory approvals, delays in land acquisition, and the inability to raise necessary capital at an acceptable cost of capital. Cost overruns and delays are not solely a developing country challenge. Many projects in OECD countries have faced similar issues. For example, the Channel Tunnel, the 50.5 km rail tunnel connecting Coquelles in France with Folkstone in the UK was delayed and was also 80% over budget.

Countries along the OBOR need to develop their economies to achieve sustainable development. Virtually all OECD countries have used a cluster-driven industrial diversification strategy to achieve this. What makes clusters work is the combination of two interrelated sub-systems. The first, sub-system 1, comprises of the existing high-technology and manufacturing firms, whose main task is to produce innovative products or sub-assemblies. The second, sub-system 2, is a loosely structured network of venture capitalists, specialised lawyers, accountants, consultants, and interim talent providers. It also facilitates the creation of new ventures and provides the human and capital resources to grow the ventures that are able to commercialise ideas, concepts and technologies.

Successful clusters tend to focus and specialise on trying to do everything internally. To leverage each country's competitive advantage and to ensure sustainability, clusters along OBOR should become part of transnational value chains. Consider the automotive industry, for example. Design and development of cars tend to be focused in a relatively small number of 'regional' design locations. Production of cars tends to be organised at the 'national' or 'regional' level. Manufacturing facilities of complex and model-specific components and sub-assemblies tend to be located close to the final assembly plant to minimise stocks and allow for 'just-in-time' manufacturing. Finally, simple, lighter, and more common components can be concentrated in areas along OBOR to take advantage of competitive labour costs and economies of scale.

For medium to high-value density goods, OBOR has major sustainability advantages over traditional shipping and is a way to strengthen regional economic integration by exploiting the benefits of a cluster-driven industrial diversification strategy.

To ship goods from Western China to Western European ports, through the Strait of Malacca and the Suez Canal, takes up to 45 days to cover a distance of about 24,000 km. The transit railway route via Kazakhstan, on the other hand, will take about 10 days to cover the 8,500 km to bring goods from Western China to Western Europe. Logistics services (warehousing and distribution; customs, security and insurance; and supply chain optimisation) are key to making the transhipment of goods along OBOR more sustainable from an environmental, social, and economic point of view.

According to the Ellen MacArthur Foundation, 'A circular economy is one that is restorative and regenerative by design, and which aims to keep products, components and materials at their highest utility and value at all times'. Following the principles of the circular economy, a sustainable OBOR would aim to reduce, reuse, and recycle waste across the entire transnational value chain.

Several global industrial and retail companies, including Caterpillar, Renault, General Electric, Maersk Line, Unilever and Patagonia have adopted circular economy concepts to reduce, reuse, and recycle waste. By embedding sustainability as part of their corporate strategy, these companies have been able to deliver growth and superior shareholding along the way.

Sustainability is not just concerned with environmental issues. Companies and governments need to balance, grow or maintain all five capital stocks: natural capital, social capital, human capital, manufactured capital and financial capital. Many countries, especially natural resource-rich economies, deplete natural capital and increase manufactured or financial capital, and often ignore human and social capital stocks. Therefore, the objective of the transnational value chains along OBOR is to produce goods and services that contribute positively to society while maintaining the capital stocks.

The vision behind OBOR is ambitious, but if well implemented, it has the potential to benefit the various societies along its belt. The aforementioned options are neither mutually exclusive nor collectively exhaustive, but together they will go a long way in ensuring that OBOR contributes to sustainable development.

From Copenhagen to Paris, from green to pan-green:

Brussels and Beijing should upgrade cooperation

Fu Jing, Deputy Editor and Bureau Chief of China Daily Europe

While covering the United Nations Climate Summit in Copenhagen, I witnessed the international perception of China somewhat change, even though it had been making continuous efforts to help achieve a global deal. The COP21 conference in Paris at the end of 2015 proved to be a success. So it is important to analyse how China prepared itself for both summits.

In my view, over the past six years China has developed a growing awareness for realising a greener economy, improved institutional arrangements, better low-carbon commitments and active participation in cooperation with other countries. Due to China's dramatic change in approach, it was better positioned to help promote an agreement in Paris. Since the late 1970s, when China launched its reform and opening-up policy, the country's overarching strategy has been 'development is the unyielding principle', which resulted in fast economic growth spanning decades, but at the cost of severe environmental pollution and wasteful energy consumption.

Since Xi Jinping became Chinese President in 2012, China has experienced a dramatic shift in its approach to energy consumption, promoting ecological sustainability as part of realising the Chinese dream. As a result, it began to guide China's economic activities embodied in the concept of the economic ‘new normal’.

To transform concepts into policy, China has been beefing up its efforts to build the necessary legal frameworks to strengthen its environmental protection policies. The law-making institutions in China have been busy drafting a law on climate change prevention, all related to tackling air and water pollution. But what is most encouraging is China’s pledge to limit its carbon emissions by 2030, mainly by improving energy efficiency and increasing the ratio of renewable energy in its total energy mix, which is targeted at 15% by 2020 and 20% by 2030. By lowering carbon emissions per unit of GDP, roughly achieving 60-65% in comparison to the 2005 levels by 2030, China is aiming for a greener future.

In its bid to turn greener, China has quickened the pace of trying to usher in a nationwide cap-and-trade emission system by 2017, as carbon emission trade system is currently being piloted in some regions. Surprisingly, China experienced its consumption of coal decline last year for the first time, largely due to better energy efficiency and economic restructuring.

Along with these domestic actions, China has spared no effort on the bilateral and international levels as well. Since 2014, President Xi Jinping and US President Barack Obama have twice made presidential announcements to inject inputs aimed at making Paris a success. China and the EU announced joint commitments and actions in June as well. Meanwhile, China has taken increased actions in South-South cooperation by embedding more sustainability content, and it has been busy coordinating with the BRICS countries (Brazil, Russia, India, China and South Africa), who share similar stances on climate change. China has taken climate action as a trigger to institutional and legal framework improvement, development pattern transformation, lifestyle changes and also a chance to showcase its rising desire to be a responsible global stakeholder.

When talking about China’s blueprint for the future, achieving equality and a greener economy are two umbrella dimensions to summarise all the goals the government has set itself by 2020. Investors and businesses in China and Europe should bear in mind what new opportunities this will bring to them. China has already vowed to root out absolute poverty by 2020, helping the poor live a relatively decent life by offering basic education, training, jobs, social welfare and transferring some of them to cities and towns. Having already succeeded in lifting millions out of poverty in decades, the goal is achievable. Nonetheless, in order to be greener, it is difficult to predict decisive progress in offering clearer skies, cleaner water, air and soil within a five-year framework. Within one decade or so, such changes could be viable as the enhanced political determinations and many new trends have set the benchmark.

The connectivity and digital revolution China has sought over the last decade has happened at an unbelievable rate. The technologies have made sharing around the world a reality. The Internet and mobile-related activities have helped contribute economic growth and the structuring of China's economy. Though the economic slowdown in China has brought pressures for some sectors, internet-based businesses are overall profit-making and expanding. Such trends have helped China's service sector contribute to more than half of the economy last year, the first time in decades. And the Chinese government has sped up such transformation by getting rid of industrial over-capacities and using the 'Internet Plus' approach to transform the economy.

Upgrading its domestic industry and manufacturing is a priority for China, mainly by embedding automation and mechanical technologies, which will reduce environmental pressures. At the same time, China is desperate for environment-friendly technologies to solve its environmental woes. All these will offer great green opportunities for investors and businesses worldwide. However, in the upcoming five years or so, both investors at home and around the world should attach great importance to the trends of economic restructuring, and heed on those pan-green chances to boost economic cooperation.

The pan-green cooperation should be the new narratives when China and the rest of the world match each other. Naturally, to further facilitate the internet and wireless economies, China should cooperate with the EU and other powers on 5G technologies and make online communication even more convenient and faster.

Beyond that, China's market will be opened to realise the goals of a more sustainable life for Chinese citizens. The chances in education, medicine, tourism and sports will entice Chinese investors to cooperate with their European partners to satisfy the needs of the Chinese market by using European expertise.

To keep things simple: China is preparing for a better life, the country's industry is upgrading and investors should foster the necessary mindsets to keep such trends afloat.

Changing society through innovation or innovating through a changing society?

Jo Leinen, Chair of the European Parliament Delegation for relations with the People's Republic of China

With the recent adoption of its 13th Five Year Plan (FYP), China has started a clean technology revolution that will shape its economy and society, but also the rest of the world, particularly when it comes to combating climate change as well as creating sustainable development. For China, the 13th FYP is the beginning of a transition from an economy of mass manufacturing, producing extreme amounts of emissions and causing a serious environmental impact, towards a modern country with an economy driven by high added-value sectors, and powered by clean energy, with cleaner air and a more sustainable use of its scarce resources.

By 2020, China wants to double its wind power capacity, triple its solar power output and put 10 times more electric cars on its roads. These goals give a strong indication of the commitment China is willing to commit to for sustainable development towards a low-carbon economy. China has understood that the only way to reach these goals is to radically modernise its industry through innovation and a transition to modernise its manufacturing industry. The crux of the matter will be if China can achieve this without also modernising its society.

Up until now, the government has led China's development centrally. Innovation has been driven by regulation and growth from state investment. Within the last few decades, both approaches have led to impressive results. Hundreds of millions of citizens have been led out of poverty and under-developed infrastructure has been built up in a ludicrously short amount of time. Meanwhile, wages have been increasing steadily and with them, a growing and self-confident middle-class is making its needs and wishes known.

In the 13th FYP, Chinese leaders now stress the role of innovation, calling for further efforts to foster new growth sources and upgrade traditional ones. Innovation will be encouraged as well as seeking a better quality of economic development, which can be seen in the radically lowered growth targets. Entrepreneurship on a larger scale ('mass entrepreneurship'), technological innovation and promoting the development of new industries will play a key role.

One of the central mantras for this new development will and must be 'Digital China': the upgrade of China's manufacturing industry, with robotics, Internet of Things (IoT), and intelligent products and services. The 'Internet Plus' initiative, showing the way towards mass entrepreneurship, focuses on enterprise digitalisation and cloud-based sharing solutions, mobility and devices. China shows that it not only wants a transition to green growth and a low-carbon economy; it also wants a transition towards an economy driven by digital technologies.

The central question about this great leap forward proposed by China's leaders is whether innovation can be planned, and how much of a decisive role can be given to the market in order to create 'mass entrepreneurship', to use the term coined in the discussions about the 13th FYP. There are many examples of extremely successful and society-shaping companies like Alibaba, Baidu or Weibo. These are proof of what is possible if the entrepreneurial potential in the Chinese society is let off its leash. Interestingly, the Chinese government seems to be taken by surprise regarding these success stories, and now finds itself having to deal with elements of the Chinese economy that do not fit in the classic orthodoxy of state-owned or at least state-led enterprises.

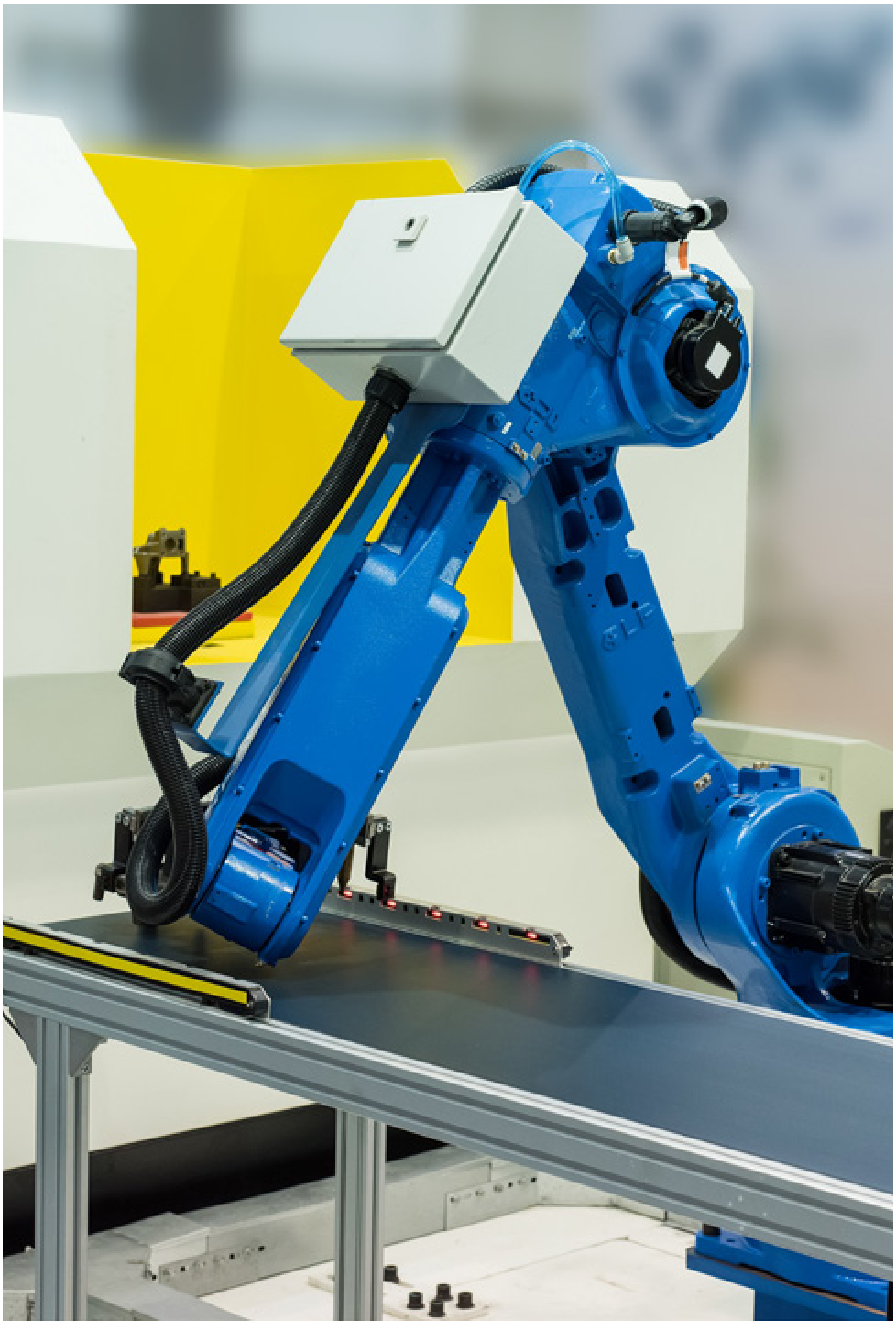
The main challenge now for the Chinese government, and most of all for the conservative forces in the Communist Party, will be how to reconcile their search for stability and their avoidance of unplanned events in Chinese society with the constant shifting and disrupting of societal certainties that come with constant innovation. How will the Chinese leadership bring together a clamping down and 'purification' of the Internet by limiting the flow of information and fighting so-called 'Western values', as has been outlined in the infamous Document Number Nine, and at the same time push innovation through initiatives like 'Internet Plus'? The balance that the Chinese authorities decide to strike between 'freedom' and 'order' will determine the amount of innovation that is let free to flourish. Innovation cannot happen without creativity, which in turn can only show its full potential when minds are free to think and discuss, can exchange knowledge and experiences with each other just as easily as they would with the outside world.

However, the question of the implementation of new technologies into China's infrastructure and society will present a lot less challenges than it will to Western societies. The long-term planning and continuity of policy has been one of the strengths of China's one-party system. And although FYP's are not being implemented to the letter anymore, as they were 30 or 40 years ago, they are still the one central guideline for Chinese politics and they shape China in a way not known in our Western societies. This 13th FYP will be a major shift, but since the Chinese Premier Xi Jinping announced the 'Made in China 2025' strategy, it will only be the beginning of the big transition.

After the steam machine, the assembly line and industrial robotics, the 'intelligent industry' will be the fourth industrial revolution and China is in a pole position to achieve it as one of the first economies in the world. But it will not be able to do it alone. One of its role models is Germany with its project 'Industry 4.0'. This is a once in a century opportunity for German and as well as European industries to cooperate with one of the largest markets worldwide, but it presents serious risks and dangers. One of the most concerning risks is the loss of sensible data and knowledge in China. Europe's technological leadership has always been driven by innovation and we are now bearing the fruits. We should therefore make sure that this knowledge is not being siphoned off. European investment in China might soon be rapidly shifting from the manufacturing sector to providing the technology for China's transition to a sustainable, low-carbon, and digital economy. The current IPR and planned cybersecurity laws in China can have extremely negative effects on the European knowledge base.

The planned transition from a mass manufacturing economy to an economy driven by innovation, green growth and digitalisation will be affecting all levels of Chinese society.

Although it doesn't look it at first glance and it is scattered over a plethora of documents and strategies, China has announced one of the most wide-ranging and comprehensive projects mankind has seen in the last few centuries. The planned transition from a mass manufacturing economy to an economy driven by innovation, green growth and digitalisation will be affecting all levels of Chinese society. But it cannot show its full potential and success if it is not accompanied by major changes in societal policies in China, more freedom to think and be creative, and an internet that is let off the hook so people and businesses can communicate with partners around the world.



THE DEBATE ON CHINA'S MARKET ECONOMY STATUS

The Role of Market Economy Status in EU-China Relations

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The tension in the EU-China relations between the need of building a strong alliance and the competitive attitude of these major global traders continues to be evident. If 2015 was characterised by the celebration of the 40th anniversary of EU-China diplomatic relations, 2016 represents an important year to address certain sensitive issues.

In the first place, the question of Market Economy Status (MES) urges a solution. Two conflicting interpretations of section 15 of China's Protocol of Accession to the World Trade Organization (WTO), concerning the Price Comparability in Determining Subsidies and Dumping, are currently under debate. The implications are strategically relevant for the EU-China trade flows because antidumping and anti-subsidies rules apply in a different way depending on the status of the exporting country as market economy or non-market economy. Since China's accession to the WTO, its major trading partners (such as the US and the EU) have not agreed to grant Market Economy Status to China, because of the assumed strong intervention of the Chinese government in the economy. This opens the door to mechanisms of trade defence that allow to impose higher antidumping and anti-subsidies measures on imports originating from China, in accordance with section 15 of China's Accession Protocol.

The first interpretation of Section 15 (upheld by China) provides the termination of this transitional period by the end of 2016. While up to this moment WTO member state could decide to grant or not MES to China, from 2017 MES would be automatically granted because of the end of the transitional period. The second interpretation, defended by some scholars, is that only certain rules will expire at the end of 2016, but not all of them: in no way would Section 15 establish a date from which China will be automatically granted MES.

In this context, it is not surprising that on 15 February 2016 demonstrations took place in Brussels against Chinese imports. The march, organised by federations of European stakeholders such as steel and other energy-intensive industries, mobilised workers and public opinion in order to oppose the concession of MES to China as a unilateral decision of the EU.

Nevertheless, what is considered an extremely sensitive issue by the Chinese government cannot be simply disregarded by the EU in order to protect its domestic industry (and the related employments), because the risk of adding more tension to already complicated trade relations is high.

In particular, there is a risk that new tensions over the MES would contribute to slow down the negotiations of the EU-China investment agreement, formally launched at the EU-China Summit of November 2013 in Beijing. This new initiative replaced the previous project of a comprehensive strategic partnership agreement that would have had a larger scope, including not only investments but also trade and other economic issues. In January 2016 the 9th round of negotiations for the EU-China investment agreement took place in Beijing. Now that the parties have achieved an agreement about the scope of the negotiations, the next steps will be to discuss a common text of mutual commitments.

There is a risk that new tensions about the MES would contribute to slow down the negotiations of the EU-China investment agreement.

The objective is to improve market access opportunities; in order to do that, an adequate regulatory framework should assure non-discriminatory treatment. The enormous potential of the Chinese market represents an opportunity for the European industry sector; a slowdown of the negotiations is clearly not in the European interest.

If the EU successfully concludes the negotiation of the Transatlantic Trade and Investment Partnership with the US (the 12th round was held from 22 to 26 February in Brussels), still pending the negotiations with China, the attention of the EU industry would likely move to west rather to east. In the current scenario of a multipolar world, it seems more profitable for the EU to avoid a unilateral focus exclusively on traditionally well-established alliances with other developed countries and to maintain a good balance of diversified economic and political alliances. In this context, the friendship with China, a peaceful emerging economy that is today ready to assume growing responsibilities in the international fora, is strategic.

Notwithstanding the well-known trade issues mentioned above, numerous positive initiatives on EU-China cooperation are worth a special mention. The good will of China to keep open and strengthen the dialogue under different aspects emerges clearly from a full agenda of bilateral meetings. To mention one of them, on 11 March 2016 the EU-China 'Steel Contact Group' met in Beijing to discuss the Chinese overcapacity problem in the steel sector, which is one of the main causes of the numerous EU trade defence investigations against imports of steel products from China. Furthermore, the Chinese initiative 'One Belt, One Road' initiative will make the partners closer than ever in the future. Although the EU initially did not show the enthusiasm expected, it may change attitude when it sees benefits of such a project. Considering the unstable situation in Central Asia, cooperation with China on this project could have economic but also political implications, and could contribute to make safer and more efficient connections between west and east, both by road and by sea.

In conclusion, while the constant tension in EU-China relations will probably continue to characterise 2016 and the following years, the two partners are well aware that a constructive comprehensive approach is indeed more profitable. Keeping that in mind, the sectorial sensitive issues that cannot be solved immediately, as seems to be the Market Economy Status of China, should not hamper the efforts made to enhance cooperation in other sectors. The perspective of an increasingly solid alliance between the EU and China, based not only on economic interests but also on political priorities, shall remain a real project, not a mere statement of propaganda used during official meetings. The mutual advantages obtained in those domains where the partners have pursued a stable cooperation, such as in the field of urbanisation, demonstrate that there is space in the future for mutual assistance, which remain preferable than blind short-term competition.

China Market Economy Status and the **steel crisis:** bad omens for the global trading system

Iana Dreyer, Founder and Editor-in-Chief of Borderlex

The United States has indicated in 2015 that it had no intention of granting China market economy treatment in their antidumping proceedings after 11 December 2016, date at which China's 2001 World Trade Organization accession protocol says this practice should end. Several other WTO members have signalled the same. The European Union is engaged in deep soul-searching over the issue, commonly called 'China MES'.

China is the world's top target of antidumping measures, accounting for 28% of new initiations from mid-2014 to mid-2015, according to WTO data. Beijing believes that by receiving market economy treatment the number of cases targeting its exports will be reduced.

Antidumping legislation aims to protect industries from predatory export practices, or 'dumping'. Antidumping is regulated in the WTO's Antidumping Agreement and GATT Article 7. Non-market economy treatment was established by GATT (the WTO's predecessor) members during the Cold War period to handle exports from planned economies, as the prices for their rare exports was technically impossible to determine benchmarks for. Instead of using local prices to establish price comparisons with the exported goods under scrutiny to assess dumping, authorities resorted to price comparisons with third, so-called 'analogue' countries.

China, when it acceded to the WTO in 2001 after engaging in more than a decade of market- oriented reforms, asked to no longer be treated as a non-market economy. But its wary WTO counterparts refused. Instead, they promised to stop resorting to the 'analogue country methodology' within fifteen years of Chinese membership in the world trade body.

Since the 2008 economic crisis and the ensuing $600bn stimulus package, government intervention in the Chinese economy has substantially increased.

China has made it one of its top diplomatic priorities to see its non-market economy treatment end. It convinced Singapore, Australia and New Zealand to do so during the last decade, but its pleading fell on deaf ears in Washington, Brussels, Tokyo, and Toronto. Now Beijing expects non-market economy treatment to end by December 2016, and it is making it known.

A widespread belief among trade policymakers that the end of non-market economy treatment for China would be automatic has been shaken over the last two years. Law experts – mostly lawyers whose clients are major users of antidumping instruments in Washington and in Brussels – have started questioning it. Their arguments build on the in-built ambiguities of Article 15 of China's accession protocol, whose subparagraph (a)(ii) allows WTO members to resort to 'analogue country methodology', but whose paragraph (d) states: 'in any event, the provisions of subparagraph (a)(ii) shall expire 15 years after the date of accession'. While paragraph (d) has led many trade experts to believe China's treatment as a market economy is automatic, others say this is not so, because Article 15 as a whole remains, and because it also obliges China to demonstrate that it actually is a market economy. Alas, WTO rules offer no criteria to determine what a 'market economy' is.

For many years the universally feared Chinese export 'juggernaut' was attributed to the country's embrace of market principles and globalisation. On the contrary, today many, including the EU's trade commissioner Cecilia Malmström, claim that China is not a market economy. 'We are not deciding on whether or not China is a market economy. That is clearly not the case today', the EU trade chief said in a recent speech in Brussels.

The obvious needs to be restated: China is no longer a planned economy! State interventionism, though rife in China, is not necessarily much more pronounced than in other major emerging markets. Take China's WTO import regime: it is more liberal than many an emerging market that other WTO members treat as market economies in antidumping. Brazil, a market economy under WTO rules, applies an average 14.1% import tariffs on non-agricultural goods, according to recent WTO data. China's average tariff is 8.6%, a rather moderate rate for big emerging market standards. Brazil has made 43 services liberalisation commitments in the services pillar of the WTO, the GATS. China has made 93 commitments, offering more than fifty more market openings than Brazil.

What China critics do point out is the fact that, in particular since the 2008 economic crisis and the ensuing $600bn stimulus package, government intervention in the Chinese economy has substantially increased. Subsidisation of capital-intensive industries – such as the steel sector – has led to massive overcapacities which are indeed distorting trade flows. Data by the European metals group Eurofer show that coated steel imports from China, for example, surged from 95 million tonnes in 2014 to 123 million tonnes in 2015. China has started to tackle its overcapacity problem. But the process of down-scaling its steel and other industries will take years.

The EU's steel sector is among the most active players in a well-organised campaign by business organisations from the chemicals, ceramics, solar panels, textiles, bicycle and other sectors against 'China MES'. The campaign is so powerful that it has won over a big part of the European Parliament: no political group is formally supporting the idea of granting China market economy treatment. Without the Parliament's endorsement the EU will not to be able to change its antidumping law, a move needed to be in line with WTO requirements.

The anti-China MES camp in the EU blames China for the current crisis in the steel sector. Yet the crisis is the result of a variety of factors, chiefly among them a massive commodities price plunge that is not specific to the metals sector. Steel prices have been affected by the very economic slowdown in China many have called for a long time to allow it to transition to a more sustainable, consumer driven economic model.

The fact that back in 2011, when EU coated steel imports from China surged to 165 million tonnes up from 105 in 2010, few were railing against dumped Chinese products, indicates that the current campaigning is about something else: defending a deeply ingrained business model. The iron and steel sector is worldwide, and in the EU, the largest 'consumer' of antidumping, involving close to one third of all antidumping cases globally. This dominance of the steel sector in antidumping has been persistent throughout the years if not decades, be they economic crisis or boom years. For the steel sector, antidumping is a method to keep competitors out, and to manage prices, not a temporary tool to accompany industry restructurings, as is more often the case in other industries.

A 2015 study by the consultancy Ernst and Young on the global steel industry entitled 'Globalize or Customize: Finding the Right Balance', highlights that the steel sector is 'under pressure to globalize'. In this report, E&Y Partner Carlos Bremer does not mince his words: 'Steelmakers can use their resources to fight with trade barriers what appears to be the inevitable globalization of the market, a battle we think they will lose, or they can admit the inevitable and focus on ways to become more competitive.'

For the steel sector, antidumping is a method to keep competitors out, and to manage prices, not a temporary tool to accompany industry restructurings.

The EU Commission, the bloc's executive arm, is left alone with dealing with the China MES problem. It has missed an opportunity to start working on the matter early on as it has had no coherent strategy to deal with China for many years. Antidumping has long served as a method to try to exercise 'leverage' over China, but a sorry episode involving antidumping cases against Chinese solar power import in 2013 backfired and politically weakened the Commission. Since mid-2015, it has let itself be overwhelmed by the politics of China MES and be blocked in its actions by member states, which themselves are deeply divided over the matter and unable to come up with a joint vision and craft political compromises among themselves.

The Commission takes the view – rightly - that it will have to grant China market economy status by 11 December 2016. Among others, it wants to do it for long-term, systemic reasons. Commissioner Malmström recently said: 'The Commission wants an EU trade policy that creates a level-playing field and opportunities [...]. As the world's largest trading economy, the best way to do that is by opening markets around the world and keeping our own open as well. We do that by negotiating trade agreements. If we want those deals to be effective we must also respect them ourselves. That's why the rule of law is a fundamental principle of our approach. It must apply in [the China MES] case.' But the Commission is treading a fine line in the toxic domestic politics over China's antidumping treatment. The likelihood that the current political stalemate will be overcome before the end of the year is low.

The Commission will receive no support from the US. Washington appears blind to the systemic consequences of refusing to engage with China on the market economy status issue. But if China's expectations on the MES file are not met in some way, Beijing's commitment to the WTO and its rules and principles could well dwindle, as the trust it has place in the system will have been shattered. China is no easy WTO partner, but it has overall been compliant with its WTO obligations. China is likely to take the fight on China MES to the WTO's dispute settlement body after December 2016 if it sees no progress. Its trade policy behaviour towards its Western trading partners could become more aggressive as it itself is increasingly subject to protectionist pressures at home.

These are no good omens for the international economic order.

INNOVATION

China and Europe - More results through innovation partnerships

Markku Markkula, President of the European Committee of the Regions

For a very long time we imagined that China and Europe were very different from one another. The effect of China's catch-up has been startling and even though we may still often differ on cultural, political or socio-economic grounds our cities and regions face the same challenges of urbanisation and sustainable growth.

Until now, cooperation has often focused on business opportunities and single issues. A more holistic approach has often been lost due to the vast size of China and the required resources. Local and regional authorities can play an important role working at the grassroots level in pushing the changes further. This can be seen in my home city Espoo where many actors have jointly managed to co-create a flourishing ecosystem for innovation and investment.

We can achieve so much more together. I strongly believe that working more closely through systematic long-term partnerships offers exciting new possibilities on mutual learning and concrete projects to tackle our societal challenges. I also believe that regions and cities should take the lead in facilitating these connections and partnerships, as it should be a crucial role at the grassroots level in speeding up the concrete actions. The city of Espoo in Southern Finland has been a sister city with Shanghai for 20 years and the cooperation between city decision-makers, public service and business, and that between Tongji and Aalto Universities, has been very successful.

Business as usual is not enough to produce sustainable growth and well-being for the people in the 21st century. Innovation and digitalisation are the current tools when reading through China's plans for development and modernisation. The expected annual growth rate of 6.5% can only be sustained through encompassing modernisation of traditional industries and fully jumping on the innovation train. Moving towards the shared economy, developing big data and opening up to the world are a few of the key measures in China's next Five Year Plan to facilitate such a transition.

The Head of the Chinese Mission to the EU, Mrs. Yang, stated in her address at our Committee of the Regions' Plenary last June that innovation is a 'golden key' for structural reform. The 'Made in China 2025' strategy emphasises innovation-driven development, applying smart technologies and pursuing green growth. The current Chinese smart city network of 400 cities grows rapidly as fibre optic broadband will already next year cover all cities and 80% of villages. The rate of growth and expansion stands as a model for the European Union.

European local authorities have experienced the change from an industry-based economy to a service-based economy and could be of great inspiration and help to Chinese authorities. Experimenting and scaling up the results are central for this cooperation to have the benefits quickly available for everyday life. European cities and regions can learn from the quick rollout of the new smart city network. While similarly, our Chinese counterparts can copy best practices from Europe on how to optimise the use of a functioning fibre optic network and use this to improve growth, increase innovation and make investments more effective.

The European Committee of the Regions has been pushing for more cooperation between Chinese and European cities and regions for years. Cities and regions work on real life projects and challenges, seeking to improve the quality of life for the citizens. Sustainable urbanisation and investment have been the key themes in city pairing, infrastructure development, RDI and strategic ventures between EU and Chinese stakeholders.

Digitalisation and innovation are already high on Chinese and European agendas. We all know that the question is not 'to go or not to go digital?' - the digital revolution is already here. The question is how to make the digital turn as beneficial and sustainable as possible. It is clear that we need to create the infrastructure to enable the modernisation of industry, education, commerce and our living environments.

5G, as well as spreading the physical infrastructure to enable connectivity, is necessary. Nevertheless, it is not enough to change everything into a digital format. Innovation is the fundamental motor behind digitalisation – and it goes far beyond apps or fibre cabling. The question we should be asking is ‘how’ instead of ‘what’. We need not only to do things more efficiently but also to think how we could do those things completely differently.

For example, eGovernment offers an exciting tool for the modernisation and simplification of public services. Easy and speedy access to information, quick responses to burning questions without hours of waiting at the city hall or queuing by the phone are just some of the advantages to the citizens from innovation in the public sphere. Estonia is a world leader in eGovernment, even introducing electronic online voting. Clearly this requires investment and currently only approximately 40% of EU citizens have access to online services. This should be addressed quickly for better services and more efficiency.

Citizens and businesses rightly call for modernised cities and regions for a better quality of life and working environments. It is the role of cities and regions to positively stimulate this innovation, through simpler regulation, positive discrimination of start-ups e.g. by giving tax-cuts, fostering the digital ecosystems and promoting innovation through dedicated programs. Forming clusters of city partnerships on both sides of the cooperation could be a way to move forward faster. Another concrete suggestion is to spread the Covenant of Mayors, the group of cities tackling climate change, to China.

The current Chinese smart city network of 400 cities grows rapidly as fibre optic broadband will already next year cover all cities and 80% of villages.

I believe that the answer for many of our burning challenges lies in developing vibrant and sustainable regional ecosystems based on open and collaborative innovation. The goal does not have to be somewhere far in the future. I can personally go back to my first visit to China in 1989 when the first computer equipment shops were appearing in the streets next to the Beijing Institute of Technology and the first Apple exhibition in China was organised. These were the signs of the start of the Chinese digitalisation ecosystem.

Today, looking at incubators specifically, there are over 1,800 of them in China and many of these incubators actually started as property development companies who recognised the saturation of the industry and moved into innovation to diversify their assets. It is now up to us to nurture these new initiatives. Here I refer to my recent visit to Hangzhou where development of high-tech zones and the culture of co-creation and working together were evident and visible spreading offers to inspire EU-China cooperation opportunities.

Ecosystem-thinking is crucial to break the barriers of the public sector, business or academia. What is needed is to move towards embedding entrepreneurship. However we should not limit ourselves there; opening innovation and focusing on creating vibrant and encompassing innovation ecosystems that stand not just to benefit business or specific processes, but the sustainable urban and regional development for the benefit of all is equally as vital.

What cities and regions can do, as in all grassroots level cooperation, is focus on the everyday challenges and questions we face. We can bring a strong added value and boost a bottom-up process in global cooperation that is founded on action and entrepreneurship instead of strategies and plans. The entrepreneurial spirit and innovation capacity of European and Chinese regions and cities must be boosted, including universities and businesses being encouraged to join in on the process for cooperation to truly be successful.

Joint 5G plans:

from words to deeds

Tony Graziano, Vice President of Huawei's Brussels Office

5G, the next generation of mobile communications technology, will be much faster and have much greater capacity than its 4G and 3G predecessors when it becomes standard in 2020. We are talking about 100 times faster with 1000 times greater data transfer capacity and growth to some 100 billion connected devices by 2025. So, you can imagine how great the impact will be on our daily lives.

However 5G won't just be faster, it will be the backbone of the digital society, enabling a trillion-euro EU market driven by the Internet of Things (IoT). New applications will range from connected cars to smart homes. The global mobile standard of the future will herald the wholesale transformation of the industry and the service sector through omnipresent machine-to-machine communications.

In this context, the EU's landmark agreement with China to cooperate on 5G research, signed in September 2015, will prove an important step in turning the vision for wireless mobile communications into reality. It will drive progress in areas crucial to 5G development – a global 5G vision, standardisation, spectrum use as well as joint R&D.

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The EU-China research agreement will be creating vital synergies, since both blocs are investing heavily in 5G at both public and private sector levels. The EU, for its part, is dedicating €700m to a 5G Public Private Partnership through its Horizon 2020 research and innovation programme, and the EU industry is set to match this investment by up to five times, to more than €3bn.

Joint EU-China projects under the 5G agreement are to be funded through a general Co-Funding Mechanism (CFM) for research and innovation set up by the two blocs, worth some €640m from 2016 to 2020. The Chinese Ministry of Science and Technology (MOST) in December 2015 made its first annual call under the CFM to provide support totalling €28m for Chinese organisations wishing to participate in Horizon 2020 projects.

With 2020 just around the corner, it is vital that the preparations to accommodate the new 5G markets begin now if we are going to capitalise fully on the technology. Three key aspects need to be addressed, where EU-China collaboration and technological innovation should go hand in hand: increasing connectivity, boosting vertical industries and redefining network capabilities.

Roughly 55% of the 100 billion connections by 2025 will stem from business applications such as smart manufacturing and smart cities, with another 45% coming from consumer areas such as smart homes, the Internet of Vehicles, and wearables. Today, however, 99% of all equipment remains unconnected to the Internet, so we must improve connectivity by increasing the number of connections that can be supported.

Take an example of where additional connections can make an entire industry more efficient, international shipping. Simply adding a special connected lock to containers (and even small parcels) will enhance efficiency and security and bring great economic benefits throughout the logistics chain. Integrated with GPRS, GPS, and RFID technologies, the lock can monitor the geographic location and progress of each shipment and provide digital proof that the shipment has not been tampered with. Such tracking and communications will work their way into nearly every corner of the commercial world, thanks to 5G. But they require very low power consumption and strong signals in sometimes dense environments, and the technology (Narrowband-IoT) to meet these requirements.

The benefits are obvious – not only for consumers and companies involved in logistics, but also in terms of trade volumes and overall economic benefits. With the EU as China's biggest trade partner and China as the EU's second-largest, the partners stand to gain from technological progress in this field. Strategic thematic areas for deepened cooperation under the CFM will include transportation, advanced manufacturing, energy, health, new materials and sustainable urbanisation, to name just a few.

As we are seeing a shift from a supply-driven business model to one driven by customer demand, new business models are required to enable the digital transformation of vertical industries. ICT providers must strive to achieve a customer experience that caters to different industries' individual needs.

5G will pave the way for new business models and value propositions between vendors, operators and verticals through the integration of various access, transmission and network technologies.

Car connectivity is the perfect illustration of this trend. As cars are essentially turning into smart devices, the ICT industry and the car industry need to join forces to deliver products meeting customers' needs and expectations. Huawei aims to be a key player in connecting cars and making the Internet of Vehicles a reality. The company is working with industry partners in Europe and China to drive 5G development as a key enabler of car-to-car connectivity, for instance by implementing the 5G Vertical Industry Accelerator (5G VIA) with local partners in Munich, Germany, and leading in M2M standardisation by working through international organisations.

To keep up with the demand required to offer such services, 5G networks will need to integrate high bandwidth requirements into public networks and use virtual private networks to provide services.

So, the third thing we must do between now and 2020 is redefining network capabilities. Carriers need to establish software-defined architecture, achieve agile operations, and develop Big Data operation capabilities.

In a nutshell, to achieve 5G, we need to increase connectivity, and create new business models and new business value.

Giving structure to strategic cooperation between Europe and China is a prerequisite to the successful implementation of this three-pronged approach.

To achieve 5G, we need to increase connectivity, and create new business models and new business value.

Huawei is investing a huge R&D effort in 5G and has been promoting dialogue between China and Europe in this field. The company is a Board Member of the 5G Infrastructure Association, which brings together the companies on the private side of the EU's 5G Public Private Partnership (5G-PPP). It is a key player in the joint EU-China cooperation initiative, investing $600m in 5G research worldwide and participating in several flagship Horizon 2020 projects and the University of Surrey 5G Innovation Centre in the UK, where it has invested £5m in 5G testing.

To ensure that efforts undertaken by both sides to drive progress towards 5G deliver results in the required timeframe, Huawei proposes to go one step further and establish a business-led organisation for EU-China cooperation in this field. This organisation would facilitate the collaboration of key companies from Europe and China with a key focus on the strategic areas of IoT and car connectivity, enabling them to put forward concrete proposals for cooperation areas and pilot projects in the short term.

As the new partnership is about deeper EU-China collaboration to achieve next-generation connectivity, we look forward to taking our fruitful collaboration further, making 5G a reality and building a better connected world.

The Shape of EU-China Cooperation in the Digital Age

Stephen Phillips, Chairman of the EU-China Business Association

As China shifts to a more sustainable, consumer driven economy, often referred to as the 'New Normal', the Digital Economy & E-Commerce sectors will play a key role. Despite challenging global markets, it is worth noting that consumption accounted for 66% of China's GDP growth in 2015.

There are certain, well-documented challenges around China's technology sector covering market-access, protectionism and security. However the recent 5G cooperation between the EU and China, if successful, could set a new path for EU-China collaboration.

As with many aspects in China, the figures can be somewhat overwhelming at first glance, when compared to corresponding data from other parts of the world. China now has 688 million internet users, adding 39.5 million new internet users in 2015 alone, while 90% of all internet users now access the internet from mobile devices. With 1.3bn smartphone subscriptions and the largest global market for 4G services, China can be described as a mobile-first country where smartphone adoption and usage exceeds desktop devices. When Alibaba held their renowned 'singles day' last November 11, a reported 69% of the $14.3bn spent was done so on a mobile device.

Many now see China as being ahead of the west in terms of digital innovation in E-Commerce, mobile payment, online gaming and online-to-offline (O2O) technologies.

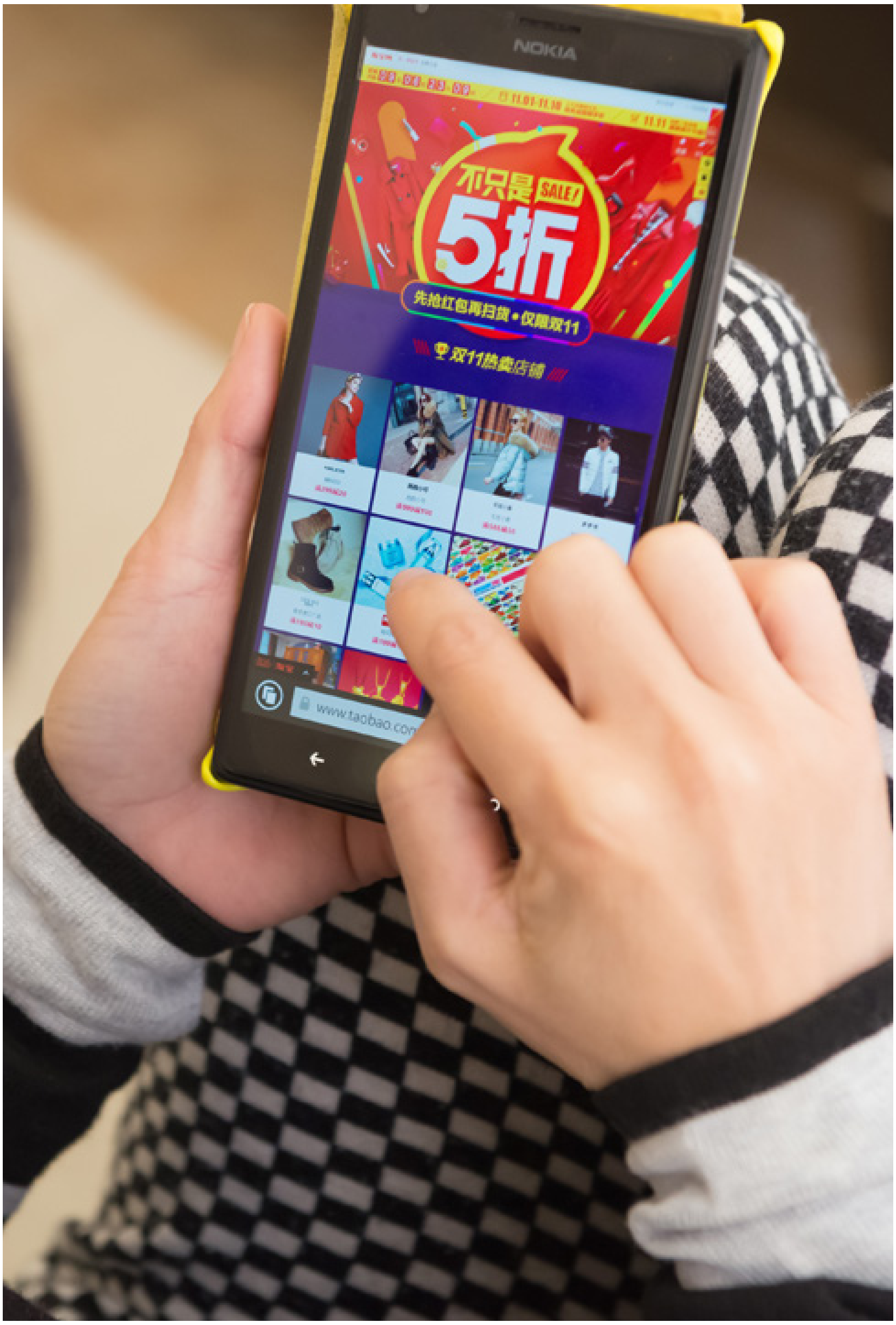
It is not only that large numbers of Chinese consumers are online which is important – it is the behaviour and habits of these consumers, the hardware and software that these consumers use, and the infrastructure that supports it, which offer so much opportunity for EU and Chinese business. Smartphone usage is changing rapidly and is used in ever-more creative and localised ways for shopping, gaming, social networks, internet browsing, payment, taxi booking and more.

An important way to understand the Chinese government's direction of travel is to follow the overarching policies. 'Internet Plus' is China's flagship policy for harnessing the power of digital across all industry sectors, including China's most traditional manufacturing industries. Announced by Premier Li in his March 2015 work plan, 'Internet Plus' is a five year plan to upgrade China's digital capabilities and position itself as a global digital powerhouse.

Stated benefits include improving productivity, boosting consumption and creating world-leading technology giants. China is also looking to become a world leader in advanced industries such as semiconductors and in the next generation of chip materials, robotics, aviation equipment and satellites. 'Internet Plus' also includes a commitment to improve domestic network infrastructure, with the goal of ensuring that 98% of population have access to broadband (and 100 megabyte-per-second Internet for larger cities) by the year 2020.

Linked to 'Internet Plus' is the announcement in February 2016 that China will increase its total spending on research and development (R&D) from 2% of GDP to 2.5%. Innovation-driven development is a key pillar of the recently agreed 13th Five Year Plan, and China is hoping to make core breakthroughs in information technology, and is investing heavily in priority areas such as Internet of Things (IoT), Cloud Computing, and Big Data.

However, challenges remain for European technology companies in China. China is looking to exercise great control over the internet through its 'cyber power strategy', which includes setting up a network security review system and promoting a 'multilateral, democratic and transparent international Internet governance system'. A further announcement in February 2016 saw a new rule that forbids foreign publishers, even those with a local joint-venture partner, from posting content online without 'prior approval'. Another reported aspect of 'Internet Plus'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is to make China less dependent on foreign imports and non-indigenous tech innovation. These controls are not something that should be welcomed. Fair and open competition drives innovation, which ultimately benefits all consumers, and indeed Chinese companies, in the long run.

Driven by an emerging prosperous middle-class, the Chinese E-Commerce market grew by an estimated 42% in 2015, and now accounts for 15% of retail sales there (this is due to increase to 23% by 2017). Market growth is also due to a significantly improved logistics infrastructure, long considered an Achilles heel for China's long-term domestic development. China's leading digital giants (such as Alibaba, Tencent, JD.com, Baidu) have been critical to this market development, by investing in infrastructure and technology innovation. In fact many now see China as being ahead of the west in terms of digital innovation in E-Commerce, mobile payment, online gaming and online-to-offline (O2O) technologies.

E-Commerce zones, designed to facilitate flows of cross-border E-Commerce in China, are also playing an important role. They are largely driven by domestic demand for overseas products, but also to support SME exports, particularly into Russia and central Asian countries. Many leading Chinese E-Commerce companies are investing in building physical infrastructure and logistics networks outside China's borders along the 'One Belt, One Road' routes. This in turn is being supported by the development of the Digital Silk Road, and built out of 4G mobile networks across central Asia by Chinese telecoms companies.

In September 2015, The EU and China signed an agreement to work together to develop 5G networks. Key elements to this are working towards a joint understanding on the concept, basic functionalities, key technologies and time plan for 5G as well as joint R&D, and developing common standards.

This agreement allows China to play a leading role in the development of global 5G standards, enabling leading Chinese tech firms (Huawei, ZTE, etc.) global market access, and access for European companies to the Chinese market. European companies will be able to access and participate in China's publicly-funded 5G research, development and innovation initiatives on the same terms that Chinese companies currently participate in the EU's 5G activities.

China-EU cooperation on 5G has long-term benefits far beyond improved mobile networks and E-Commerce. 5G technologies will also play a crucial role in supporting Internet-of-Things (IoT) and Machine-to-Machine (M2M) technologies, and will lead in the development of the connected smart cities of the future. This will impact all aspects of urban living – including but not limited to traffic management and smart transportation, energy and sustainability, physical infrastructure, digital health, governance and safety and security. This collaboration between the EU and China, in a sensitive industry, could set the tone for all digital and tech cooperation going forward.

The growing digital market in China creates opportunity for consumer brands/retailers, vendors of digital content (including mobile apps and games), and non-digital products and services (including education, healthcare, tourism) via channels never previously open. There will be further indirect opportunities for service providers supporting E-Commerce and M-Commerce, in areas such as logistics & warehousing, trade finance, and digital marketing services.

The recent EU-China deal on 5G, if successful, has the potential to foster a more collaborative relationship and market-access opportunities for European tech companies in China (and vice-versa). Fair competition between companies is the cornerstone of a market economy – but this space must be watched carefully. Disengaging may lead China to develop its own communications standards independently, limiting China market access for European companies and making it more difficult for Chinese companies to innovate in an international context.

Furthermore, barriers continue to exist for EU tech in China. Filtering of websites hosted overseas (or the 'Great Firewall of China'), limits on foreign telecoms service providers activities, increased cyber security measures, online censorship and content publishing restrictions, rules outlawing encrypted technologies, and a number of other restrictions should not be taken lightly. 5G cooperation is a way to chip away at these barriers and create a climate of collaboration, but domestic politics in China and stability play a role. In the short-term, this may require European companies to find alternative business models for the China market, such as licensing technology to Chinese partners, providing consultancy services rather than hard tech, or security strategic investment from China to open up opportunities in the China market.

The vast scale of the Chinese market, well-developed supply chains and an intensely competitive environment means that Chinese firms are often ahead of the West in terms of innovation.

An often overlooked part of collaboration in this field is that EU businesses must also learn from Chinese companies. The vast scale of the Chinese market, well-developed supply chains and an intensely competitive environment means that Chinese firms are often ahead of the West in terms of innovation. Chinese investment into the EU will help to deepen tech collaboration and strengthen this virtuous circle of innovation and market opportunity.

China should be encouraged to be open, to be innovative and to be a close partner of the EU government and business in the digital space.

5G cooperation can be a welcome catalyst.

The Digital Silk Road will be the **Road of 5G**

Luigi Gambardella, President of ChinaEU

The European summit on the refugee crisis could be followed live on smartphones and tablets. European correspondents of the major television channels do no longer work according to the timing of the evening news broadcasting. Fast 4G mobile internet has changed the way news is brought to us and the way journalists are working.

In Belgium, this unnoticed revolution of the profession was brought about, among others by a rapidly- growing Chinese vendor, ZTE, the sole provider of one of the Belgian operators for 3G and 4G networks. Thanks to the Chinese company, the Belgian operator concerned, which had until then a less-performing mobile network, could overtake its competitors as regards the country's 4G mobile internet coverage.

The industry is now preparing the mobile network technology of tomorrow, the fifth generation technology or 5G. Again, close cooperation with the Chinese industry will be beneficial for European operators and their customers.

China and the EU have chosen to join hands to make all this possible, by concluding a strategic agreement on 5G. This fifth generation technology is what will make futuristic applications such as automated driving, drone delivery and remote healthcare become part of our daily lives. Working together on this new technology is not simply a technical matter. It is a strategic decision. At the time of the signature of the agreement in September 2015, Günther Oettinger, European Commissioner for the Digital Economy and Society, stated: 'With today's signature with China, the EU has now teamed up with the most important Asian partners in a global race to make 5G a reality by 2020. It's a crucial step in making 5G a success.'

Europe has signed similar agreements with South Korea, Japan and most recently with Brazil. But, as the Belgian experience with 4G illustrates, none of these are comparable to the one signed with China. The reason is simple. China is home to two of the world's largest vendors of telecom equipment – the other two being the Europeans Ericsson and Nokia. It is also home to the world's largest telecom operator, China Mobile, boasting over 800 million customers. China has a unique scale and mass that cannot be compared to any other country in the world. Europe can only win by working aside China in this field.

As important and strategic as this agreement may be, it means nothing unless it is followed by concrete action. Following the ministerial signature, an industrial agreement was signed between the EU's 5G PPP Association and China's IMT-2020 (5G) Promotion Association, the respective industrial associations dedicated to the research and development of 5G. I would like to see the European and the Chinese industry work together not only on research and development within the respective R&D associations, but also on concrete projects, which can show the average consumer what 5G is really about. Just like what TeliaSonera and Ericsson are doing by bringing 5G to Stockholm and Tallinn by 2018, similar initiatives could be run by a consortium of Chinese and European players, working together on the creation of 5G cities, both in Europe and in China. This would demonstrate what the two sides together can achieve to build citizens-friendly yet futuristic smart cities.

A second important point is interoperability. Let us take e-commerce to illustrate the concept. Cross-border online trade between Europe and China allows China's rising middle class consumers to enjoy high-quality European products and services. At the same time, it makes it easier for European businesses to reach the world's largest e-commerce market – China has just recently surpassed the US, with 413 million online shoppers spending $672bn as of end 2015, according to Emarketer (versus $347bn spent by US online shoppers). The size of the Chinese online market – expected to rise to $1tn in 2017 - can offer enormous growth opportunities for European companies in all sectors and especially for small and medium companies, who cannot afford to set up a physical presence in China. Alibaba - China's biggest e-commerce player - has opened new offices in the UK and Italy, with expansion plans in Germany, France and Belgium, with one very clear mission: provide a 'one-stop shop' for local brands and merchants, identifying the most suitable local products for the Chinese market, helping local businesses sell on Alibaba's platforms, assisting with outbound and inbound logistics, and facilitating online payments for Chinese consumers and offline payments for Chinese tourists.

Alibaba and similar platforms can play a very important role in the bilateral trade relationship, to the extent that such cooperation with the European SME community should be endorsed at the political level. In order to make cross-border online commerce a reality, all unnecessary regulatory barriers should be eliminated. A safe interoperable system of payments is indispensable, so that a Chinese customer can use his local credit cards to buy from Europe, and vice-versa. Consumers should enjoy a similar level of protection when they buy cross-border as when they buy within national borders. Cybersecurity provisions should be harmonised, so that frauds are effectively tackled. China has just completed a draft version of the country's first E-commerce law, setting up rules for online transactions and service safety, data protection, infringements upon customers, market order fair competition and so on. Europe should keep a close eye on these important legislations, as it will guide the sector’s future development. More than that, a China-EU E-commerce taskforce should be set up to discuss the issue.

The third point is trust. We cannot talk about 5G cities or proliferation of cross-border online trade, if people do not trust the system. We should thus reflect on mechanisms to turn citizens into netizens, demonstrating to them that the Internet is a powerful tool to improve their everyday lives, their job prospects, their life conditions, and that putting personal data on the web or making online payments are reliable operations. China has a much higher adoption rate of technology-enabled payment systems than Europe. Through the development of WeChat – sometimes improperly referred to as the Chinese WhatsApp – China has perhaps something to teach us. The cooperation with China on the digital agenda is one of the most strategic fields of the existing bilateral partnership.

During his first-ever visit to Brussels last year, Minister Lu Wei, Director of the Cyberspace Administration of China, suggested that China and Europe should build a Digital Silk Road, hinting at focusing cooperation between China and Europe on the digital economy. I hope that Commissioner Oettinger will convince his fellow commissioners and the national governments to seize the opportunity.

SECURITY

EU-China Security Relations:

Twosomes can work, but can a ménage à trois?

Simon Duke, Professor at the European Institute of Public Administration (EIPA), The Netherlands

There are roughly 68 ongoing dialogues between the EU and China. Much of this is devoted to trade-related issues but an increasingly important part of the 'first pillar' (political dialogue) is devoted to EU-China security relations. The security dimension actually goes beyond dialogue to include examples of cooperation but it still remains a relatively new part of ongoing cooperation and, if it is to survive, it will need careful mutual nurturing.

First impressions of EU-China security relations are rather positive. Neither views the other as a threat and there is general consensus on the desirability of further collaboration on issues of peace and security in the context of the EU-China 2020 Strategic Agenda. There is also broad agreement on the need to maintain freedom of the Sea Lines of Communication (SLOC) since this is critical to mutual trade ties. The evolving security interests extend beyond Asia to include other parts of the world, such as Africa. Within the EU there is acknowledgement of China's expanding role and importance in international peacekeeping (especially in the EEAS where the Secretary-General, Alain Le Roy, was previously Under-Secretary for Peacekeeping Operations in the UN). On several occasions, such as the evacuation of Chinese citizens from Libya in 2011, the 2014 chemical disarmament of Syria and the search for Malaysian airlines flight 370 in the same year, China has indicated its interest in a wider security role.

China's interest in security engagement with the EU stems from at least the late 1990s and the development of what became the Common Security and Defence Policy (CSDP). This was part of a broader engagement designed to promote the role of the EU as an independent actor in the complex post-Cold War international system. China's military thinking reflected a certain duality: on the one hand China was influenced by realist perspectives stressing territorial integrity and defence and, on the other, by the desire to employ security, and in particular its military, to underline the emergence of China as a constructive global player.

The latter ambition was reflected in China's growing involvement in UN peacekeeping operations, with Chinese participation in 24 operations between April 1990 and June 2015, which included 2,720 Chinese peacekeepers deployed in nine UN missions. This appealed to the EU's emphasis on multilateral engagement and paved the way for more specific EU-China cooperation on anti-piracy operations.

Military-to-military cooperation between the EU and China is a relatively recent phenomenon, developing mainly after 2012 with the first high-level military visits, joint training and briefings. The EU's security cooperation with China is part of a wider effort at regional security engagement with Asia (ASEM, ASEAN and the ARF feature prominently). Key to the EU's regional engagement are its efforts to promote the rule of law, notably the ASEAN-China Code of Conduct for the South China Sea and the UN Convention on the Law of the Sea (UNCLOS). The main avenue for building military-to-military cooperation with China has been through anti-piracy operations in the Gulf of Aden, the Horn of Africa and the Western Indian Ocean. China deployed 17 task forces to the Gulf of Aden by mid-2014, which is quite remarkable for a country that has not deployed military forces overseas since the 15th century.

Aside from the navy, China has also deployed PLA contingents to UN peacekeeping operations (PKO) in Mali (MUNUSMA) and to South Sudan (UNMISS) in the last couple of years; a fact that is also remarkable considering China's traditional sensitivity towards interference in the internal affairs of states and its traditional preference to confine its contributions to non-combat roles. It remains to be seen if China's multilateral engagement is a platform for counterbalancing Western influence in the UN and to reshape the underlying norms for PKOs.

EU-China security collaboration, especially in the military domain, is still at an early stage. A glance down the road suggests that there are indicators that point to intensified relations, while others suggest challenges.

On the positive side, EU-China military cooperation promotes the latter's goal of demonstrating not only China's restored international status, but also its responsible exercise of power. For the most part, the EU is seen as a credible security partner since it has no direct stakes in the territorial disputes in China's vicinity, nor can it intervene militarily in the theatre. The EU and China also share a common interest in maintaining the openness of SLOCs (Hong Kong and Chinese flagged commercial vessels have been subject to pirate attacks). The EU obviously hopes that continuing security engagement will gradually draw China inexorably towards multilateral approaches to security and the rule of law. But, this engagement is complicated by the fact that the Ministry of Defence falls under the State Council and has little influence over the PLA which falls under the Central Military Commission, chaired by President Xi Jinping himself. This often makes questions of influence and equivalence with the EU's structures tricky. It also makes it hard, from an EU perspective, to fathom what exactly China wants out of deeper military-to-military engagement, with much of the momentum so far coming from the EU side.

There is acknowledgement of China's expanding role and importance in international peacekeeping.

The arms embargo imposed by the EU following the suppression of the Tiananmen Square protests in 1989 also frequently surfaces in joint discussions, although this has not stopped the lucrative sale of dual-use goods, notably by France (helicopters), Germany (various types of diesel engines) and the United Kingdom (radars). If the EU wishes to remain prominent among China's panoply of overseas military ties, which now extend to around 150 countries, a common EU/Member State mil-mil approach would be advisable (but, inevitably fraught with competence issues).

It is also possible EU-China security cooperation may slow as the result of upsets in negotiations in other areas – the investment treaty, market economy status and the EU's preference for parallel tracks between the PCA and any FTA negotiations – may all have potentially negative effects if agreement is not reached. The EU's instinctive attraction to multilateralism may also pose challenges, especially in the ASEAN context where 4 of the 10 members have territorial disputes with China in the South China Sea. It is unlikely that ASEAN will be able to remain indefinitely on the fence over the South China Sea disputes. Nor, for that matter, will the EU. The dynamics of the territorial disputes may be influenced positively or negatively by the simple fact that China features as the largest trading partner of the ASEAN members, while the EU is China's first export market.

Finally, the triangular relations between the EU-China-US will need particularly careful handling. The participation of half of the EU's members in the AIIB as founding members may sit uneasily with the ongoing TTIP negotiations. If successful, TTIP risks being portrayed as part of an American inspired containment manoeuvre against China (an impression reinforced by China's exclusion from the recently agreed Trans-Pacific Partnership). The EU's strong preference for a maritime order based on international law may find the Union being forced to take a stronger position on the US 'freedom of navigation' passages in the South China Sea. All coming at a time when the EU desperately needs Chinese investment for the Commission's €315bn Investment Plan for Europe. The bolstering of NATO's forces in Europe, against possible Russian revanchism, has further underlined to Europe its continuing dependence on the US when it comes to hard security issues. Future security engagement with China will therefore demand looking not only towards the Pacific, but also across the Atlantic. Three may prove to be a crowd.

Non-conventional Security Cooperation:

A rising priority for deepening the China-EU Comprehensive Strategic Partnership

Liu Ming, Professor, Executive Director, and **Dai Yichen**, Assistant Research Professor, Institute of International Relations, Shanghai Academy of Social Sciences (SASS), China

The synergy between the 'One Belt, One Road initiative' (OBOR) set out by the People's Republic of China (PRC) and the Juncker Plan is a strong new dynamic to help develop China-EU relations in the coming years. The goal is to create a non-conventional security cooperation that would be a priority, along with the growing economic interdependence, between the EU and China. It is clear that non-conventional security threats, such as terrorism, extremism, organised crime, illegal migration, and other transnational challenges, are becoming important issues in China-EU relations. Both China and the EU have suffered attacks from organised groups on domestic soil. It is therefore urgent for China and the EU to find an effective way to counter the common

The bilateral cooperation between China and the EU also needs to expand into countries used as the transit hub of traffickers or as safe zones for terrorists.

threats caused by terrorism and extremism. Such threats can also potentially damage fragile China-EU economic cooperation across unstable regions in Central and West Asia which connect the two huge markets. Hence, China and the EU need to consider their non-conventional security cooperation as a long-term strategic issue that could produce profound benefits for both, as well as the countries situated alongside the OBOR route.

However, substantial cooperation on that issue still needs more frank conversation to fill conceptual gaps and build mutual trust between China and the EU. Neither China nor the EU regards the other as a military threat or geopolitical rival, but visible differences exist in the definition and governance of terrorism and extremism between the two sides. On the one hand, terror attacks in China are usually attributed to domestic tensions by Western analysts. On the other hand, in Chinese understanding, the motivation of terrorists in Europe is easily viewed as the consequence of European governments' military interference in the Middle East. Such kinds of stereotypes neglect and underestimate the complexity of the generative mechanism behind various terror attacks.

It is vital that all actors involved pay closer attention to strengthening China-EU coordination and cooperation on countering terrorism, transnational organised crime and other related non-conventional security threats, which have already been a part of the China-EU 2020 Strategic Agenda for Cooperation adopted in 2013.

Nevertheless, there is a lack of an explicit plan to push for fruitful cooperation in this area. Given that the main differences between China and the EU are rooted in their political ideologies and systems, it would be appropriate to start the non-conventional security cooperation through a functional and progressive approach. This means that cooperation could start from some areas or issues which are less difficult for the two sides.

For example, China and the EU could set a regular mechanism of intelligence and experience sharing on combating organised crime, as many European and Chinese citizens have been recruited by ISIS and slip into Syria through the same routes used by human and drug traffickers. Such cooperation could start from an expert level and gradually be elevated to higher levels according to the degree of bilateral policy coordination. The exchanges could include a study on terrorism and various types of trafficking, new technology could be used to trace the trafficking and money-laundering routes and there could be a sharing of experience as regards emergency response and humanitarian assistance.

As most non-conventional security threats are likely to occur in conjunction with or act as triggers for other crises, it is reasonable for China and the EU to start bilateral cooperation in these areas on a technical level before making the discussion more strategic. This would not only increase mutual understanding and trust between the EU and China, but also help to establish concrete operations and joint actions. The bilateral cooperation between China and the EU also needs to expand into countries used as the transit hub of traffickers or as safe zones for terrorists. This will ensure that countries in Central Asia and the Middle East are able to enhance their own security governance capacities with the assistance of China and the EU as well as other stakeholders. Cooperation with such countries could be based on existing projects which China and the EU are already engaged in, for example through SCO, OSCE or the UN and other multilateral channels.

In short, neither China nor the EU can solve interconnected global challenges through unilateral actions. For this reason, non-conventional security cooperation could become a promising area for deepening the China-EU comprehensive strategic partnership. Given existing unavoidable differences on security perceptions and approaches, the two powers could take more pragmatic steps on the easier issues, with the goal of being more ambitious in the long-term.

KEY RESULTS OF THE LAST EU-CEEC SUMMIT

The Suzhou Summit: upgrading of the 16+1 cooperation?

Dragana Mitrovic, Professor at the University of Belgrade, Serbia

At the 16+1 Summit in Suzhou in November 2015 held under the theme 'New beginning, new domains and new vision', Chinese Premier Li Keqiang set out a new vision for deepening and expanding China's cooperation with the 16 countries of Central and Eastern Europe (CEECs) through the 'One goal and six priorities' agenda.

Premier Li's suggestion was that realising the 'one goal' should mean putting all the elements of medium-term cooperation into time frames of five years. As such, the 'Medium-term Plan' could run in parallel with China's 13th Five Year Plan (FYP) and the 'One Belt, One Road' (OBOR) initiative as well as the European Commission's Investment Plan for Europe. This would be the first of the 'six priorities'. Meanwhile, the 'Suzhou Guidelines' should be more focused on the near-term and specific projects. Both political documents were adopted at the Summit.

Coordination between the OBOR projects and development strategies of the CEECs in the area of infrastructure development was identified as the 'second priority'. The Belgrade-Budapest modern railway link was named as a key project and the Chinese Premier expressed China's readiness to 'build the China-Europe land-sea express line and promote connectivity in Europe'.

As 'the third priority', he recommended combining China's advanced capabilities for 'equipment manufacturing and […] engineering design, construction and management' with cost-effective products and services that could help a number of CEECs: Croatia, Slovenia, Poland, Latvia and Bulgaria - which had proposed strengthening the cooperation on port development - to reduce costs. While mentioning cooperation initiatives involving the ports of the Adriatic, Baltic and Black seas, Premier Li pointed out that China 'expects our companies to be the main players in these projects'.

'The fourth priority' was upgrading financial and investment collaboration that was marked as the weak point of the 16+1 cooperation. The Chinese leader said that China will give preferential loans for those companies 'that use Chinese products and equipment in production capacity cooperation'. For some this was a sign that China was disregarding market rules and EU procedures but it also illustrated how China sees future 'win-win' financial engagement with the CEECs.

As 'the fifth priority', he identified agriculture and the 'sixth priority' was cultural, educational, tourist, research and other people-to-people cooperation. He underlined his hope for more centres of traditional Chinese medicine to be opened in CEECs.

As regards the EU's presence at the Summit, EU representatives – including the EU Ambassador in Beijing and the ambassadors of Austria and Greece – were present as observers. Austria had earlier said it was interested in becoming part of the framework.

Coordination between the OBOR projects and development strategies of the CEECs in the area of infrastructure development was identified as the 'second priority'.

During preparations for the Summit, the EU's interests were represented to a large extent by the Baltic States, although it was unclear whether they were acting on their own or under instruction from Brussels. The preparations were therefore occasionally quite complicated. Additionally, some of the EU member states, notably the Baltic States, initiated 'EU+16' discussions in Beijing, before commonly-agreed positions could be shared with the Chinese. Generally speaking, South-Eastern European countries were very cooperative, active and open towards deepening cooperation with China and all initiatives proposed and adopted during the Summit.

The EU has been worried by the 16+1 framework from the start, arguing that the platform was dividing the EU. However, the crisis-stricken countries in Central and Eastern Europe view the cooperation as a positive step forward in their search for investments and technology. After the first big infrastructure projects were announced or built (especially the upgrading of the Belgrade-Budapest railways), Brussels loudly criticised such deals as being in contradiction with EU regulations and business practice as they excluded competition and public tenders. The EU should, in fact, show more understanding of the 16+1 process and especially of the stance taken by non-EU member states.

Let's not forget that China has always insisted that growing cooperation with the 16 CEECs is part of an upgrading of cooperation with the EU. In Suzhou, in his opening remarks, Premier Li said the platform was about ensuring 'all win outcomes' for China, the 16 CEEC states and the EU. He noted that the 16+1 cooperation 'has fully accommodated the relevant concerns of the EU and moved in parallel with the greater interests of China-EU cooperation'. The next summit of the group will be held in Riga, the capital of Latvia, a member of the EU.

Europe needs to take **full advantage** of the 16+1 cooperation and OBOR

Tamas Matura, Assistant Professor of International Relations at the Corvinus University of Budapest, Hungary

The 16+1 cooperation has attracted attention and created suspicion ever since 2011. Many questions have been raised across Europe about the true nature of the project, the intentions of the Chinese and its potential impact on the integrity of the Union. Beijing and its Central and Eastern European (CEEC) partners have not done enough to make things clear and understandable. Two years later, Chinese President Xi Jinping introduced a new, comprehensive initiative, the 'One Belt, One Road' (OBOR) which could be even more opaque than the 16+1 cooperation. Taken together, however, the two initiatives are less vague than they appear at first glance.

When Beijing introduced the outlines of the cooperation between the Middle Kingdom and its sixteen Central and Eastern European partners between 2011 and 2012, most observers believed China had a well-prepared and detailed plan. Since this supposed plan was never published or even talked about, Western EU member states had concerns regarding the true intentions of China. Was it to divide and rule Europe? Behind closed doors some diplomats even talked about a Chinese-built 'new Berlin Wall'. Meanwhile, CEEC countries were trying hard to figure out what Beijing wanted or needed. This was the natural reaction of the West, where announcement of major initiatives or projects are usually preceded by months or years of articulating a detailed blueprint. I think after five years we can state: there wasn't any detailed plan or blueprint for the 16+1 cooperation. It was rather an opportunistic strategic idea. Chinese scholars and decision-makers realised the crisis had induced a financial vacuum and development opportunities in the CEEC region, and grabbed the chance. The leadership embraced the idea, borrowed some experience from China's involvement in the developing world, announced the initiative, dedicated €10bn and watched how the whole process evolved. Their approach has been modified according to the newly-gained experiences. If the Chinese had a detailed plan in advance, they would not have been surprised by the failure of their first attempts to sell infrastructure construction projects to EU members. However, based on their experiences over the last few years, they started to focus on non-EU members on the Balkan Peninsula.

When it comes to OBOR, the pattern is very similar. Chinese experts realised the strategic opportunity to integrate Eurasia and tackle the challenges imposed by the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) accords. President Xi Jinping embraced the idea by announcing the Silk Road Economic Belt in September and the 21st Century Maritime Silk Road in October 2013, pledging $40bn. Even the name of the project has been changed multiple times in recent years, simplified to 'One Belt, One Road' initiative (OBOR). Maps of the project broadcasted by the media around the world are totally unofficial, created either by academia or the media itself. Chinese scholars and officials travel around Europe and Asia to ask for ideas and recommendations from their local peers. It is a common story nowadays that European experts do not understand why the Chinese are asking them how to build OBOR when it is a Chinese plan. Because there isn't any plan! Like in the case of 16+1, Beijing follows the well-known East Asian tradition of inductive thinking, while the West tries to understand it through its deductive traditions. China follows the same method at the level of think tank cooperation as well. Dozens of forums have been created, such as the two associations of think tanks of the Silk Road and the China-CEEC Think Tank Association, both equipped with a proper budget and regular conferences. But most non-Chinese participants do not see the purpose or substance, yet. The Chinese are expecting us to create ideas and content together, which should be taken by us as an opportunity, not a problem.

There wasn't any detailed plan or blueprint for the 16+1 cooperation.

So yes, OBOR may give even more substance and content to the 16+1 cooperation, but it depends on our reaction. Thanks to the inductive mindset of our Chinese partners, there is a huge chance to actively

Countries like Poland or Hungary should develop proactive strategies to draw Chinese investors' attention to the potential business opportunities provided by their EU and Schengen Area membership.

influence the future of the 16+1 cooperation and of the OBOR as well. The EU and its Western and Eastern member states should embrace the idea of the OBOR initiative and proactively seek opportunities to maximise its benefits. CEEC countries are geographically predestined to be part of OBOR, and the looming project of connecting the port of Piraeus in Greece with Budapest through Macedonia and Serbia is one of the first examples of how the OBOR initiative and the 16+1 cooperation may merge together. Meanwhile, China is considering relocating some of its industrial or manufacturing capacities into foreign countries to rebalance its domestic economic structure with its foreign trade. Central and Eastern Europe is a region which might be able to attract Chinese investment, and transportation corridors of the OBOR initiative may offer a particularly good chance. Countries like Poland or Hungary should develop proactive strategies to draw Chinese investors' attention to the potential business opportunities provided by their EU and Schengen Area membership.

Brussels and Western members of the Union may realise that the 16+1 cooperation could help them reap the benefits of the OBOR initiative. Instead of seeing Chinese construction companies as competitors in the CEEC region, European companies may find ways to cooperate in building new transportation systems in Central and Eastern Europe. Beijing is willing to provide financial support to major construction projects, while EU funds are about to fade out in the upcoming years. Budapest should not be the terminal station; the railroad could continue its path to the north, until it reaches the Baltic Sea in Poland. The region desperately needs a north-south corridor, China would be happy to finance it, and German, French and Austrian companies could find ways to cooperate with their Chinese counterparts for the benefit of all.

Maybe this sounds idealistic, but I still believe that the inductive approach of China provides ample opportunities to Western, Central and Eastern European countries as well. What we need is to understand how China thinks and to articulate the proper, proactive strategies to harvest the benefits.

China's New Silk Road

What investment opportunities for Central and Eastern Europe?

Sanja Vasic, Head of the Centre for International Economic Relations at the Belgrade Chamber of Commerce, Serbia

High growth rates and the development of the People's Republic of China (PRC) in the last few decades, along with the shift in its business model, have made China one of the biggest Foreign Direct Investment (FDI) exporters globally. The slowdown of the national economy after its tremendous development forced Chinese companies to expand abroad and seek an alternative growth model as well as new investment opportunities. A strategic approach, long-term partnership and diplomatic ties with Europe have created a positive environment, allowing the Asian country to make huge strides forward. In addition, promotion of the 'One Belt, One Road' (OBOR) initiative as a gigantic project with straightforward goals allow for simple access to key international markets and increases connectivity.

While the OBOR is perceived as a tailored solution for neighbouring countries, it has also allowed the PRC and other countries in the region to have access to previously inaccessible parts of the world, such as Europe. This new economic and political strategy represents the largest infrastructure and commercial project of the 21st century. It anticipates the revival of the ancient Silk

Road in the form of modern transportation, trade and economic corridors from Shanghai to Berlin. The plan includes the construction of high-speed rail, roads and highways, the network for transmission and distribution, etc. It is expected the New Silk Road project could take decades to complete, while China claims to invest and finance at least $40bn through national banks and fund operations to boost the project's development.

As the biggest and most important Chinese economic strategy of the 21st century, the OBOR initiative is important for the EU and especially for Central and Eastern European countries (CEEC), with the CEEC region functioning as the bridge between Europe and Asia. China has successfully invested in domestic infrastructure to improve the mobility of goods, services, people and capital, primarily in order to attract foreign investors. This model is now being copied and incorporated in the new strategy aiming to connect three continents, with the PRC at the helm of this. It is no secret that China's strategic investment is focusing on the following areas: transport logistic infrastructure, industrial zones, energy sector, natural resources, and finance. The strategy is to link and increase transport connectivity with Europe, in order to shorten the transport of goods from 36 days to about 10 days by train.

Deeper cooperation and an increase in China's economic and political interests in CEEC countries over the past few years are the result of mutual cooperation. For example in 2012, in the midst of the global financial crisis, the PRC and the CEEC countries launched a new cooperation mechanism known as the 16+1 formula in Warsaw, Poland. The intention of the 16+1 formula was to facilitate the shaping of relations between the PRC and the EU, while also becoming a tool in building a positive image for China. Therefore, China and Europe would be able not only to improve their trade and economic relations, but also to overcome cultural gaps that existed between the two.

Nowadays, cooperation between the EU and the 16 CEEC countries represents a very important part of China's political and economic strategy. An easier approach to CEEC for the PRC lies in the fact that they are all ex-socialist and now developing countries experiencing difficulties in transformation. Common features were the base for setting up this new mechanism of cooperation, in order to take a closer step towards easier access to the EU market. Among these 16 CEEC countries, 11 are already EU member states (Romania, Bulgaria, Croatia, Poland, Hungary, Slovakia, Czech Republic, Slovenia, Estonia, Latvia and Lithuania), 4 are candidate countries (Serbia, Montenegro, Albania and Macedonia) and 1 is a potential candidate (Bosnia and Herzegovina).

Most CEEC countries prioritise ties with Europe but after the global financial crises of 2008, and in particular China's recovery and attempt at offering support, CEEC countries began to strengthen bilateral trade ties with the Asian giant. Thus, the trade volume between the PRC and CEEC countries experienced significant growth, as China's imports from CEEC countries increased by approximately 30% annually. It is not surprising therefore that the EU is China's largest trading partner, as Chinese investment activity in the EU and CEEC countries increasingly covers different sectors and industries.

With the creation of two direct railway cargo connections launched between Poland and China, Lodz-Chengdu and Warsaw-Suzhou in 2013, economic interests in the form of transport infrastructures are also being extended to Western Europe. The best example of this is the Chongqing-Xinjiang-Duisburg (Germany) cargo rail route, opened in 2011, seen now as a part of the New Silk Road. The New Silk Road strategy helps China to diversify export destinations and increase export volume, but also to increase import volume. The PRC aims to diversify its abundant capital and CEEC countries offer a suitable place for investments. The attractiveness of CEEC countries lies in their geo-strategic position, good production base, easy access to the EU market, educated work force and lower operational costs compared with the EU. The privatisation of state assets in fiscally troubled countries presents an opportunity for Chinese investors. There is also an interest in greater investment and cooperation from CEEC countries, as they hope to reduce their trade deficits with China by increasing exports while also attracting investments from China.

Due to the financial crisis, European companies need capital injections and strategic partners in order to move forward. The extra liquidity that Chinese companies possess is a very attractive and a partnership between the two benefits both parties. Looking through the new 13th Five Year Plan, the strategy of making the initiative global is still a key topic embodied in the 'One Belt, One Road' programme. Nonetheless, China is faced with the challenge of reshaping its economic model and strengthening its position as a global economic player. In previous years, we witnessed high volume acquisitions of EU-based companies such as Geely acquiring Volvo of Sweden for $1.8bn in 2010. Growing more and more as major global investors, Chinese companies aim to invest in various brands, technologies, new innovations and create easier market access. Their presence in the CEEC market is changing this model by actively participating in the further development of the CEEC economy through new financing models (BOT, PPP or concessions). The massive employment of local labour in these projects, with a part of the Chinese labour force used for surveillance and engineers, is helping Chinese companies to enter into the CEEC and European market with less tension.

The funds acquired through economic and trade cooperation is helping the PRC to fund projects along the New Silk Road and to act as an investor to the projects, not only as an EPC contractor, which was mainly the case in the past in developing countries.

Previously, a standardised trend of Chinese companies was to target Europe's main industries, such as infrastructure projects, the energy sector, agriculture, tourism, real estate and finance. At the moment however, the CEEC region's main players from China are state-owned companies that are coming as pioneers, exploring the market and business environments and pulling private-owned funds and companies in the same direction. In the EU market, both state-owned and private Chinese companies are present. One of China's major challenges in this respect would be how to loosen and transfer the usage of finance instruments that are allocated for the purpose of new OBOR strategies and to be available for private-owned projects and investments.

After the global financial crises of 2008, CEEC countries began to strengthen bilateral trade ties with the Asian giant.

As a result of the vital geopolitical positioning of the region and pressure from other world powers that are not enthusiastic about China's growing influence in the region, the CEEC countries are forced to balance their political position regarding China. In the past, the EU had reservations about the China-CEEC cooperation mechanism, but the situation is changing. Even in the EU there is growing acceptance of China's investments and presence in Europe. The most active and enthusiastic companies towards Chinese investments are in the UK, Germany, Italy and Switzerland. In 2014, Chinese investments in Western Europe increased from an estimated \$16.5bn to a projected \$22bn. The main reason for this is that the Chinese government does not acknowledge offshore investments by Chinese companies. In 2014 the UK received \$1.3bn from Chinese investors. The China National Offshore Oil Corporation signed a contract worth \$18bn with British Petroleum. The Chinese are stakeholders in Thames Water and Heathrow Airport, and London's real estate market is booming due to Chinese investments. Chinese investments in Europe increased drastically from \$2bn in 2010 to \$22bn in 2014, with Italy becoming the second biggest beneficiary of Chinese investments after the UK. Germany, as the most economically powerful EU country, is quite open to China's cooperation intentions in the region. They are also one of the top beneficiaries of Chinese investments in Europe, with total investments from 2000 -2014 amounting to €6.9bn.

The EU-China strategic partnership provides a constructive framework for China-CEEC cooperation. However, some perceive China's presence in Europe as a potential threat. On numerous occasions, the PRC has demonstrated diplomacy and respect towards EU concerns. EU representatives are invited to forums and summits between China and CEEC countries. On several occasions, China's senior officials emphasised that China-CEEC cooperation is complementary to the China-EU strategic partnership, and that CEEC countries are an important part of Europe. Chinese development of infrastructure connections could help narrow the development gap within Europe and improve Europe-China connectivity. The PRC is as an important partner and opportunity for Europe and the CEEC region. There is tremendous potential for cooperation and a great interest of all involved parties. Economic gains through cooperation with China or any other country in the world should be the 'conditio sine quo non' or a condition that is indispensable of all countries involved. Therefore, for successful cooperation to work, people-to-people exchanges should be increased in order to overcome some of the cultural gaps that sometimes make cooperation and communication challenging.

In the new cooperation and partnership deals, the PRC is presenting a win-win situation for all parties involved. China is becoming a major global investor and the New Silk Road is reviving this ambition. Although there are a lot of different attitudes worldwide, the main idea of the cooperation with China is that this is a great opportunity for all those involved. At this stage in the global world, the proposed principle of a win-win cooperation and increased connectivity between Europe and the PRC is the only sustainable one, and all parties involved should participate and include each other's interests, while creating new opportunities for further mutual development and growth.

THE WAY AHEAD

The EU-China people -to- people dialogue: halfway through

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After over a decade of active, though unstructured, cooperation in culture, education and youth, on 18 April 2012 the EU and China signed a joint declaration to launch an overarching people-to-people dialogue aimed at deepening mutual trust and understanding, through the enhancement of contacts between their peoples. What has happened since? Have commonly agreed objectives been reached? Have all high-level meetings taken place according to schedule?

The easy answer to these questions is 'yes'. In the last four years, three EU-China high-level people-to-people dialogues (HPPD) have been held in the presence of the highest-ranked leaders from both sides. The objectives of increasing student and professor exchanges, multiplying meetings between youth organisations, strengthening cooperation in the cultural field, triggering dialogue on gender equality, and many others, have been met.

An issue arises as to whether all these actions have produced a real impact or not. What we can see over the past decade is that they have improved relations between the two regions, as the Chinese and Europeans are more tolerant today of each other's cultural differences, dissimilar ways of living, thinking and varying values. As time has progressed, Europeans and Chinese people are more curious about each other and willing to penetrate the different aspects of each other's societies. Nonetheless, both Europe and China still have a long way to go before they can consider the hard work of building bridges of trust. The Europeans still look suspiciously at hyper-dynamic China and the Chinese fail to grasp Europe's caution. Despite the thousands of beneficiaries of scholarship schemes (the EU's Erasmus+ and the China Scholarship Council) and the promotion of respective cultures, be it via festivals, exhibitions or media, mutual perceptions remain widely biased by stale preconceptions.

Thanks to its meteoric economic and urban growth, its atypical political system and inherent contradictions, China has been increasingly drawing the world's attention in the last couple of decades. Yet, if initially China was regarded with great excitement as a rising power and a country of opportunities, the viewing angle has now shifted towards less enthusing aspects of its society. With some complicity of Western media, in the eyes of many Europeans China today is associated with high pollution levels, social inequalities and a lack of freedom of expression. This last aspect is undoubtedly crucial in shaping Europe's perception of China. The values of freedom and democracy that pervade traditional European thinking inevitably orientate the interpretation of other societies. The limitations to the social media environment and the ambiguous definition of academic and artistic independence constitute an issue that China still needs to come to terms with, both in its domestic discourse and in its external relations.

European beneficiaries of people-to-people exchanges with China are typically educated people with strong analytical and critical skills. They have an evident interest in China's societal changes and in initiatives of grassroots movements, but their interest often clashes with China's top-down restrictions related to the access of information or with legislations hampering effective cooperation. China should find a way to process, assimilate and offer its modernity more transparently to its counterparts.

Moreover, language and civilisation courses offered in Europe by Confucius Institutes do not prove alone to be sufficient to make China fully understood. Why do so few Europeans know a literary masterpiece such as 'Dream

While Europe should not neglect its own values when dealing with China, it should not rely exclusively on its own societal model for interpreting the rest of the world.

of a Red Chamber'? Why are great movies from Chinese directors such as Zhang Yimou or Jia Zhangke only known to restricted elites? Why do world-class universities such as Tsinghua, Renmin or Fudan still lag behind in attracting European brains? Traditional culture is there to stay but if China aims to stimulate the curiosity of a broader audience and the interest of new generations of scholars, it should endeavour to convey not only its millenary heritage but also its contemporary creation in more modern and diverse formats and modes.

In fact, besides China's deficiencies in reaching European hearts, Europe also has to ask itself to what extent it is committed to overcoming these difficulties. Is the EU concretely facilitating EU-China mutual understanding? Firstly, Europe needs a change of mindset. While Europe should not neglect its own values when dealing with China, it should not rely exclusively on its own societal model for interpreting the rest of the world, keeping in mind that a fit-for-all model may not necessarily apply to countries with different history, size and population. Secondly, China still fights to understand the balance between priorities and interests set at EU level and in member states. This two-fold dimension is an obstacle to identifying a genuinely European dimension.

For decades, especially in coincidence with the economic crisis, the EU has spoken the language of economics and finance and this has stained the discourse on Europe as a cohesively united entity. Not enough attention has been paid to communicate the cultural significance of the EU beyond its economic dimension and this is reflected also in the EU external relations. People-to-people relations are at the core of China's strategy to establish closer links with Europe. Major investments in establishing Confucius Institutes and Cultural Centres around the world prove that China attaches great importance to fostering international relations by means of soft power. Some member states have long-standing cultural cooperation with China and the EU is now about to adopt a coherent strategy on culture in its external relations. This will facilitate the networking of EU delegations, EU National Institutes of Culture (EUNIC) and grassroots organisations to exchange ideas and carry out joint projects with partner countries such as China.

Concerns have been increasing over the severe budget cuts some European universities have suffered over the years. In response, universities pooling resources and reinforcing university cooperation with China has been crucial to carry out research activities, seminars and events contributing to increase the knowledge on China both for students and academics, but also for a broader audience. However, recently some European universities are questioning the added value of hosting Chinese centres within their own institutions. Their arguments relating to the free teaching of certain sensible topics are reasonable, but the solution should not be the closing of centres. There is no reason to be suspicious if cooperation is based on solid multi-annual planning defining European interests vis-à-vis China and identifying the best ways to achieve them.

In a win-win spirit, Europe should make clear to what extent it is interested in Chinese proposals, which joint actions it is ready and capable of supporting, what it is open to negotiate and what it considers definitely un-negotiable. Europe would become less wary if it were able to respond appropriately to China's pro-activeness. In concrete terms, this would imply investments at the EU-level in cultural and education project where a profit for Europe can be clearly identified.

The framework initiative of ‘One Belt, One Road’, a symbolic route bringing Eurasia back as a crucial territory, opens the opportunity to expand people-to-people exchanges with China and to bring in new countries as key actors of EU-Asia cooperation. The ongoing review of the EU-China 2020 Agenda for Cooperation provides the ideal framework to the EU and China for re-discussing the role of people-to-people contacts in the wider context of EU-China relations. People-to-people exchanges are in fact fundamental not only to strengthen human links, but are the key for making all other dialogues more effective and productive.

Not enough attention has been paid to communicate the cultural significance of the EU beyond its economic dimension and this is reflected also in the EU external relations. People-to-people relations are at the core of China's strategy to establish closer links with Europe.

What next

for the EU-China strategic partnership?

Men Jing, InBev-Baillet Latour Professor of European Union-China Relations and Director of the EU-China Research Centre at the College of Europe, Belgium

Economic and trade cooperation are the cornerstones of the EU-China partnership. For decades, such cooperation has been characterised by mutual benefit. However, the nature of the partnership is gradually changing, as both the EU and China face the challenge of maintaining sustainable economic growth.

Establishing their first strategic partnership in 2003, the EU and China have furthered their political, economic and people-to-people cooperation by developing dialogues in these three key pillars. Brussels and Beijing are so closely interdependent that collaboration and coordination are crucial for a healthy and forward-looking relationship.

At the beginning of the 21st century, both the EU and China were regarded as rising powers. Apart from being an economic, trade and normative power, the EU originally intended to build itself into a political power. However, after 2007, the EU was hit by a financial and economic crisis, and although both crises have passed, the EU is still mired in economic stagnation. Whether the Juncker Plan, with the goal of raising €315bn through investment to create new jobs and develop infrastructure, is successful will have an

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impact on the EU in the coming years. Since the economic reforms Beijing implemented in 1978, China has maintained rapid GDP growth. In three decades, China developed into the second largest economy and the largest trading power in the world. Apart from being the second largest trading partner of the US and the EU, China is the largest trading partner of Africa, Japan, Australia and India and many other countries. Along with in-depth trade relations between China and the world, its outbound direct investment was set to exceed investment into the country in 2014.

Yet, in 2015, China's economy began to show clear signs of slowing down by slumping to a 25-year low of 6.9%. China's economic rise is facilitated by a massive and unsustainable stimulus campaign from Beijing. In the latest annual economic report of 2016, Chinese Premier Li Keqiang outlined the danger of unmanageable debt spread through the system, associated with China's economic transformation. The challenges that both the EU and China face require more cooperation between Brussels and Beijing. But they place more pressure on Brussels, as the EU fears a bilateral cooperation would favour China more than the EU.

The EU once enjoyed a privileged position in comparison to China, with a higher level of economic development, large foreign direct investment to China, advanced technology, and positive social development. China's rise has changed the nature of the relationship in the 21st century. This liberal understanding of EU-China cooperation promoted a positive end as both parties in the cooperation win, although one party may benefit more than the other. Despite the disproportionate benefits, both partners have generated a huge amount of trade in goods, with the bilateral trade value well exceeding €1bn per day. As China is the second largest export markets for the EU, Brussels pays considerably more attention to what it loses in bilateral trade than what it gains. These concerns spill over into the direct effect China's exports have on the European labour market, as many job losses have occurred over the last few months in particular, as well as a handful of companies declaring bankruptcy due to Chinese dumping in Europe. This consequently jeopardises the interests of certain industrial sectors and member states. Therefore, the EU regards China more as a challenge than an opportunity. In order for the EU to be at ease, it emphasises a level playing-field and greater cooperation in the ongoing negotiations of the Bilateral Investment Agreement. Another bump in the road is the end of the 15-year transitional period after China joined the World Trade Organisation (WTO) in 2001. China has been attempting to get Market Economy Status (MES) from the EU for years. China expects to be granted MES by the end of 2016, the EU's attitude, however, until now is very ambiguous. If China is not granted MES, it may take revenge measures and more challenges may surface in the already fragile negotiations between the two partners.

Although the political relationship between Brussels and Beijing is less developed than their economic and trade relations, there have been notable achievements in a number of new dialogues established in recent years on security and defence and on the Middle East and North African region. Furthermore, the EU and China have also strengthened their cooperation in the field of non-traditional security and climate change. As common ground and shared interests in these fields are realised, a blossoming and optimistic relationship can be envisioned in the coming years.

Another development that can place pressure on the EU-China strategic partnership is China's increasingly assertive action in the South China Sea. The EU in recent years has strengthened economic cooperation with many Asian countries, evident in Free Trade Agreements (FTA) with South Korea, Vietnam and Singapore, and is currently negotiating FTAs with Malaysia, Thailand and ASEAN. The EU has clearly expressed a desire to join the East Asia Summit, as reflected in European High Representative and European Commission Vice President Frederica Mogherini's statement last November that the EU is also a 'security provider'. As one of the largest trading powers in the world, the EU has close economic and trade relations with Asian countries. Goods are transported by ships via the South China Sea from East Asia to Europe, and thus freedom of navigation is an important concern. Since Chinese President Xi Jinping came to power in 2013, the European External Action Service (EEAS) has released statements addressing the recent developments in the South China Sea (which involve China and Vietnam) by emphasising that parties involved in the disputes should rely on the UN Convention on the Law of the Sea (UNCLOS) to find peaceful and cooperative solutions. A final decision by the International Court of Justice on the disputes between the Philippines and China is expected soon and China will very likely defy the decision by the Arbitral Tribunal. Although the EU attempts to maintain a neutral position in the territorial disputes between China and other Asian countries, this is much easier said than done.

While the general direction of EU-China strategic partnership should be based on cooperation and mutual respect, there will be some ups and downs in the years ahead.

IDEAS

for EU-China cooperation in the next decade

Miroslav Lajcak, Minister of Foreign and European Affairs, Slovakia

The European Union and China recently celebrated the 40th anniversary of the establishment of diplomatic ties. Looking at where we stand at the outset of the new decade, the word 'unprecedented' often comes to mind when describing the current state of relations in all areas.

Politically, we are not only strategic partners with annual summits, three high-level dialogues and over 60 senior officials' dialogues, but also hold a significant stake in global peace and stability. Economically, we are not only each other's largest trading partner, but are also jointly responsible for a significant proportion of global economic output and trade. At a more personal level, there has never been a greater level of awareness of each other's rich and diverse cultural heritage. Or, indeed, never before have we witnessed more intense flows of visitors, be it tourists, students or professionals. We are following the ambitious EU-China 2020 Strategic Agenda for Cooperation with a clear aim of further strengthening our relations in key areas. So what are we up to next?

The challenges that the international community is currently facing are, in many ways, also unprecedented. Their causes are complex, effects borderless and solutions beyond the reach of any single country or economy. They take many forms and are increasingly more often of a non-traditional nature. Last year served as a painful case in point as scores of innocent people lost their lives in bloody civil conflicts and violent terrorist attacks. What a coincidence that

Development aid cannot be properly deployed without sufficient security - and security alone cannot guarantee long-term stability without effective development aid.

scientists called 2015 'perhaps the hottest year on record'! Yet it also offered hope and at least two examples that prove the value of effective multilateralism. Let us recall our joint active participation in the Iran nuclear talks and at the Paris Climate Conference. Their proper implementation will be crucial, but their likely gains are hard to dispute.

The first idea I would like to advance is to further deepen our cooperation and engagement in promoting peace and stability. Civil wars, on top of causing unimaginable suffering, tend to evolve into regional conflicts, the effects of which extend well beyond the immediate neighbourhood. Non-proliferation, if not properly enforced, undermines the strength of the international system, sets dangerous precedents and threatens global security. Development aid cannot be properly deployed without sufficient security - and security alone cannot guarantee long-term stability without effective development aid. Cooperation is the only way of addressing these complex issues.

The European Union and China should therefore continue to strive to fully utilise the global potential of our bilateral relations and our joint commitment to further strengthen our roles as responsible actors on the world stage. Let us explore concrete forms of tangible cooperation - the European Union and its member states have ample experience with crisis management and peacekeeping operations, while China recently announced its intention to bolster its engagement in this area. Let us not forget that we rank among

The European Union and China should continue to strive to fully utilise the global potential of our bilateral relations and our joint commitment to further strengthen our roles as responsible actors on the world stage.

leading donors of Official Development Aid (ODA) that help our partners with concrete global initiatives, including the recently unveiled 2030 Agenda for Sustainable Development. Let us explore synergies in countries and regions where our assistance is needed the most. Let us apply the spirit of the Iran nuclear talks to other complex regional issues and yet again prove the relevance of multilateralism. Let us not overlook the value and importance of international law, which plays a crucial role in peaceful resolution of conflicts. Success may be far from assured, but we cannot afford the luxury of not trying.

My second proposition aims to further facilitate our economic relations. Two initiatives come to mind almost instantly - bilateral agreements on investment and trade and the ‘One Belt, One Road’ initiative. Firstly, Bilateral Investment Treaty talks are ongoing and of major importance in their own right for European investors in China and vice versa. Moreover, it could serve as a stepping stone for the future launch of EU-China Free Trade Agreement negotiations. Negotiating a Free Trade Agreement would, without a doubt, require much time, commitment, effort and patience. Given our formidable economic relations and the desire to upgrade them to another level, anything below an ambitious trade agreement would be a missed opportunity - in a world where Free Trade Agreements proliferate. The removal of tariff barriers should be matched by the removal of non-tariff barriers, European and Chinese companies should enjoy a level-playing field coupled with equal access to government procurement, standards should be harmonised, trade in services expanded to match its potential and effective intellectual property safeguards further strengthened. The to-do list is long and this process may keep our experts busy for the best part of the next decade but it should - and I hope it will - be given due consideration.

Secondly, the concept of the ancient Silk Road is frequently invoked to point to the very first contacts between ancient China and Europe and to their future. After all, the ‘One Belt, One Road’ initiative is supposed to serve as the ‘New Silk Road’ and facilitate even closer links between China and Europe, with further linkages to other parts of Asia, Africa and the Middle East. The European Union and China have already committed themselves to exploring synergies between European TEN-T projects and the New Silk

Road. Moreover, some EU member states, including Slovakia, have signalled their interest in participating in the initiative by concluding memoranda of understanding on the 'One Belt, One Road' (OBOR). Transferring these synergies from our discussions to the drawing board and, ultimately, from the drawing board to real-life infrastructural projects will require at least as much time and effort as negotiating the above-mentioned trade and investment agreements. The potential benefits of this form of cooperation should, however, stretch beyond the European Union and China. Some lessons of the ancient Silk Road are valid even today - goods could flow only when trade routes were secure and trade brought prosperity to all cities along the ancient Silk Road – and thereby increase the appeal of the OBOR. Some new lessons can be learned and applied, including exchange of services and digital markets.

We should not, however, forget that the Silk Road stood for more than just commerce and enabled the movement of people, blending of cultures and exchanges of knowledge - modern day equivalents of people-to-people contacts and scientific cooperation. The Tang dynasty capital of Chang'an (present-day Xi'an) located at the start of the Silk Road was what many of today's global cities aspire to be – dynamic and sophisticated, a city where commerce flourished, art prospered, ideas flowed and major religions from present-day China, Europe and the Middle East coexisted together. The past holds inspiring examples, which can be combined with bold ideas of today to secure future benefits.

It is fitting that the high-level people-to-people dialogue is on par with our strategic and economic dialogues – a truly long-lasting partnership would not be possible without directly engaging our most important stakeholders. The European motto (and practice) of 'unity in diversity' and the unique position of Chinese culture as one of the world's oldest and most distinctive turn our cultural exchange into a seemingly inexhaustible pool for inspiration and action. We should continue in the existing practice of providing full support to cultural dialogue by utilising both traditional and modern forms of presentation. Moreover, we should also continue to prioritise education at all levels and youth exchange, including university partnerships, joint study programs and Erasmus+. They serve as long-term investments and will be crucial for the future development of our relations.

Changes in our day-to-day lives create enormous opportunities for scientific engagement and could add another significant pillar to our existing political, economic and people-to-people cooperation.

My last suggestion concerns exchange of knowledge, which may not be as easy to measure as trade, investment, or exchanges of people, but can bring lasting, large-scale benefits to both sides and, by extension, to the global community. We are jointly becoming more and more aware of the idea of sustainability, which should be at the centre of our future development and should also guide our cooperation. The challenges we face, above all climate change, call for innovative and lasting solutions, which, in turn, require adjustment on both demand and supply sides and collaboration of some of our brightest minds. The success of the proper implementation of the Paris Agreement will to a major extent depend on the commitment of the largest participants to lead by example. We have already emerged as significant leaders, with the likes of our Energy Union (three out of five dimensions are directly linked to combating climate change), China's South-South Cooperation Fund on Climate Change and joint global leadership in the use of renewable energy. Yet again, our bilateral relations have clear global ramifications – and their potential should be fully utilised.

The potential of exchange of knowledge is vast. Our efforts to mitigate climate change will inevitably lead to significant changes in our day-to-day lives, including the way we generate and consume energy, grow food, use water, plan cities, work and move from one place to another. These changes create enormous opportunities for scientific engagement and could add another significant pillar to our existing political, economic and people-to-people cooperation. Our scientists should work together in order to jointly tackle these challenges, look for real-life solutions and also turn our partnership with China into a partnership of applicable knowledge. After all, as Confucius once said, 'the essence of knowledge is, having it, to apply it'.

When considering the current state of our relations with China, numbers are hard to escape - the combined size of our populations, economies and flows of trade and investment makes our cooperation with China one of the most important global partnerships of today. Our relations have evolved and over the past few decades moved away from mere bilateral considerations. The 21st century shows that predicting the future is a risky, if not impossible endeavour and complex crises appear suddenly and unannounced. The European Union and China must thus continue to act responsibly and strive to further deepen our bilateral relations. It is essential to push ambitious projects that are entering the pipeline and be mindful of the global dimension of our relations. So the run-up to the 50th anniversary of the establishment of our diplomatic ties has the chance to be the most significant decade in our relations yet.

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