EU-China Hub

Interview Series

IULIU WINKLER

OPEN STRATEGIC AUTONOMY AND EU-CHINA RELATIONS - IS TRADE A PANACEA?

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He is an MEP from EPP Group, the Vice-Chair of the European Parliament's Committee on International Trade (within which he is the rapporteur on China), and a member of the EP's delegation for relations with the PRC.

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CONTENTS

OPEN STRATEGIC AUTONOMY AND EU-CHINA RELATIONS - IS TRADE A PANACEA?

Edited by Grzegorz Stec and Michael Durgin

The following interview, from June 2020, is based on a podcast episode produced by the EU-China Hub as part of its on-going series. It has been edited for length and clarity.

Grzegorz Stec: I want to start with a big picture question. How would you describe the key drivers and characteristics of the EU-China trade relationship?

Iuliu Winkler: If we talk about general EU-China relations, there is one key word that covers all aspects: complexity. China, as a country and society, is huge and immensely complex, but so is the European Union. So we have a complex environment. And this means that our relationship itself is also very complex. And the EU and China have a strategic relationship.

Last year's communication from the European Commission—outlining the aspects of partnership, competition, and rivalry—is a very good approach. Our Chinese partners object to the European Union defining them this way but in recent months with the corona crisis we see that we are indeed rivals in many respects.

But we are also competitors. We follow what is happening on the global scene, including what is happening in Washington, and the reshaping of the global market and the global environment. We are negotiating partners, currently negotiating several agreements. The most important of them, I think, is the investment agreement because trade and investment are inseparable.

So we have a multifaceted China and a complicated, complex relationship. Today we have the corona virus crisis but, aside from the COVID crisis, volatility was already here. We can't forget that we had a trade war in 2018 and 2019, which has also shaped our relationship.

High on the agenda for Brussels and the European capitals is defending European interests more robustly and convincingly. Of course, we try to protect our interests. We have not become protectionist, but we call out Beijing. Lots of times we get high profile political declarations. What we see afterwards, unfortunately, is that deeds do not match these declarations, particularly when it comes to the treatment of European businesses in China, market-distorting practices, or state subsidies.

Another very important aspect is multilateralism. The WTO and the global rules-based system are the cornerstone of EU trade policy. While we remain committed to it, the WTO is in serious crisis. We look for partners in the WTO and China is a partner in negotiations, but it is very volatile, frequently shifting its positions between being an emerging economy and a developed economy. So the credibility of China within WTO suffers. It suffered during the market economy status debate and it suffers now because of this constant shift between presenting itself alternately as a developing or developed economy. And we have an issue between what we see as global values and Chinese characteristics. We also have to speak about foreign direct investment, because this is a huge topic on the table.

The complexity of the EU also entails different situations and histories among the various member states. Let's not forget that some of the Central and Eastern European countries were, so to say, on the wrong side of the Iron Curtain for more than forty years. I can remember very well this socialist period of our European member states—we had a so-called privileged relationship with China, itself a socialist country.

What does this mean today, thirty years after the fall of the Berlin wall? That's debatable, but this relationship has not disappeared. Specifically, it is driving China to apply its divide-and-conquer tactics. We see this in the 17 + 1 cooperation. We see this when we make and analyze the hugely complex EU-China and member states-China framework. And we can understand that China has the diplomatic and negotiating capability to simultaneously entertain all levels of this hugely complicated relationship.

This comes simply from the size of China, but also it comes from the particular system of the Chinese state and Chinese society. When we talk about trade or investment, we cannot forget that China is a socialist system, not a democracy. So these divide et impera tactics are returning. We have anchors and elements that we can build on. We also have successes in recent months and years. But we now have many more challenges that have to be answered.

GS: Speaking of challenges, the pandemic has really brought to the attention of many within the EU the question of dependency on China in regard to supply chains and goods that are identified as strategic products, such as medical goods. What is at the root of this challenge of dependency on China?

IW: We should think back to the years of the open door policy of Deng Xiaoping, decades ago. That period—when the Chinese strategy of opening up, liberalization, and growing foreign direct investment—represented, to Europe and the whole world, a huge opportunity to relocate production facilities and to try to search for the lowest cost of production.

That was a period when Europe was present in China for Europe mainly: companies went there to search for the lowest costs and most of the goods produced were reimported to the European Union. This is not the case anymore. Now European companies are present in China for China and not for Europe. They are present in China mainly for the huge market possibilities that over one billion consumers give to those European companies.

When we speak about the challenge of decreasing dependency on China, we have to speak, first of all, about the costs of diversification, because what we need is diversification in our supply chain structures, but this comes with a cost.

Over-dependency is a vulnerability, so we have the obligation to tackle it. It's not optional. We have to think about diversification and try to analyze the costs of relocation, assets transfer, and retraining personnel in different geographical environments. We have to be very clear about the objective. Because I think that decoupling of the sort that President Trump might be envisaging for the United States is not feasible or desirable for Europe. We are an open economy, open for trade. So it's not about a managed economy in the European Union, but about the strategic decisions we have to take at the regulatory level together with industry, which is a legitimate stakeholder.

We have to diversify smartly. There are many steps that can help with this, such as increasing our portfolio of free trade and investment agreements to obtain results. Think of the EU-Vietnam free trade agreement, an investment agreement that ended in two applications this summer. And think of Vietnam as an increasingly complex economy with the possibility for European companies to diversify. There are many other possibilities. We have to pursue our approach towards an ASEAN global agreement.

This will not be easy, but we already have some elements in place and in the following months we will need smart debate inside the European Union because we have different tendencies. And politics is always having a role to play in those decisions.

GS: When it comes to this dependency, you alluded to relocation, but also to the fact that many European companies are now in China for China. Can we also see a situation in which European businesses and decision makers are focused on China as a potential dependency as well? For example, I'm thinking of Germany and its auto industry, which is very interlinked with the Chinese market.

IW: Yes, this is true. We have to try as much as possible not to make political decisions but technocratic ones. We have to rely on sectors and verifiable information. I have always been a champion of institutional dialogue between both decision makers and regulators in the European Union and business society, the companies.

One of our very important partners in China is the EU-China Chamber of Commerce, the EUCCC, and what we can see if we read their annual information is that, unfortunately, the situation was getting worse before the COVID crisis, before 2020. We have to be very conscious about this decoupling of political declarations from Beijing and economic realities. We see that we have more and more ambitions in political talks. But, at the same time, we have worsening realities in regard to the possibilities and costs of doing business in China.

You were speaking about Germany and the auto industry but it's not only about autos. It's also now about aerospace and pharmaceuticals. We have factual information that the cost of compliance for doing business in China is unfortunately increasing, not decreasing.

So, yes, the Corona crisis sheds more light on these realities, but the tendencies were there before the crisis made it mandatory to make decisions, to clarify policies, to have a clearer approach, and to really decide what we want in the future.

GS: Do you think that Central and Eastern Europe is potentially a region that can benefit from relocation? Is it an attractive alternative for businesses that might be looking to relocate their supply chains?

IW: The effectiveness of Central and Eastern Europe, in the context of regional differences between European economies, is always on the table. It has been discussed also in the context of Brexit and it is discussed in the context of building up the new supply chains and the new diversification that the European Union needs.

We have to be very clear that the objective of Eastern European countries is convergence.

In Romania, in Bulgaria, in Hungary, or in Poland, we do not want to be relying on some competitive advantages, which might now be the difference between something like labor costs. But it is an alternative.

A stronger alternative is the neighborhood of the European Union. If we look at the Balkans and Eastern neighbors, we may find viable alternatives. And near-shoring also has to be an alternative.

This is not only about trade policy, this is about the internal market and industrial policy. And it's about the industrialization strategy of the European Union. The 21st century will bring us new conventional wisdom. At the end of the last century, free trade and outsourcing were the conventional wisdom of the day. The 21st century brings us new elements of conventional wisdom.

For example, a society that denounces manufacturing and engineering loses innovation, and loses its creativity, its potential to innovate and to create new things. If we speak about the internet of things, then just remember that we always will need the things also, not just the internet.

GS: That's quite correct.

Before we move to discussing what the EU should do in the future, I'm still interested in potential Chinese dependencies on the EU. For example, you alluded to the ongoing decoupling that President Trump seems to want. What about Chinese dependency on the EU? Is the decoupling between the US and China affecting EU-China trade relations?

IW: If we listen to the rhetoric of our Chinese partners, we see something quite normal from their point of view. Namely, as China is moving up the value chain, they argue that Chinese dependence on the EU is less important. I don't entirely believe this rhetoric. Chinese interest in European technologies—in high end products, in scientific cooperation —is even bigger than before. It's not decreasing; quite the opposite.

Then we have a position shift, clearly, of China regarding its position in global value chains. But this shift means only that dependencies also shift, along with inter-dependencies.

And consider one very fresh issue, a financial issue: the Next Generation EU, the new recovery plan of the European Union. This is an historic decision of the European Union to go to the financial markets and to raise money for solving the situation. This will affect our future. Everybody is invested and China is also highly interested.

We also have a very interesting war of values. We will not solve it in the following months or years. It will stay with us for the long term. This value war is between the idea of the European Union, that democracy and our values are global values, and the reply of China that they have Chinese values and that those are equally important and valuable when building a society. So our leverage is on the fields of standards and soft power. But we have to be less naive in the future and oversee our trade defence instruments. Reciprocity is something that is and will remain very important. The European Union does not have to make decisions alone or not in line with the global rules-based trading system.

WTO remains important for us And has to be revived as much as possible. If China is a partner in reviving the WTO, that would be the most desirable alternative. We have to tackle many contradictory issues. For example, we have the Belt and Road Initiative and the EU-Asia Connectivity platform. So we have to speak as much as possible in one voice on these issues.The European Union traditionally has difficulty speaking in one voice. The more complex the situation, the more difficult this is. But it's possible.

One highly complex situation that has been tackled in perfect unity by the European Union is Brexit. From where we started in 2016, after the Brexit referendum, and where we are today, the EU27 has showed remarkable unity. If it's possible with the UK, then surely it will be possible with China.

GS: In terms of building this unity and coming up with the exact concept, there's a new buzzword being used in Brussels, which I believe your committee recently discussed in the course of consultation with Commissioner Phil Hogan on the trade policy review. Can you tell us about “open strategic autonomy”, what it is, and what it entails?

IW: We had an excellent discussion with Trade Commissioner Hogan, who will oversee in the coming weeks a very important process of the trade policy review.

The International Trade Committee will meet with him again in late September or early October to discuss what exactly the stakeholders have been asking for, what exactly the opinions are, and open strategic autonomy. This is not something entirely new but you call it a buzzword and you are correct on this. This concept is not entirely clear yet. I hope that the trade policy review will give essential input to this notion, after debate and public consultation.

What we can say is that, with open strategic autonomy, Commissioner Phil Hogan has as his main objective the resilience of our internal market. This resilience has two sides: one offensive and one defensive.Offensively, we have to pursue diversification of both the supply chains and trading partners. On the defensive side, we have trade defense instruments, which we have to adapt and modernize. We have to make them stronger, while never giving in to protectionism.

We are not talking about self-sufficiency. The European Union is the champion of open, free, and fair trade and we have to remain as such. Self-sufficiency was not realistic fifteen or twenty years ago and it's equally unrealistic today. In addition it would be quite inefficient to force—by regulatory measures or by administrative or political decisions—an increase in EU self-sufficiency. It's clear now that no country in the EU 27, can secure supplies on its own and this would not even be desirable.

Open strategic autonomy has both internal and external dimensions. To strengthen our economies and our safety with internal measures, we can include strategic stockpiling. But we have to be very attentive and we have to debate, because somebody has to pay for this. And we can support reshoring and near-shoring. Also the Next Generation EU is a very good instrument which can be used to pursue such ideas. For the external dimensions of strategic autonomy, it's very important that the European Union more actively engage with all of our global partners.

With President Trump's decisions, there is a void created on a global scale, a leadership vacuum. China is hurrying to occupy that free space. But the European Union is better equipped and at least equally if not more motivated than China to occupy and retain the leadership needs arising from this new situation.

There are also two important debates about open strategic autonomy, and I'm very curious what the trade policy review will bring. The first debate will be about our strategic sectors. If it's strategic autonomy, then we have to name the strategic sectors. If you ask various economic players—political leaders in various member states or even in the European Union institutions—you will get different answers. We have to be very wise in defining strategic sectors. We took a first step in listing these strategic sectors in the FDI screening mechanism and we ought to be very precise in our definition. We have to ask as many stakeholders as possible, in the East, in the West, in different member states, and in different economic sectors. And then we should define those strategic sectors only after very meaningful discussion.

The second debate is about strategic stockpiling. This is the debate about how to reach the desirable balance between strategic stockpiling and repatriation of production capacities. By reshoring or near-shoring I mean using things like our neighborhood policies and the diversification of our trading partners.

This is about the trade policy review. One of the main challenges is that we give consistency to the open strategic autonomy concept. DG Trade and all the people who will elaborate the new trade policy of the European Union after this consultation will have to be wise enough to find the necessary balance between the interests in Europe.

GS: So discussions are ongoing and it's all in the making right now. But, as you mentioned, those external and internal aspects are both offensive and defensive.

Thinking about this from the Chinese perspective, I would guess that offensive or external aspects, relocation or reshoring would probably cause some concern. On the internal or defensive side, we have seen the recent white paper on foreign subsidies and the groundbreaking decision on imposing tariffs on those Egyptian exporters tied to subsidized Chinese companies. We could see these defensive measures leveling the playing field within Europe.

Would or should China be afraid of open strategic autonomy? Is it something that's going to be a challenge for China within EU-China trade relationships or the wider economic relationship?

IW: We have always emphasized in our various debates in the International Trade Committee, and also with DG Trade officials and EU Commission officials, the measures taken by the European Union should be country-neutral. Also, in defining strategic autonomy, this idea of country-neutral characteristics should be absolute. Our Chinese partners will not easily accept such a thing, but we will have to discuss it. We will have to attend to all possibilities and all mechanisms to better explain and better understand what is decided in the European Union.

Our decisions always have to rest on two well known pillars. We have to decide based on values and on our own interest. This is nothing less than China is doing. For example, recently a new initiative has been presented as China Manufacturing 2025. And, frankly, there are China standards for 2035. What is this, if not the promotion of China's own interests and a new step in the value war? If we have global standards in the West and Chinese values in the East, then it's quite clear that the European Union has to enforce its own values and has to act in its own interest.

We will have to explain that open strategic autonomy may bring more tension to our bilateral relationship. We will have to make efforts to be more pragmatic and to support our strategic sectors. But what differentiates us from China is that our support will be compatible with global rules, WTO-compatible. We have an international system that is characterized by tensions and high volatility. Those will not go away in a matter of months or even years. It's clear that we have to make our decisions very firmly based upon our values and interests. Then we have to communicate and discuss these with our Chinese partners and with all global partners.

GS: Can you give us one or two quick points on what we can expect from the trade policy review? Are there concrete concepts and measures now on the table?

IW: What we need is not a totally new trade policy; we need continuity. The last trade policy, from 2015, focused on trade for all, emphasizing fair trade and the interlinked responsibilities between trade and sustainability. Now we have to take one step further and discuss climate change and the possibilities of trade in a realistic manner. Trade has always been for the European Union an instrument of spreading values. I think this is still effective today in the 21st century. There should be concrete instruments for this, which we will have to negotiate by increasing our negotiation capability. We also have to increase our dialogue with stakeholders both inside and outside the European Union. And, regarding sustainability and sustainable development, we have to see what trade can do to bring more benefits not only to the people in the European Union, our citizens, but also to the people and societies of our trading partners and our global partners.

It's a very interesting debate now because we've talked mainly about the corona virus in the last two or three months. But the challenges that were there before are still there. So if the objectives of the European Union in the economic recovery phase are mainly both green and digital transformation, then trade policy also should support those two directions.

In concrete terms, we need new trade defense instruments. We have to be very attentive to protect but not become protectionist. We have to be very ambitious in always maintaining the WTO-compatibility of our measures and our new instruments. But it's time that we became more assertive in our trade policy. The many current worldwide human rights problems will not be solved only through trade policy. Likewise, all the climate, social rights, and labor rights problems of the world will not be solved only through trade policy. We have to always remember that trade is for people and for jobs, and, while trade is an important instrument of the European Union, it's not the only instrument.

GS: Given that trade is not everything, let's talk about the investment agreement. A recent study by the European Parliament Research Service described the Comprehensive Agreement on Investment (CAI) that is being negotiated with China as the EU's most important tool when it comes to rebalancing its economic ties with China. How are things going with the CAI? Are you hopeful?

IW: Negotiations have moved from the physical space to the virtual space in the last five months, with starts and stops. We have an instrument in the International Trade Committee called monitoring groups. We have a monitoring group for China, for which I am responsible as a rapporteur for EU-China relations in the Committee. We had a number of meetings with both parties, with the European Commission's DG Trade and chief negotiator, and also with the ambassador of China to Brussels.

And we also witnessed the recent EU-China Summit, which was indeed at the highest level: President Xi Jinping was at the virtual table, along with the president of the European Commission and the European Council. Unfortunately, the EU-China Summit did not produce any breakthroughs, not even a common declaration. But Ursula von der Leyen was right when she said that it's a good starting point. In 2019, everybody was so hopeful about the conclusion of the investment agreement in the 2020 calendar year. And we had been planning the September summit in Germany during the German presidency of the European Council. Now, due mainly to COVID-19, but also, I think, because of the very slow progress that we have in our investment negotiations, 2020 as a year of China in the European Union is no longer a reality.

Instead, maybe it’s a year of preparation. Jörg Wuttke, the president of the EU-China Chamber of Commerce, wrote an article recently, saying that this is the preparation year of the European Union for a breakthrough with China. (Forgive me for speaking a lot about the chamber of commerce, but they are very relevant and important stakeholders, as they bring information from the ground to the table of the European decision makers.)
We in the EU have a number of objectives in our negotiations. The three key, well known ones are: balanced market access, a level playing field, and sustainable development.

We have not seen good signs on the rebalancing of market access and a level playing field. We see very ambitious declarations, but few concrete decisions on this issue. On sustainable development we also need very concrete provisions. The European Parliament will be very attentive and sensitive to the chapter on trade and sustainable development. Sustainable development will be one condition for the ratification of the agreement when it is finalized by the European Parliament.

We have some good signs. We signed in 2019 an agreement with China on geographic indications. There are 100 geographic indications of the European Union protected in China and, in reciprocity, 100 Chinese indications are protected in the European Union. We have a file for this geographic indications agreement, which will come in September on the agenda of the International Trade Committee in the European Parliament. Hopefully it can come on the agenda of the plenary meeting of the Parliament in October, which is my plan as a rapporteur for this file.

But, to tell you the truth, I'm not sure that this is enough to complete the investment agreement this year. As a matter of fact, I would not put my money on a 2020 conclusion for the EU-China Comprehensive Investment Agreement.

GS: Going beyond 2020, we've seen recently that China, in its three-year recovery plan, seems to be putting its money on its SOEs, to support their standing. This would definitely create a divergence. On the one side, we have the Chinese betting on SOEs and, on the other, we have Europeans moving towards open strategic autonomy, which may be perceived by China as a challenge. Do you think it's possible, because of this divergence, that we won't ever see a meaningful CAI?

IW: I would add one more disturbing element to your analysis, the China-US Phase One agreement. Just imagine the United States, the greatest, biggest, and most important democracy of the world, agreeing to issues of managed trade. That is happening. If you look back at 2019 and 2020, not COVID-19 but all of the other revolutions, the trade war, the geopolitical evolution, we have already had plenty of surprises, so some are also possible in the following months and years. I think anything is possible. But a prolonged situation of not being able to conclude an investment agreement with China would not be desirable. I think that the European Union has to continue pushing for meaningful progress and be very coherent in our approach.

Yes, the SOE action plan is a problem. Yes, COVID has even enhanced the position of State Owned Enterprises in the Chinese economy, in Chinese trade, and throughout Chinese policies. But still, we have to be coherent, consequent, and continue the discussion. We have to continue the dialogue and continue pushing. It's clear that our interdependence is too big to fail. Managing future relations is a must, including for Beijing. I will certainly always support seeing it as a must in Brussels.

GS: On the resolution on Hong Kong, there was a discussion about potential conditionality for Parliament's approval for the CAI, for trade deals with China to insert a human rights conditionality. Is this something that you think the Parliament is going to hold on to, as a must-have condition?

IW: First of all, let me tell you why I think that we have to manage our relationship with China simultaneously on all levels, this multiple approach that I mentioned. We are competitors, yes. We are rivals, but we are also engaged in dialogue. And I think that we have to be very united in telling our Chinese partners that they will not find closed eyes in Brussels and national capitals regarding the human rights issue and the Hong Kong issue, which is also an issue of respecting an international agreement between China and the United Kingdom. They will not be able to avoid these topics and together we will have to find an answer to those topics.

When I hear about conditionality, I always have the following problem: You cannot put all the problems of the world on trade policy alone. I think that we have to be very careful in maintaining the balance between our values and our interests at the European Union level. We will always speak about our values and human rights as a fundamental value of the EU.

I have lived for 25 years of my life in a socialist country so I know very well about the issue of non-intervention in the internal affairs of a country. This is not something created in recent years with Hong Kong or other problematic issues in China; it has been present for decades. This is a fundamental element of the socialist state. We have to find arguments for our position and we have to be more outspoken than we have been on the issue of Hong Kong, and in our support towards Taiwan and other delicate topics that are on the agenda of EU-China relations, as they are with all of China's global partners.

GS: In talking about those delicate topics, can the EU afford to be tough on China, given that China is expected to recover much more quickly from COVID-19 economic fallout than the US, the EU's other major trading partner? We also see that the projections for the European economy are quite negative, so is this a time to be tough?

IW: I don't know what the word "tough" means, but we have to be realistic. If we are, then we are on the best track. If we always bear in mind that we have to simultaneously be partners, competitors, and also, clearly, rivals, then we can build up a smart approach towards China. If Brussels is attentive to the needs and sensitivities of the European capitals, that would also not hurt and the divide-and-conquer strategy of China could be addressed more consistently. The 17+1 is something that should not irritate and could be tackled by Brussels. So it's necessary that the European Union be more assertive.

It's not realistic to want to solve all the existing problems by trade policy. We have to build on all bilateral dialogue policies and we have to carefully build EU 27 unity. If the EU has been successful in its biggest challenge over the last four years—Brexit—then I think this approach can also be successful towards China.

GS: I'd like to close with some recommendations. We have been observing moves to rethink or readjust China policy that are being discussed across the European Union. In the trade context, what three key pieces of advice would you give to decision makers in thinking about a readjustment on China?

IW: I would suggest three plus one ideas. The plus one would be continuing engagement. Better knowledge is better understanding and both the EU and China are hugely complex, when looked at from the other side. So, let's continue engaging and let's obtain better knowledge and understanding.

Key elements now are reducing vulnerabilities and dependencies. This has been highlighted by COVID-19, although not generated by it. We have to use the next three or four months very carefully to fill the new concept of open strategic autonomy with content, always bearing in mind that this is a country-neutral concept. It will be the central concept of the new European trade policy.

Finally, the WTO and the global system are very important constructions and should be used to engage China. Let's use the WTO to at least win cooperation with China and other partners. And let's save and modernize it. If the multilateral framework is not always workable, then let's find and build up those plurilateral engagements in which the EU and China can cooperate on global targets and objectives.

GS: Mr. Winkler, thank you very much for your time and insights. This really sets us on the path to understanding open strategic autonomy and to monitor it as it becomes more defined.

IW: I hope that I could bring some clarity, but we are living in such volatile times that changes are happening all the time. Thank you for inviting me.

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