EU-China investment agreement raises tensions with US

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The European Union and China have struck an agreement on an investment treaty that opens up opportunities for European companies in the Chinese market but threatens to cut across the stated aim of the incoming Biden administration in the US to mobilise its allies in an anti-China front.

The agreement was announced last Wednesday by the president of the European Commission Ursula von der Leyen and China's President Xi Jinping. It has been in the making since 2014 and until a couple of months ago appeared to be stalled.

But a concerted push by German Chancellor Angela Merkel and Xi following the US presidential elections secured an agreement.

In remarks to the *Financial Times*, the EU's trade commissioner, Valdis Dombrovskis, said the deal contained the "most ambitious outcomes" that China had ever agreed to in terms of market access. European businesses would have more certainty and predictability for their operations and there were "very welcome changes to the rules of the game, because for a long period, trade and investment relations with China have been unbalanced."

These comments were echoed by European Council president Charles Michel, who said the investment deal would "help rebalance the trade and investment relations between the EU and China." European investors had been given an unprecedented level of market access providing businesses with "certainty and predictability for their operations."

Under the terms of the deal, joint venture requirements are lifted in financial services and are to be phased out in auto production. There are new openings for European companies in health services, cloud computing and electric vehicles. China has also agreed not to discriminate against European companies in awarding contracts in favour of state-owned and state-subsidised Chinese firms.

Dombrovskis said on financial services the EU had secured the same benefits as the Phase 1 trade deal agreed to by the US and China last January.

In an attempt to head off opposition from countries and political parties within the EU, China agreed to uphold the terms of the Paris climate accord and to pursue ratification of international labour standards covering forced labour.

Under the deal, China will gain broader access to some manufacturing sectors within the EU, and to the energy industry.

But the primary gain for Beijing is on the political front. Xi intervened directly in the negotiations, speaking with Merkel and French President Emmanuel Macron. He was eager to secure agreement in the face of criticism from some quarters in China that his policies have led to the isolation of Beijing as a result of the trade and economic warfare against it by the Trump administration.

That pressure is not going to relent under the Biden administration and may become more intense as the Democrats seek to involve the European powers and others in the anti-China drive rather than the go-it-alone approach adopted under Trump.

Xi was anxious to secure the agreement before the scheduled coming to power of the Biden administration on January 20. The official Chinese news agency, Xinhua, said that in his call with Macron, Xi had said relations between China and the EU were "gaining more global and strategic significance under the new circumstances."

Noah Barkin, a specialist on Europe-China relations at the consulting firm Rhodium, said in a note issued late last month that the deal was a setback to plans for trans-Atlantic cooperation against Beijing and called it a "geopolitical coup for China."

"Preventing such a trans-Atlantic front has been a top priority for the Chinese leadership and likely explains Xi Jinping's eleventh-hour intervention to seal a deal – and

Beijing's insistence that it be concluded quickly, before Biden takes office."

The main push for the agreement on the European side came from Merkel, who regards it as providing greater advantages for German auto companies, such as Daimler and Volkswagen, for their manufacturing operations in China.

In a statement shortly before the announcement of an agreement, the president of the German Association of the Auto Industry, Hildegard Müller, said it would "significantly improve the competitive environment for European companies in China" and would provide a "new impetus for a global, rules-based framework for trade and investment."

The incoming Biden administration has left no doubt about its opposition.

Before announcement, Jake Sullivan, Biden's choice as national security adviser, wrote on Twitter that the incoming administration "would welcome early consultations with our European partners on our common concerns about China's economic practices."

A former official in the Obama administration told the *Financial Times* that Beijing's push to close the deal was part of a deliberate effort to derail the prospect of greater US-EU cooperation over China under the next administration. Sullivan had basically said to "slow things down," but that was not happening.

The Trump administration had earlier weighed in with a statement issued by John Ullyot, a spokesman for the US National Security Council.

"Our allies and partners increasingly agree that the obvious approach when dealing with Beijing is 'distrust and verify.' Any commitment from [China] that is not accompanied by strong enforcement and verification mechanisms is merely a propaganda win for the [Chinese Communist Party]."

There is also significant opposition within EU circles to the agreement. Last Tuesday, before the deal was announced, Reinhard Bütikofer, the chair of the European parliament's delegation for relations with China, called it a "strategic mistake." He said it was "ridiculous" for the EU side to claim as a "success" the commitments that Beijing has made on labour rights. China has been accused by human rights organisations of using large numbers detained Uighurs in the Xinjiang province as forced labour—a claim it denies.

Underscoring the intensifying rivalries between the major economic powers, he said, "The values we all cherish in our Sunday sermons must be adhered to if we are not to fall victim to a new systemic rival."

The deal has raised the question of how and even if the EU will cooperate with the US in dealings with China under the incoming Biden administration. At the end of November, a paper prepared by the European Commission called for an alliance with the US to overcome the conflicts incurred in the Trump administration.

It said the EU-US partnership needed "maintenance and renewal" if the democratic world were to assert its interests against "authoritarian powers" and "closed economies [that] exploit the openness our own societies depend on."

The critics of the deal say it will undermine a partnership directed against China. EU trade commissioner Dombrovskis, however, told the *Financial Times* that the deal could help other countries in securing commitments from China.

He said the EU wanted to "engage very closely with the US" and he did not see either the Phase I agreement with the Trump administration or the EU agreement on investment as "hindering this cooperation in any way."

The agreement has to be ratified by the European parliament before it goes into effect and there is certain to be intervention by its opponents in both the US and the EU to have it blocked.

Given the extent of the snub to the US contained in the announcement of the agreement, pushed forward from the EU side by Merkel, the Biden administration may decide to continue down the same road taken by Trump.

Thomas Wright, a senior fellow at the influential Brookings Institute, said the EU decision was "unquestionably damaging and will have many justifiably asking if it's worth Biden's time placing a big bet on Europe."