FEBRUARY 2021

Policy Notes and Reports 44

Reshaping Trade Ties with China in the Aftermath of COVID-19

Julia Gruebler

The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

Reshaping Trade Ties with China in the Aftermath of COVID-19

JULIA GRUEBLER

Julia Gruebler is Economist at the Vienna Institute for International Economic Studies (wiiw).

Abstract

The effects of travel bans, and the disruption of production and shipping due to COVID-19 quickly rippled through global production and supply chains, even when the virus SARS-CoV-2 was still contained within East Asia. The global spread of the virus resulted in export restrictions on goods needed to fight the pandemic, while the import of similar goods was liberalised. Short-sighted panic reactions increased the vulnerability of global value chains and revealed dependencies on imported goods, particularly from China. Despite changes in European attitudes towards China during the COVID-19 crisis, the pandemic does not seem to be a major game changer. Instead, it acts as a catalyst for trends that were already observable before the crisis and that were amplified by the clashes between the US and China. The European Commission recommends diversifying supplies to mitigate risks, while preserving international competition, but defending the EU market against unfair trade practices. In Europe, major uncertainties in the field of international trade concern Brexit, the future of transatlantic trade ties after the presidential election in the US, the stability of the rules-based trade order under the World Trade Organization and the shift of institutional power towards East Asia surrounding the trade blocs of the Association of Southeast Asian Nations (ASEAN), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the newly established Regional Comprehensive Economic Partnership (RCEP) agreement. In view of China’s shift in main principles of action away from adopting existing international norms, the fragility of the liberal international order, and the ambiguous competition and co-operation relationship between the EU and China, it is more important than ever that EU member states follow a co-ordinated approach at the EU level in full unity to achieve the goal of ‘open strategic autonomy’. Small open European economies, such as Austria, should re-evaluate their trade dependencies and consider supporting partial near-shoring to neighbouring Central, East and Southeast Europe. Furthermore, it is recommended to the EU and its member states to step up investment with European value added, for instance in common health, rail transport and energy infrastructure in order to foster the EU’s long-run growth prospects and its green transition.

Keywords: EU, China, COVID-19, pandemic, trade policy, value chains

JEL classification: H53, F13, F21, L1

CONTENTS

Towards China’s centenary goals 9

The global COVID-19 trade effect 10

European strategic autonomy and Trade with China 13

RCEP – A platform for the standards of the future? 17

COVID-19 as a game changer for China-EU-Cooperation? 19

References 22

TABLES AND FIGURES

Figure 1 / Prior to the COVID-19 crisis Chinas first centenary goal was within reach 9
Figure 2 / Trade openness/dependence is increasing in Europe, but decreasing for China.................... 13
Figure 3 / An asymmetric trade rebound 16
Figure 4 / ‘Docking’ replaces ‘accordance with international norms’... 18
Figure 5 / Europeans believe that COVID-19 increased China’s economic power.................................. 20

Reshaping Trade Ties with China in the Aftermath of COVID-19

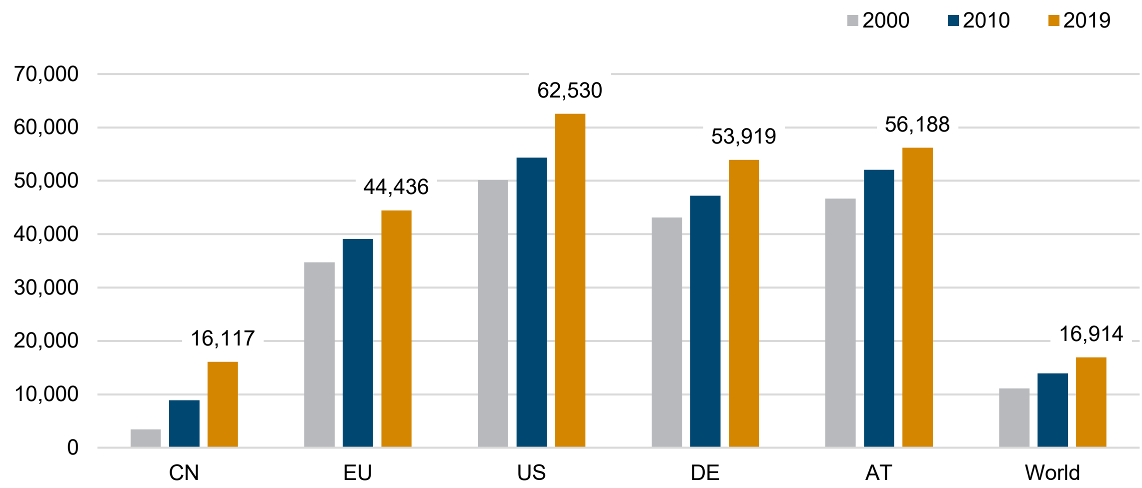
TOWARDS CHINA'S CENTENARY GOALS

China under the leadership of Xi Jinping set out two centenary goals. In 2021, when the Communist Party of China celebrates its 100th anniversary, China shall have achieved the building of a 'moderately prosperous society in all respects'. In 2049 China will celebrate the 100th anniversary of the founding of the People's Republic of China after the Chinese civil war. By then, it aims to have developed to a 'modern socialist country that is prosperous, strong, democratic, culturally advanced, and harmonious' (see e.g. Xi, 2017).

The pre-defined goal for 2021, the year following the presumed peak of the global health crisis, is a doubling of income per capita compared with 2010, to the benefit of well over one billion people. The strong focus on development will safeguard the legitimacy of the ruling party (Lu, 2016). Achieving both centenary goals will not be easy for structural reasons, such as a diminishing demographic dividend, as well as because of the shock of the pandemic. However, China has already managed to come close to world average income levels and almost doubled its gross domestic product (GDP) per capita from roughly 8,900 dollars[1] in 2010 to more than 16,000 dollars in 2019 (Figure 1).

Figure 1 / Prior to the COVID-19 crisis, China's first centenary goal was within reach

GDP per capita in 2000, 2010 and 2019 at purchasing power parity (PPP); 2017 international dollars



Source: World Development Indicators [NY.GDP.PCAP.PP.KD].

[1] GDP per capita based on purchasing power parity (PPP), i.e. converted to international dollars, which have the same purchasing power as the US dollar has in the United States. Data are in constant 2017 international dollars to single out inflation.

The success in achieving its goals depends on China's own actions, other countries' future attitudes towards China and the overall evolution of the COVID-19 health crisis. This shock hit China first, but quickly rippled through the world economy – initially via production and supply chains, and subsequently and more intensively when the virus spread globally. The worldwide economic downturn, a slump in international demand, uncertainty on the part of investors and rising scepticism towards China dampen prospects for Chinese economic growth. However, the almost exclusive focus on the pandemic by most of the countries in the world has opened opportunities for China – which epidemiologically and economically recovered in the first half of 2020 – to push its agenda in the Indo-Pacific region (Arase, 2020) and position itself as a responsible global actor in times of global health distress (Godehardt, 2020).

This policy note reviews data and literature related to changes in European economic relations with China, in particular in the context of the COVID-19 pandemic. It places a strong focus on international trade, which was already affected before the crisis unfolded in Europe and America, and which might change significantly in the medium to long term following debates in Europe about 'open strategic autonomy' triggered by the pandemic. Where available, information for Austria and Germany, whose economies rely heavily on functioning trade relationships, is highlighted.

The first section describes how COVID-19 has affected economies via the trade channel. The second section briefly outlines how strong EU member states' trade relations are with China and what the European Commission's proposition of 'open strategic autonomy' for strengthening global trade and value chains means. It is followed by a discussion of the new weight of East Asia in global trade related to the new mega-regional trade agreement, the Regional Comprehensive Economic Partnership (RCEP). The final section addresses the question of whether COVID-19 may be seen as a game changer for China-EU economic relations.

THE GLOBAL COVID-19 TRADE EFFECT

The year 2020 was an extremely turbulent one for almost every country in the world and their citizens, in the public and in most private spheres. Not a single policy field was unaffected by the unfolding of the global health crisis. One of the first areas affected in Europe, even when the virus SARS-CoV-2 was still (thought to be) contained within East Asia, was international trade.[2]

Factories in China were temporarily shut down. Travel bans resulted in labour shortages restricting production of factories that could still operate. Both Chinese and foreign (including European) companies operating in China were negatively affected.

Adverse effects for these companies trickled through global production and supply chains. Between January and February 2020, the Purchasing Managers' Index for the manufacturing sector in China based on monthly enterprise surveys dropped by almost 50% (National Bureau of Statistics of China, 2020). UNCTAD (2020) calculated that this decrease corresponds to a reduction in annual exports of 2%. Assuming that Chinese exports of intermediate goods decreased by 2% in 2020, UNCTAD suggested that the EU would suffer the greatest absolute damage, of about USD 16 billion. The negative

2 International trade had already slowed down during the years prior to the pandemic, not least because of aggressive trade policies applied by the US, the EU and China.

economic effect to the US was estimated to be ‘only’ one-third of the damage to the EU, roughly USD 6 billion. These results were considered as lower bounds, as the slowdown in Chinese demand and problems arising from missing deliveries were not considered. Most importantly, however, the calculations assumed that COVID-19 could be contained mostly within China. The reality looked very different a few days after the publication of these projections.

In late spring, life in China slowly returned to normal, while Europe and other world regions were struck by the disease. The number of persons infected by the virus, suffering from the respiratory disease COVID-19, and dying from its consequences soared. Medical and personal protective equipment became scarce, and national health systems became temporarily overburdened in some places. Since mid-March European economies have been tumbling from one economic lockdown to the next, at different points in time and to differing extents. They have been following a variety of national internal policies, such as the provision of extra social benefits or tax deferrals, and external policies, notably affecting personal (cross-border) mobility and international trade.

Many economies responded by liberalising imports of products needed to support domestic health systems, for example by facilitating certification procedures or cuts in tariffs, but simultaneously restricting exports of similar goods that were produced domestically (see e.g. Hoekman et al., 2020, referring to the Global Trade Alert database). Some export restrictions were quickly lifted after governments realised the negative domino effect they can cause in global production and supply chains. Unilaterally imposed export restrictions or bans ‘may reduce access to critical supplies, increase average prices, augment market volatility and distort investment decisions, with adverse effects both in the short and in the long run’ (Hoekman et al., 2020, p.2).

These trade measures for critical products needed to contain the disease are particularly worrying, as they are not produced in sufficient quantity by many economies and so it is not easy to switch quickly to other trading partners from which to source those goods. Germany and the US lead the list of exporters of medical goods, accounting for a quarter of total global medical exports in 2019, followed by Switzerland, other EU member states and China (WTO, 2020a). The US mainly exports medical equipment (apparatus) and medical supplies (e.g. needles, surgical gloves); the EU predominantly exports pharmaceuticals/medicines; and almost half of all China’s medical exports in 2019 were of personal protective equipment (PPE), including face masks.

The EU helped to co-ordinate member states’ responses to some extent,[3] presenting guidelines for border measures and green lanes along the Trans-European Transport Network (TEN-T) corridors, deciding on a 'rescEU’ stockpile of medical equipment, providing European standards for medical and protective products, urging member states to grant air freight traffic rights, speeding up public procurement for medical and protective equipment, and deciding on a relief of tariffs and value-added tax on imports of medical devices, protective equipment, ventilators and key medicines (EC, 2020a). The suspension of tariffs and value-added tax on these products was extended to April 2021 (EC, 2020b). On 7 December testing kits and eagerly awaited coronavirus vaccines were also exempted from value-added tax (EC, 2020c).

3 See also wiiw Monthly Report No. 06/2020.

Overall, the global health crisis has additionally evolved into a multifaceted social and economic crisis. The International Monetary Fund (IMF, 2020) is forecasting a global recession of 4.4% for the year 2020. About 90 million people could slip into extreme poverty (an income below USD 1.9 a day). China recovered more quickly than expected, with a projected growth rate of 1.9% for 2020, while the rest of the world is still far off positive growth rates. A downturn of -8.3% of GDP is projected for the euro area, compared with -4.3% for the US.

In comparison to the global economic and financial crisis, the contraction of output in 2020 was much stronger,[4] but the slump in trade turned out to be more moderate. The quarter-on-quarter trade reduction by 14.3% from the first to the second quarter of 2020 was the sharpest decline ever registered (WTO, 2020b). Year-on-year comparisons for the second quarter show that trade in COVID-related products soared, and trade in information and communication technology-related goods also increased, while the most drastic declines were recorded for the automotive sector (>50%), and for travel goods, handbags and footwear (>30%). Trade volumes of iron and steel products and industrial machinery, which are frequently subject to trade policy measures, dropped by more than 10%. Also rather dramatic was the slump in trade in fuels and mining products (38%) as prices collapsed, as did demand (owing to travel restrictions, lockdowns and interruptions of production).

However, trade recovered over the year – albeit with strong regional and sectoral differences. In October the World Trade Organization (WTO, 2020b) presented its trade forecast, projecting an overall decline in world merchandise trade of 9.2% in 2020, followed by a rise of 7.2% in 2021. The projected reduction is lower than outlined in the 'optimistic scenario' of the April trade forecast (a decline of 12.9%). Nonetheless, merchandise trade is expected to remain below its pre-crisis trend in 2021.

Projections regarding the contractions in international trade and GDP look grimmer for the EU than for the US. In mid-2020 the Directorate General for Trade of the European Commission (DG Trade) estimated a decrease of 9-15% for extra-EU27 exports and 11-14% for extra-EU27 imports (Nilsson et al., 2020). Partly, this is due to its much higher degree of openness. The sum of exports and imports amounted to around 26% of GDP for the US in 2019. This figure has been relatively stable (between 20% and 30%) over the last two decades. For China, this measure of openness reached its peak in 2006 at 65% and has since decreased, to 36% in 2019. For the EU, and many of its relatively small member states, trade is much more important. Openness has – with an interruption during the financial and economic crisis – continuously increased, up to a level of 90% of GDP in 2019, more than 20 percentage points above the world average. For some small open economies, such as Austria, this figure is even higher, with the volume of traded goods and services exceeding GDP levels (Figure 2). Excluding intra-EU trade, this openness indicator increased from 30.4% in 2010[5] to 35.6% in 2018 for the EU28. Intermediate goods comprise 60% of extra-EU imports and 49% of extra-EU exports (Nilsson et al., 2020).

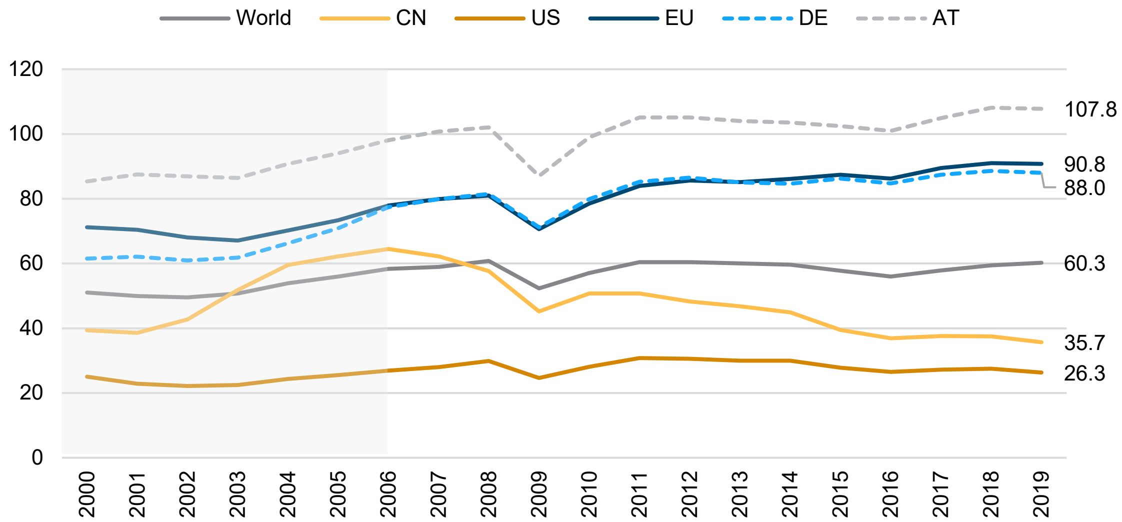
4 During the global financial crisis, the world economy contracted by 0.1% from 2008 to 2009. The IMF hence argues that the COVID-19 health crisis resulted in the worst recession since the Great Depression; see e.g. Gopinath (2020).

5 Based on Eurostat data on extra-EU28 trade in services (only since 2010, BPM6, bop_its6_det), extra-EU28 trade in goods (ext_lt_intertrd) and GDP (NAMA_10_GDP). Data of the World Development Indicators database shown in the graph relies on World Bank national accounts data and OECD national accounts data files and is not provided for extra-EU trade flows.

The EU's trade openness – also reflected in the EU's network of free trade agreements,[6] which is the largest worldwide – and the high share of intermediate goods in its imports led to a debate about a reorganisation of trade. A central recurrent question, fitting into the discussion of deglobalisation, is whether the optimal level of trade – in particular in the form of global production and supply chains – has already been surpassed, and whether policy makers should therefore aim for shorter supply chains, near-shoring or even re-shoring, as opposed to previous off-shoring trends.

Figure 2 / Trade openness/dependence is increasing in Europe, but decreasing in China

Sum of exports and imports of goods and services; % of GDP



Note: Figures for the EU and its member states include intra-EU trade.
Source: World Development Indicators [NE.TRD.GNFS.ZS], based on World Bank and OECD national accounts data files.

EUROPEAN STRATEGIC AUTONOMY AND TRADE WITH CHINA

Trade with and trade policy towards China have received a lot of attention during the COVID-19 pandemic, for multiple reasons. First, the pandemic illustrated how fragile global production networks can be and how quickly many countries and industries face severe challenges when China temporarily struggles to produce/supply. Second, it made countries evaluate their dependency on Chinese final and intermediate product supplies. Third, China illustrated that it is willing to exert political pressure via threats of trade interruptions.

Arase (2020) provides three examples of Chinese political pressure in this context. First, a threat to cut off exports of medicine and COVID-19-related products if the US continued to insist that the new coronavirus had originated in China. Second, a ban on imports of Australian beef and barley, after Australia called in April for an independent investigation into the origins of the virus. And finally, a threat to the Netherlands to halt exports of medical supplies to that country after it renamed its mission in Taiwan the 'Netherlands Office Taipei'. With respect to this behaviour, Arase points out that China will

6 See also Grübler and Reiter (2020).

continue to use coercive force to control and discipline others without regard to international law or democratic procedures.

Table 1 / A tenth of EU exports and a fifth of EU imports depend on China

Goods trade with China by EU member state and their share in total extra-EU27 trade in 2019

	Imports from China		Exports to China	
	in EUR million	in % of extra-EU27 imports	in EUR million	in % of extra-EU27 exports
Luxembourg	1,509	42.7	198	6.7
Czechia	14,806	35.6	2,146	5.9
Netherlands	88,414	26.1	13,906	6.3
Poland	20,536	25.9	2,651	4.3
Hungary	7,470	24.9	1,456	6.1
Denmark	6,253	21.4	4,837	10.2
Romania	4,537	19.3	612	3.3
Germany	**76,772**	**18.8**	**96,283**	**15.2**
Sweden	8,424	17.4	6,763	9.9
Italy	31,665	17.3	12,993	5.5
Slovakia	2,904	17.2	1,690	10.5
Estonia	651	16.7	173	3.8
Spain	24,821	16.4	6,799	5.6
France	31,426	15.1	20,959	8.5
Greece	4,061	14.9	892	5.5
Austria	**5,606**	**14.3**	**4,611**	**9.0**
Portugal	2,953	14.0	604	3.4
Bulgaria	1,484	13.8	814	7.8
Croatia	726	13.6	108	2.1
Slovenia	2,016	13.6	435	3.9
Cyprus	410	12.2	34	1.9
Latvia	511	12.1	159	3.0
Finland	2,296	11.2	3,548	12.0
Belgium	16,704	10.9	7,108	5.1
Lithuania	929	8.7	277	2.1
Malta	255	8.6	36	2.9
Ireland	3,146	5.8	8,207	8.6
EU27	**361,286**	**18.7**	**198,299**	**9.3**

Note: Sorted by the share of imports from China in total extra-EU27 imports. Eurostat data contain the Rotterdam effect, as imports are recorded in the country where goods are released for free circulation. This is why the Netherlands shows the highest absolute amount of imports.
Source: Eurostat (online data code: ext_st_eu27_2019sitc and DS-018995).

Lower trade dependency constrains the power a trading partner can assert via the trade channel on another country.[7] Overall, 18.7% of extra-EU27 imports originated from China and 9.3% of extra-EU27 exports were destined for China in 2019. Twenty-four out of 27 EU member states sourced at least 10%

[7] The same obviously holds true for investments in critical infrastructure. For example, in a recent critical report Conley et al. (2020) discuss how Chinese economic activities in the form of physical and digital infrastructure investments/funding in Serbia based on government-to-government deals have turned the country into a 'client state', posing security risks and undermining civil liberties. A survey conducted in September and October 2020 across 13 European countries reveals that Russian and Serbian respondents have the most positive view of China, with Serbia being the country with the most significantly improved image of China over the last three years (Turcsányi et al., 2020).

of their extra-EU imports from China, while there are only four economies where extra-EU export shares to China exceeded 10%. Germany ranks eighth with respect to import shares (18.8%) and first on the export side. Austria finds itself in the lower half of the import table (14.3%) but is ranked sixth with respect to export shares (Table 1). This can be understood as a lower-bound measure of trade dependency, as it measures gross exports. Indirect dependencies resulting from global value chains (for example, Austrian intermediate goods contained in German products exported to China) may be even stronger.

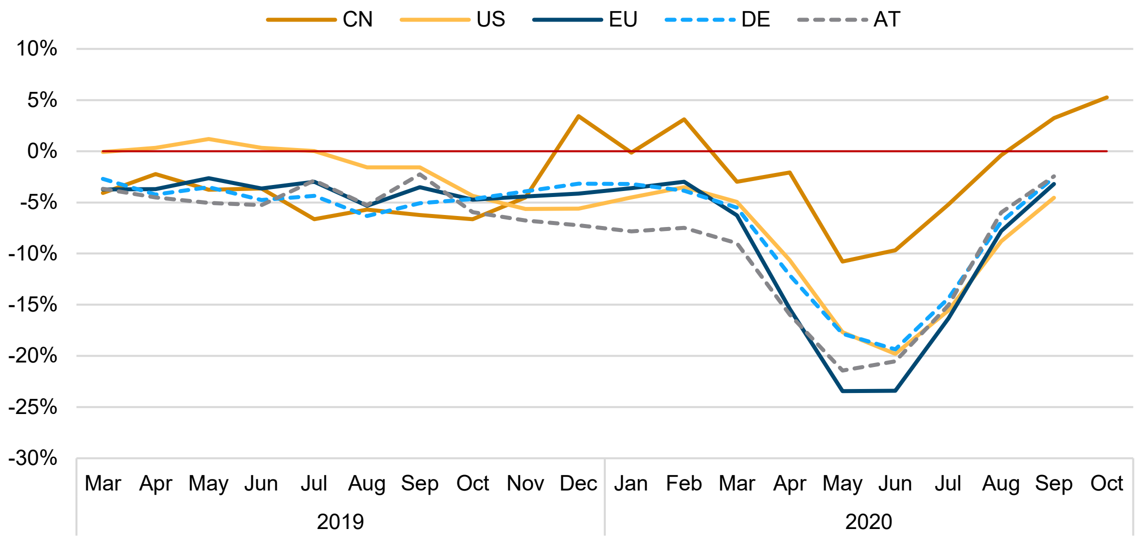
With respect to dependency on intermediate products from China, an evaluation by DG Trade shows that the EU is most dependent in textiles (46.2%), electrical equipment (36.1%) and electronic products (39.7%), which are the same product groups that show the overall largest share of extra-EU imports. The European Commission does not promote concepts of ‘undoing’ globalisation, or the argument of bringing production back home or closer to their final markets. Rather, it suggests that firms should diversify their supplier bases. With a model of ‘open strategic autonomy’, the Commission seeks to establish a model that allows for international competition while defending the EU market from unfair or abusive practices of external actors (Nilsson et al., 2020).

About half of all EU anti-dumping measures and countervailing duties – aimed, respectively, at counteracting the adverse economic effects from price dumping and subsidies – target China (see e.g. Garcia-Herrero et al., 2020). In particular, steel and aluminium are frequently subject to these types of policy instruments used to defend domestic economies from ‘unfair’ trade practices. In addition, the European steel sector is also protected by safeguard measures. These are temporary border measures to prevent injury to importing economies in the event of a strong increase of imports. These apply to specific products, but across all trading partners. EU safeguard measures were put in place in February 2019, in response to the extra tariffs imposed by the US in March 2018 on steel and aluminium products. These were prolonged and refined in mid-2020 as a reaction to the COVID-19 crisis. The EU argues that the economic shock strongly affects the functioning of the steel market, and more importantly, that the ‘strong geographical asymmetries in the speed and timing of the recovery’ – without explicitly mentioning China – pose the risk that opportunistic practices by trading partners might displace domestic production (EU, 2020). The safeguard measure consists of a tariff-rate quota. For import levels exceeding the quota, a 25% tariff applies. This regulation has been redefined by managing country-specific quotas on a quarterly (rather than an annual) basis and to give smaller exporting countries better access to the residual quota.

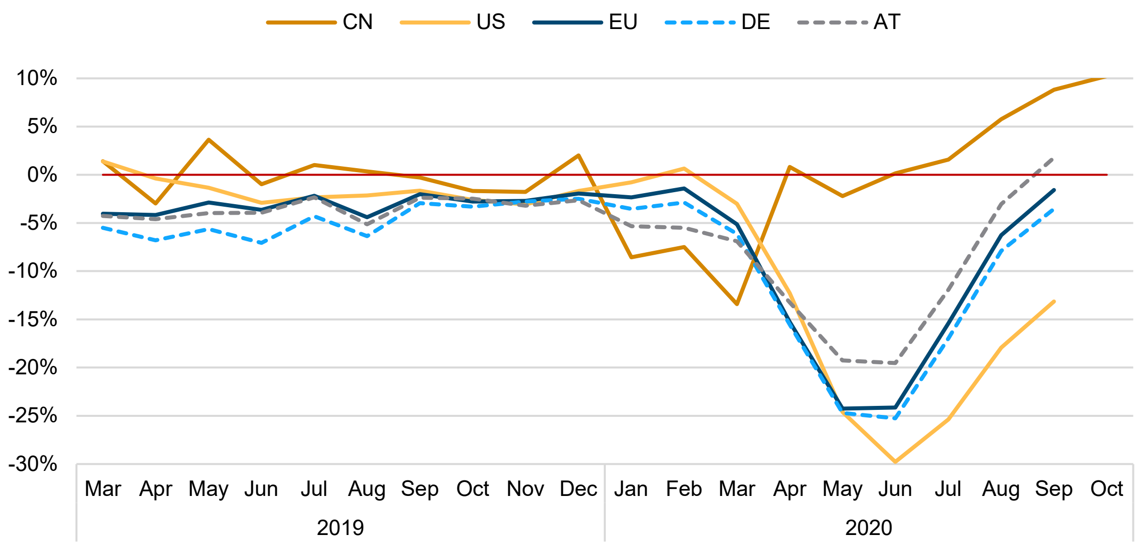
Trade relations bluntly display the asymmetric recovery. On the one hand, the EU and the US are finding it difficult to achieve pre-crisis trade levels. This is particularly true on the export side (Figure 3). However, imports have also come under pressure as US and EU ports face congestion owing to COVID-19, stemming from quarantine measures, and lack of crew, cargo ships or containers, which result in certificates expiring, spoiled goods and returns (see e.g. Pape, 2020 or Martin, 2020). On the other hand, China’s imports in October 2020 exceeded the levels of the previous year by 5%, while its exports were 10% higher than in 2019 (Figure 3).

Figure 3 / An asymmetric trade rebound

Year-on-year change of total merchandise imports



Year-on-year change of total merchandise exports



Note: Graphs based on a moving three-month average.
Source: WTO Data (https://data.wto.org/),16 December 2020.

RCEP – A PLATFORM FOR THE STANDARDS OF THE FUTURE?

Uncertainty related to trade policy is a downward risk to growth projections following the COVID-affected year of 2020. For Europe, Brexit alone already constitutes an enormous political and economic challenge. In addition, relations with and between global trading powers are in flux.

The EU and China have been negotiating an EU-China Comprehensive Agreement on Investment (CAI) since 2013. After seven years of negotiations, an agreement in principle was concluded on 30 December 2020. The agreement itself and the timing of the conclusion received a lot of (partly justified and understandable) criticism, for example with respect to human rights concerns. The deal 'will not miraculously convert China to Western norms of social, economic or political governance, but it does represent a modest step forward for the kind of regulated globalization that the EU has long sought to embody and promote' (Taylor, 2021). According to the European Commission, China committed to improved market access for investments of EU companies, greater transparency regarding subsidies, prohibiting forced technology transfer and promoting sustainable development. Furthermore, both parties aim to conclude negotiations on investment protection and dispute settlement within two years (EC, 2020d).

With regard to EU-US relations, the achieved 'lobster deal'[8] on WTO terms is no more than a friendly signal of rapprochement in light of ongoing tensions, including retaliatory tariffs imposed on imports worth several billion US dollars in the Boeing-Airbus subsidy fight.[9] Much speculation is circulating regarding the role of the new US president, Joe Biden, in re-establishing 'friendly' ties with the EU and less aggressive ones with China.

Under the Trump administration, an upward spiral of tariffs and retaliatory tariffs resulted in an increase of Chinese tariffs on US exports from 8% in January 2018 to 21.1% in December 2019. The relative rise in tariffs was even more extreme on the US side, where tariffs on Chinese goods increased sevenfold from 3.1% to 21% during the same period (Bown, 2020a). [10] The 'phase one' deal between the US and China, which came into effect on 14 February 2020, temporarily reduced tensions between the world's two biggest economies and trading powers. However, the deal did not live up to its promises – partly, of course, because of the pandemic. In the deal, China committed to import an additional amount of US goods worth USD 63.9 billion. Over the first ten months of the deal, however, China's purchases of US goods were more than 55% below the year-to-date targets (Bown, 2020b).

A downward risk to international trade and investments that should not be understated is the fact that the international rules-based order is under threat. One factor behind this is increased uncertainty regarding the future of the WTO, which is mainly related to US obstruction of its dispute settlement mechanism by blocking the appointment of judges.

---

8 The agreement will entail the reduction of US tariffs on EU exports worth around USD 160 million a year. This includes prepared meals, crystal glassware, surface preparations, propellant powders, lighters and lighter parts. The EU will eliminate tariffs on imports of US live and frozen lobster products. US exports of these products to the EU are worth around USD 111 million a year. Both sides will eliminate those tariffs on a most-favoured nation (MFN) basis, i.e. for any partner, in line with existing multilateral commitments. (EC, 2020e).

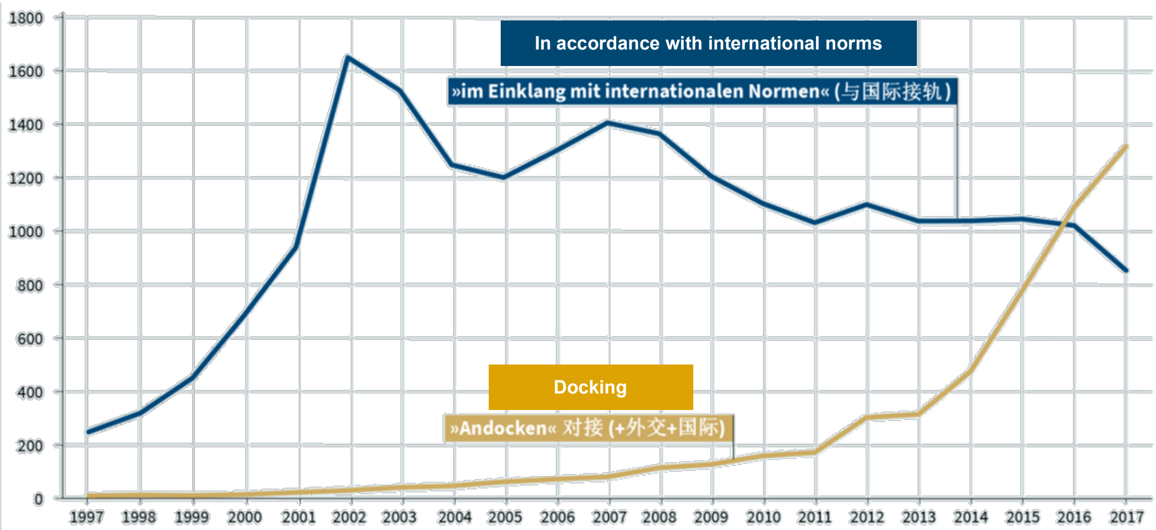
9 See WTO dispute cases DS316 (US against Airbus) and DS353 (EU against Boeing) and the press release of the European Commission (13 October 2020): https://trade.ec.europa.eu/doclib/press/index.cfm?id=2192

10 Tariff data weighted by exporting country's exports to the world in 2017, i.e. prior to the tariff escalation.

Meanwhile, China's main principles of action are changing considerably. While the late 1990s and early 2000s were characterised by China's discourse on its accordance with international norms, it has since changed towards a 'docking' approach. Many Chinese experts regard the global economic and financial crisis that began in 2007/08 as a turning point for the liberal international order and the leading role of the US. China's relatively recent 'docking' strategy refers to a political relationship on an equal footing, without having to adapt to established norms and rules (Figure 4). On the contrary, it might reshape existing norms towards its own ideals, for example via the '17+1' forum (with 11 EU members in Central and Eastern Europe, five Western Balkan economies and Greece), the establishment of new institutions such as the Global Energy Interconnection Development and Cooperation Organiszation (GEIDCO), transnational economic corridors along Belt and Road Initiative (BRI) partner countries, or its investments in its own satellite navigation system (an alternative to GPS), Cross-Border Interbank Payment System (an alternative to SWIFT) and 5G communication network standard (Godehardt, 2020).

Figure 4 / 'Docking' replaces 'accordance with international norms'

Word frequencies in China's academic discourse



Source: Godehardt (2020, p. 15)/Stiftung Wissenschaft und Politik (SWP); based on the China National Knowledge Infrastructure Database (category: politics and international relations); November 2018; original figure in German.

An important tool for shaping international norms and standards – particularly in trade – could be the Regional Comprehensive Economic Partnership (RCEP), which was signed on 15 November 2020. It encompasses all 10 ASEAN states,[11] South Korea, Japan, Australia, New Zealand and China. These 15 economies currently account for about 30% of the world's population, 30% of global GDP, 25% of global trade and more than 50% of container port traffic.[12]

Four ASEAN economies as well as Australia, New Zealand and Japan also belong to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which has been operational since 30 December 2018. The EU has relatively new 'second-generation' trade agreements

[11] ASEAN = Association of Southeast Asian Nations, comprising Indonesia, Cambodia, Laos, Myanmar, Philippines, Thailand and four economies that are also part of the CPTPP – Brunei, Malaysia, Singapore and Vietnam.

[12] See e.g. World Development Indicators of the World Bank.

in place with South Korea (applied since July 2011), Japan (in force since February 2019), Singapore (November 2019), and Vietnam (August 2020), and it is negotiating with Australia and New Zealand. But there is no authorisation from the Council of the EU to negotiate a trade agreement with China and also no sign of taking up negotiations in the near future. Indeed, China is the only country where a stand-alone investment agreement has been negotiated.

Many RCEP partner countries already trade under established trade agreements. However, many of them, such as South Korea and Japan, previously did not have institutionalised trade ties with China. The agreement includes 20 chapters, reaching beyond tariff cuts. It includes commitments in the fields of trade remedies, e-commerce and standards. In *Trade Talks* (2020, episode 143), Deborah Elms (Asian Trade Centre) explains that the RCEP is set up to be a platform for discussion of trade and economic issues in Asia for the future. The RCEP trade network can start to create rules for trade in Asia and then beyond, especially in new technologies, such as artificial intelligence, 3D printing and blockchain technology. She concludes that 'once these rules are discussed and implemented in RCEP, these can become global rules'. This could become a thorn in the side for Europeans, who are particularly sceptical of Chinese activity in the area of digitalisation and data protection (Bartsch and Laudien, 2020).

If it is true that intercontinental and overlapping trade agreements contribute strongly to the spread of standards, as Morin et al. (2019) argue for environmental standards, then economies in Eastern Asia – linked to ASEAN, CPTPP and RCEP – might well significantly shape international standards for production, and traded goods and services in the near future.

COVID-19 AS A GAME CHANGER FOR CHINA-EU CO-OPERATION?

The liberal international order has been showing cracks at least since the global economic and financial crisis of 2008-2009. The success of globalisation has been increasingly questioned. The economic rise of China, accompanied by a weakening of economic dominance of the US, underscored the understanding that the tandem of market economy and democracy will not necessarily prevail globally.

Confrontations between the US and China increased, which led to the weakening of international agreements (e.g. the Paris Agreement on climate change) and organisations (e.g. the WTO). Fissures in the international order can be used by actors, such as China, to push their own ideas in an attempt to establish the compatibility of the world with China, rather than vice versa. These ruptures were further deepened by the global health crisis and helped China to present itself as a responsible global actor, contributing (for example, with medical supplies during the COVID-19 crisis and a revival of the concept of a Health Silk Road) to the 'community with shared future for mankind' (Godehardt, 2020).

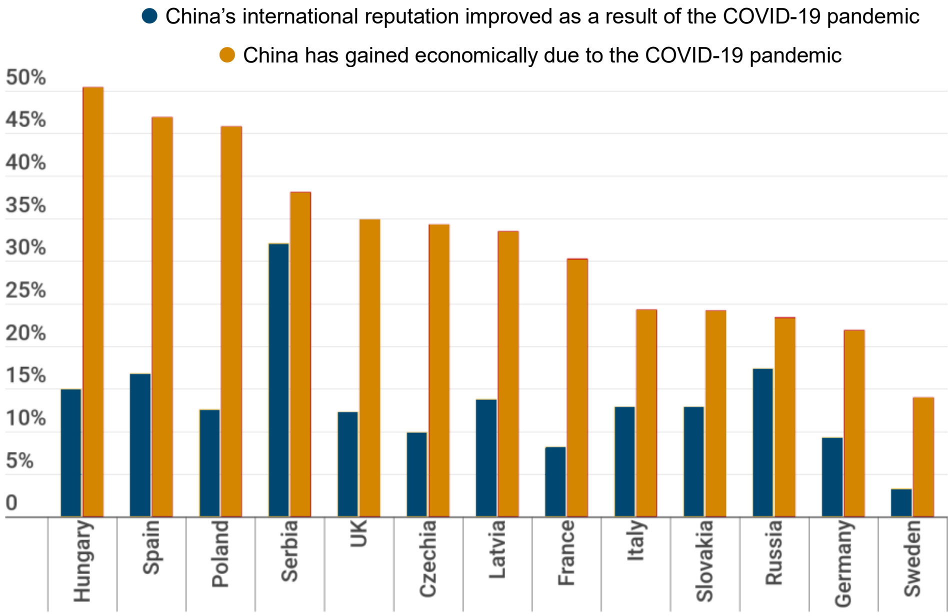
Meanwhile, China did not hesitate to use its trading power to discipline economies that did not endorse the views of the Communist Party, for example, those referring to China as the country of origin of the COVID-19 disease. Furthermore, while countries around the globe are struggling with the pandemic, China seeks to push its political agenda in the Indo-Pacific, notably in relation to sovereignty disputes with neighbours (Arase, 2020). It is interesting in this respect that more and more countries in Europe are shifting away from implementing China strategies in favour of strategies towards the Indo-Pacific. Some of the most prominent examples are France with its strategy 'For an Inclusive Indo-Pacific', published in 2019 and the German guidelines published in autumn 2020 on the Indo-Pacific region 'Germany – Europe – Asia: shaping the 21st century together'.[13]

Within Europe, public opinion about China is currently predominantly negative – although perceptions are characterised by a regional divide. A survey conducted in September and October 2020 across 13 European countries[14] revealed that 10 of the 13 report significantly more negative than positive views of China. Positive views prevail in Latvia, Russia and Serbia. The last of these is the only country in the survey that showed a strong improvement in China's image among respondents. Likewise, China's flagship infrastructure investment project – the Belt and Road Initiative (BRI) – receives greater approval in Serbia, Russia, Latvia, Italy and Poland than elsewhere.

In the context of COVID-19, roughly 10% of respondents agree with the statement that China's reputation has increased in light of the pandemic; only for Serbia is this share significantly higher, at more than 30%. Across all countries, significantly more respondents feel that China has gained economically during the global health crisis.

Figure 5 / Europeans believe that COVID-19 increased China's economic power

Question: How did China's global position change in the light of the COVID-19 pandemic?
Percentage of respondents agreeing with the statement



Source: Turcsányi et al. (2020), Figure 26, p. 23.

[13] See République Française, Ministère de l'Europe et des Affaires Étrangères (2019) and Bundesregierung der Bundesrepublik Deutschland, Auswärtiges Amt (2020).

[14] Czechia, France, Germany, Hungary, Italy, Latvia, Poland, Russia, Serbia, Slovakia, Spain, Sweden and United Kingdom.

To conclude, despite shifts in European attitudes towards China during the COVID-19 crisis, the pandemic does not seem to be a major game changer. Instead, it acts as a catalyst for trends that were already apparent before the crisis and that were amplified by the clashes between the US and China.

The hegemonial shift has been evident for years. Given fundamentally different conceptions of governance and the role of the state and the market in the economy, China's ideology of 'socialism with Chinese characteristics in a new era' is challenging the international order (Arase, 2020). Prior to the COVID-19 outbreak, the EU had noted that *'China is, simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance. This requires a flexible and pragmatic whole-of-EU approach enabling a principled defence of interests and values.'* (EC and HR/VP, 2019, p. 1).

This balancing act between competition and co-operation in dealing with China might also explain some countries' reticence. Austria is characterised by a policy of neutrality regarding the rivalry between the US and China. The COVID-19 crisis does not seem to have led to a reversal of Austria's relatively neutral stance towards China. Nonetheless, it might have spurred its ambition to support EU interests, for example with respect to the procurement of pharmaceuticals, or the reinforcement of investment screening regulations (Erlbacher, 2020).

In view of the experiences during the extraordinary year 2020 and the expected increase in disruptions of value chains related to pandemics[15] and natural disasters,[16] a policy recommendation for a small open European economy, such as Austria, would be to empirically evaluate its trade dependency across sectors and trading partners to assess its economic vulnerability to trade. Austria might profit from its close ties to Central, East and Southeast Europe to diversify its trade and investment links (Gruebler and Bykova, 2020). In particular, the Western Balkan economies might have the potential for some form of near-shoring in the electronic, pharmaceutical, and automotive industries (Gaber, 2020). To mitigate risks related to the international trade order, it should be in the interest of all EU member states that the WTO emerges stronger from the current institutional crisis and better capable to address pressing global challenges such as climate change, in line with the European Green Deal.[17]

Furthermore, given the stabilising role of the EU during economic crises, Austria's focus on the EU market, and the importance of the EU market size for negotiating with the US and China on an equal footing, Austria should step up efforts to achieve common European policies towards China or the Indo-Pacific, rather than pursuing an individual strategy. Austria might push for European strategic infrastructure investments across Eurasia that complement China's BRI, but with a clear European value added and an aim to increase long-run growth prospects in the EU. For example, Creel et al. (2020) propose a European COVID-19 recovery programme in the areas of public health, transport infrastructure and energy/decarbonisation over a 10-year period, amounting to EUR 2 trillion, strengthening the European rail network and Green Deal ambitions.

---

15 See e.g. Gill, via BBC (2020).

16 See e.g. Buchholz, via World Economic Forum (2020).

17 See e.g. a discussion on the Environmental Goods Agreement by De Melo and Solleder (2019).

REFERENCES

Arase, D. (2020), 'China's Rise, Deglobalization and the Future of Indo-Pacific Governance', Asia Global Papers, No. 2, Asia Global Institute, The University of Hong Kong, July.

Bartsch B. and A. Laudien (2020), 'Survey: Europe's view of China and the US-Chinese conflict', Bertelsmann Stiftung, January.

Bown, C. (2020a), 'US-China Trade War Tariffs: An Up-to-Date Chart', Peterson Institute for International Economics (PIIE), https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart (14 February).

Bown, C. (2020b), 'US-China phase one tracker: China's purchases of US goods', Peterson Institute for International Economics (PIIE), https://www.piie.com/research/piie-charts/us-china-phase-one-tracker-chinas-purchases-us-goods (4 December).

Buchholz, K (2020), 'Are natural disasters becoming more frequent?', World Economic Forum, https://www.weforum.org/agenda/2020/09/natural-disasters-global-risks-2019/ (3 September).

Bundesregierung der Bundesrepublik Deutschland, Auswärtiges Amt (2020), 'Das 21. Jahrhundert gemeinsam gestalten', Leitlinien zum Indo-Pazifik, August. https://www.auswaertiges-amt.de/de/aussenpolitik/regionaleschwerpunkte/asien/indo-pazifik-leitlinien/2380340

Conley, H.A., J. E. Hillman, M. McCalpin and D. Ruy (2020), 'Becoming a Chinese Client State. The Case of Serbia', Center for Strategic & International Studies (CSIS), Washington DC, September.

Creel, J., M. Holzner, F. Saraceno, A. Watt and J. Wittwer (2020), 'How to Spend it: A Proposal for a European Covid-19 Recovery Programme', *wiiw Policy Notes and Reports*, No 38, June, https://wiiw.ac.at/ p-5352.html

De Melo, J. and J.-M. Solleder (2019), 'What's wrong with the WTO's Environmental Goods Agreement: A developing country perspective', VOXeu/CEPR, https://voxeu.org/article/what-s-wrong-wto-s-environmental-goods-agreement, (13 March).

Erlbacher, L. (2020), 'Austria: A non-confrontational road to European economic sovereignty?', in: J. Seaman, (ed.), *Covid-19 and Europe-China Relations. A country-level analysis*, European Think-tank Network on China (ETNC), Special Report, 29 April.

European Commission | EC (2020a), 'Coronavirus response – Public Health', https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/public-health_en (assessed 16 December 2020).

European Commission | EC (2020b), 'Communication from the Commission to the European Parliament, the European Council and the Council on additional COVID-19 response measures', COM(2020) 687 final, Brussels, 28 October.

European Commission | EC (2020c), 'Coronavirus response: Commission welcomes agreement on crucial VAT relief for vaccines and testing kits', Press release, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2299 (7 December).

European Commission | EC (2020d), 'EU and China reach agreement in principle on investment', Press release, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2541 (30 December).

European Commission | EC (2020e), 'Commission adopts proposals to make EU-U.S. agreement on tariffs effective', News archive, https://trade.ec.europa.eu/doclib/press/index.cfm?id=2180&title=Commission-adopts-proposals-to-make-EU-U.S.-agreement-on-tariffs-effective (8 September).

European Commission | EC and High Representative of the Union for Foreign Affairs and Security Policy (HR/VP) (2019), 'EU-China – A strategic outlook, Joint communication to the European Parliament, the European Council and the Council', JOIN(2019) 5 final, Strasbourg, 12 March.

European Union | EU (2020), 'Commission implementing Regulation (EU) 2020/894 of 29 June 2020 amending Implementing Regulation (EU) 2019/159 imposing definitive safeguard measures against imports of certain steel products', *Official Journal of the European Union*, L 206/27, 30 June.

Gaber M. (2020), 'Westbalkan mit großem Potenzial für Nearshoring', Germany Trade & Invest | GTAI, https://www.gtai.de/gtai-de/trade/wirtschaftsumfeld/bericht-wirtschaftsumfeld/albanien/westbalkan-mit-grossem-potenzial-fuer-nearshoring--245420 (5 May)

Garcia-Herrero, A., G. Wolff, J. Xu, N. Poitiers, G. Felbermayr, R. Langhammer, W.-H. Liu and A. Sandkamp (2020), 'EU-China trade and investment relations in challenging times', Study requested by the INTA committee, European Parliament, PE 603.492, May.

Gill, V. (2020), 'Coronavirus: This is not the last pandemic', BBC, https://www.bbc.com/news/science-environment-52775386 (6 June).

Godehardt, N. (2020), 'Wie China Weltpolitik formt. Die Logik von Pekings Außenpolitik unter Xi Jinping', SWP-Studie, No. 19, Stiftung Wissenschaft und Politik (SWP), Oktober.

Gopinath, G. (2020), 'The Great Lockdown: Worst Economic Downturn Since the Great Depression', IMF Blog, https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/ (14 April).

Gruebler, J. and A. Bykova (2020), 'Nachbarschaftsbeziehungen auf dem COVID-Prüfstand', *wiiw Forschungsbericht/Research Report in German Language*, No. 17, September, https://wiiw.ac.at/p-5399.html

Gruebler J. and O. Reiter (2020), 'Greater than the Sum of its Parts? How does Austria Profit from a Widening Network of EU Free Trade Agreements?', *wiiw Working Paper*, No. 186, The Vienna Institute for International Economic Studies (wiiw), Vienna, September, https://wiiw.ac.at/ p-5391.html

Hoekman, B., M. Fiorini and A. Yildirim (2020), 'Export restrictions: A negative-sum policy response to the COVID-19 crisis', EUI Working Paper, RSCAS 2020/23, European University Institute, San Domenico di Fiesole, April.

International Monetary Fund | IMF (2020), 'A Long and Difficult Ascent', World Economic Outlook, International Monetary Fund', Washington DC, October.

Lu, D. (2016), 'China's "Two Centenary Goals": Progress and Challenge', *East Asian Policy*, Vol 8, No. 2, pp. 79-93.

Martin, N. (2020), 'No Christmas gifts? COVID blamed for delivery delays', Deutsche Welle (DW), https://www.dw.com/en/no-christmas-gifts-covid-blamed-for-delivery-delays/a-55944074 (17 December).

Morin J.-F., D. Blümer, C. Brandi and A. Berger (2019), 'Kick-starting diffusion: Explaining the varying frequency of preferential trade agreements' environmental provisions by their initial conditions', *The World Economy*, Online: 28 June. - https://onlinelibrary.wiley.com/doi/abs/10.1111/twec.12822

National Bureau of Statistics of China (2020), 'Purchasing Managers Index for February 2020', 2 March, http://www.stats.gov.cn/english/PressRelease/202003/t20200302_1729254.html

Nilsson, L., B. Kennedy, A. Tucci, B. Velazquez, S. Nolte and Z. Kutlina-Dimitrova (2020), 'Trade Policy Reflections beyond the COVID19 Outbreak' (ed. L. Cernat), European Commission, Chief Economist Note, No. 2, June, ISSN 2034-9815.

Pape, M. (2020), 'EU shipping and ports facing coronavirus', European Parliamentary Research Service (EPRS), PE 651.907, May.

République Française, Ministère de l'Europe et des Affaires Étrangères (2019), 'French Strategy in the Indo-Pacific. For an Inclusive Indo-Pacific', https://www.diplomatie.gouv.fr/en/country-files/asia-and-oceania/the-indo-pacific-region-a-priority-for-france/

Taylor, P (2021), 'In defense of the EU-China investment deal', POLITICO, https://www.politico.eu/article/europe-at-large-eu-china-investment-deal/ (12 January).

Trade Talks (2020), 'RCEP – Separating fact from friction', Episode 143, https://www.tradetalkspodcast.com/podcast/143-rcep-separating-fact-from-friction/ (18 November).

Turcsányi R.Q., M. Šimalčík, K. Kironská, R. Sedláková, J. Čeněk, A. Findor, O. Buchel, M. Hruška, A. Brona, U.A. Bērziņa-Čerenkova, M. Esteban, B. Gallelli, J. Gledić, P. Gries, S. Ivanov, B. Jerdén, M. Julienne, T. Matura, T. Rühlig and T. Summers (2020), 'European public opinion on China in the age of COVID-19. Differences and common ground across the continent', Palacký University Olomouc and Central European Institute of Asian Studies (CEIAS), https://ceias.eu/survey-europeans-views-of-china-in-the-age-of-covid-19/

UNCTAD (2020), 'Global trade impact of the coronavirus (COVID-19) epidemic', Trade and Development Report Update, 4 March, https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf?user=1653

wiiw (2020), Monthly Report, No. 6/2020, Vienna: Vienna Institute for International Economic Studies (wiiw), https://wiiw.ac.at/monthly-report-no-06-2020-p-5341.html

WTO (2020a), 'Trade in medical goods in the context of tackling COVID-19', 3 April, https://www.wto.org/english/news_e/news20_e/rese_03apr20_e.pdf

WTO (2020b), 'Trade shows signs of rebound from COVID-19, recovery still uncertain', Trade statistics and outlook, Press release, PRESS/862, 6 October.

Xi, J. (2017), 'Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era', Speech delivered by Xi Jinping (President of the People's Republic of China and General Secretary of the Communist Party) on 18 October 2017 at the 19th National Congress of the Communist Party of China (CPC), *Xinhuanet*, 3 November. Available at: http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

wiiw.ac.at

https://wiiw.ac.at/p-5606.html