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Beijing's European Offensive

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Abstract. December 11, 2016 marked the 15th anniversary of China becoming a member of the World Trade Organization. According to the Chinese, this date is grounds for automatically granting China the status of a country with a market economy. What has changed in relations between China and the countries of the European Union since that date, and what is behind the European countries' hesitation to grant China this status? How are the results of the referendum in Great Britain influencing relations between China and the European Union? What are the prospects for the European Union and the United States concluding a Transatlantic Partnership trade agreement, and how will China's position in Europe be affected as a result? These questions and others are examined in this work.

Keywords: *European Union (EU), China (PRC), World Trade Organization (WTO), status, Brexit, Great Britain, United States, Transatlantic Partnership***.**

In the first half of 2016, many felt as though Beijing's European offensive (on which a number of researchers had commented)[1] was either running out of steam or encountering a number of difficulties. These included debates over whether to grant China the status of a country with a market economy, negotiations regarding the Transatlantic Partnership between the European Union and the United States, and the so-called Brexit initiative (i.e., the results from the June referendum in Great Britain on withdrawing from the European Union.)

The debates surrounding the status of a "country with a market economy" were associated with the 15th anniversary of China's joining the World Trade Organization, the protocol for which was signed on December 11, 2001. Over many years of arguing with the Europeans, who stubbornly refuse to grant market status to China,[2] the Chinese have succeeded in convincing virtually all commentators that according to the WTO Charter and the documents signed in the 15 years since joining, China should have automatically been granted market sta-

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tus. That is, they have convinced everyone except the Europeans themselves and their *de facto* supporters, the Americans. What is the problem?

Let us examine the text of the protocol.[3] Point (d) of Paragraph 15, Part I (General Provisions), which goes directly to the heart of the matter, says this:

Once China has established, under the national law of the importing WTO Member, that it is a market economy, the provisions of subparagraph (a) shall be terminated provided that the importing Member's national law contains market economy criteria as of the date of accession. In any event, the provisions of subparagraph (a)(ii) shall expire 15 years after the date of accession. In addition, should China establish, pursuant to the national law of the importing WTO Member, that market economy conditions prevail in a particular industry or sector, the nonmarket economy provisions of subparagraph (a) shall no longer apply to that industry or sector.

Point (d) is, therefore, a note on Point (a) of the same paragraph, which in turn says this:

(a) In determining price comparability under Article VI of the GATT 1994 and the Antidumping Agreement, the importing WTO Member shall use either Chinese prices or costs for the industry under investigation or a methodology that is not based on a strict comparison with domestic prices or costs in China based on the following rules:

(i) If the producers under investigation can clearly show that market economy conditions prevail in the industry producing the like product with regard to the manufacture, production and sale of that product, the importing WTO Member shall use Chinese prices or costs for the industry under investigation in determining price comparability;

(ii) The importing WTO Member may use a methodology that is not based on a strict comparison with domestic prices or costs in China if the producers under investigation cannot clearly show that market economy conditions prevail in the industry producing the like product with regard to manufacture, production and sale of that product.

In translating this judicial hairsplitting into understandable language, several things should be considered: What are we talking about, and what is a market economy?

First of all, each of the above provisions exclusively concerns antidumping procedures and is used during antidumping investigations. Second, market status is of fundamental importance to determining what are "fair" prices during such investigations. If the economy of the exporting country is recognized as a market economy, local prices and costs are used as the basis for determining what are "fair" prices. If not, the importer country is free to determine what are "fair" prices by other means (by comparing the prices of other countries considered to have market economies.)[4] The possibility of declaring one branch of industry or another a market branch until the economy as a whole is recognized as a market economy is then considered.

As we have seen, Point (d) does indeed contain a clause that after 15 years have elapsed, the possibility of using ways other than those based on prices and costs of the exporter country to determine prices disappears automatically. This naturally robs most antidumping investigations of the prices of Chinese goods of any prospect of eventually being successful for importer countries. As a result, the United States and the EU countries, which are the main importers of Chinese goods, lose their levers for applying pressure on China.

This mainly, of course, does not suit the European Union. Granting China the status of a country with a market economy would obviously limit the European Union's ability to limit imports of comparatively cheap Chinese goods. Of the 69 antidumping measures adopted by the European Union, 52 are currently in force against Chinese goods, including steel, ceramics, and products of the chemical and mechanical engineering industries. According to data from the European Commission, such measures extend to 1.38% of all European imports from China and affect 250,000 jobs in EU member countries. As things stood in January 2016, of the 28 antidumping investigations being conducted by the European Commission, 16 were on importing goods from China.[5] China receiving market economy status could reduce the production of European goods by as much as 114 to 228 billion euros annually (1%-2% of GDP) and the loss of 1.7-3.5 million jobs in the European Union.[6]

Since January 2016, the European Commission has been discussing the possibility of recognizing China as a country with a market economy. In February, this issue was examined at a meeting of the EU countries' ministers of commerce in Amsterdam; however, a final decision was postponed until summer.

The positions of the EU member countries on the issue vary. Great Britain, the Netherlands, Finland, Sweden, and Denmark favor granting market status. Germany is prepared to agree to granting market status, but only so long as it can protect certain branches of its own industries. Italy is categorically against altering the status of China's economy.[7] The US position on the status of China's economy is more complicated. Verbally, it recognized the Chinese economy as market in character as long ago as the end of the last decade. This was, however, never established *de jure*, and from time to time the United States has imposed compensatory tariffs against a number of Chinese commodities. The list of products on whose import the United States has imposed additional customs duties is more than 20 items long. Additional tariffs have become mandatory on imports of Chinese solar batteries, wind-powered generators, coated paper stock, steel sinks, citric acid, pipes of different kinds (including ones used in oil production), wires and pressed goods made of aluminum, and so on. From 2007 through 2012, the US Department of Commerce imposed compensatory tariffs on Chinese commodities 17 times. The average annual volume of goods that fell under compensatory tariffs is estimated to be more than $7 billion. In 2012, China was forced to appeal to the WTO Court to force Washington to abolish its unfounded trade barriers. In 2014, the WTO Court acceded to Beijing's claims. WTO experts resolved Washington was unable to prove *de jure* that Chinese exporters were state bodies, and for this reason could not apply the so-called compensatory tariffs against these companies. In other words, the WTO Court *de facto* recognized that China had a market economy.[8]

Today, granting China market economy status in trade with the European Union would run completely counter to US efforts to create a so-called Transatlantic Partnership (the TTIP, or Transatlantic Trade and Investment Partnership.) The Americans have, therefore, been trying since the end of 2015 to pressure Brussels into prolonging the deadline for granting Beijing the status it covets.

Looking at the matter from fundamental points of view, it is understandable that few would agree China is a country with a market economy; i.e., one where the basic parameters of the economy's functioning, especially the prices of goods produced, are determined by the market. Whatever we call China – a socialist country, a country with state capitalism, or one with a "uniquely market brand of Chinese socialism" – the leading role of the state and Communist party in determining its strategy of development and the specific forms of its implementation cannot be doubted. With regard to ideology, neither do Chinese leaders (especially Xi Jinping, who is actively trying to strengthen his power inside China) hesitate to stress China is building socialism, even if it is with a "Chinese face." The leading role of the Communist Party inside China is also undeniable.

The prices of commodities (especially those of enterprises belonging to the state sector of the economy) in China are in most cases decided by administrative bargaining, and not as a result of the correlation between supply and demand.[9] However, the same can be said of most countries around the world; a free market exists only in the classic works of British political economy. In real life, it is mainly the forms in which the government and economic life of a country exist that influence the process of price formation inside it; these are accompanied by many ancillary factors not associated with the relationship between supply and demand.[10] We could also mention subsidies in developed countries in different sectors of the economy, e.g., agriculture.

This allows the Chinese to speak (entirely justifiably) about the blurring of criteria for a market economy, and the use of double standards by countries with a decisive voice in the WTO and other international organizations associated with trade and finance.[11]

Domestic prices in China are far below those in Europe and the United States due to lower production costs (much cheaper labor) and the heavily subsidized exchange rate of the yuan (when compared to its purchasing power), and not because price formation proceeds according to "nonmarket" methods. In any case, when antidumping investigations are based on domestic Chinese prices, the probability of China winning in these is quite high.

In May 2016, the European Parliament adopted a special resolution that China is not a country with a market economy.[12] No agreement was reached at the PRC-EU Summit in Beijing on July 12-13, 2016 either. It was decided only that a special bilateral commission would be created to discuss the issue and prepare a "supplemental agreement." If the matter was discussed at the G20 Summit in Hangzhou, it was only during bilateral talks behind closed doors.

The drawing out of granting China market status threatens to result in a great scandal for both the European Union and the World Trade Organization as a whole. The Chinese are already actively accusing the European Union of "breaking its word." The Europeans are trying to negotiate exchanging additional possibilities (e.g., observing a "transitional" period and temporarily maintaining protective measures against cast steel, chemical, and textile products) for granting market status. The European Union could then continue its existing antidumping tariffs, which are normally valid for five years, until the moment they expire.

The main problem for the European Union and the United States today is then China's excess capacity in the steel-casting industry. In trying to solve the problem of excess capacities, Chinese companies are energetically offering their products on the foreign market. The growing metallurgical conflict is exacerbating the problem of jobs in this sector of European industry, which has already been wracked by crisis. The Europeans are, therefore, apparently intent to resist until the very end, and try to negotiate as much room for maneuver as they can. We cannot exclude the possibility that this is all due to the United States.

The Chinese are in fact very much worried over the course of negotiations to reach an agreement on the Transatlantic Partnership between the European Union and the United States. Beijing justifiably assumes that the signing of this agreement will harm its interests in Europe. Moreover, the agreement concerns not just trade but investment as well; in other words, it could pose an obstacle to Chinese capital breaking into Europe.[13] China is, therefore, at a minimum, trying to slow this process.

One gets the impression that China will succeed. At least, a number of prominent European politicians (including representatives of Germany and France, the European Union's leading countries) have spoken out sharply against signing the TTIP. We may assume this is a result of some *sub rosa* deal with the Chinese.

So far as the notorious Brexit initiative is concerned with respect to China, the initial commentary on the referendum held in Britain last June regarding withdrawal from the European Union could be reduced to "it would seriously complicate Beijing's European policy." As the authors of the editorial "Brexit: Why Would Britain's Withdrawal from the European Union Result in the Collapse of China's Policy of Integration with Europe?" at the informative *South China* website stressed, "Britain remained the main hope for interlocking the Silk Road with Berlin and Paris, but this policy could now come to an end and

Beijing will be left one-on-one with negotiators from Germany."[14] This explains the pressure put on the British government and public by China's Foreign Ministry, which announced that despite the normal PRC position on noninterference in the domestic affairs of other countries, "China hopes to see the prospering of Europe and a united European Union, and hopes that Britain, as an important member of it, will be able to play a more positive and constructive role in strengthening ties between China and the European Union."[15] While opening, in the opinion of the British and Chinese press, a "golden age in relations between our two countries" during his visit to Great Britain in October 2015, PRC leader Xi Jinping clearly called on Britons to remain within the European Union.[16]

Along with Germany, Great Britain has in fact recently become one of China's main allies in Europe. It is now a launchpad for China's breaking into the European continent and the growth there of Chinese economic and financial influence. Britain has set up the first Chinese yuan clearing center outside of Asia (the agreement was signed during Li Keqiang's visit to London in June 2014.) It is the first developed nation to issue state bonds in yuans, and it supported the addition of the Chinese yuan to the IMF's DSR (special drawing rights) basket. Finally, it is the first Western power to take a leading position on joining the Asian Bank for Infrastructure Investment (ABII), and (despite the objections of the United States) was the first to announce it was joining the bank, "having prepared the way for other Western nations to join."

Great Britain was the first developed country to launch a joint project for building speed railroads on its territory, sign an agreement with China on collaboration in the field of atomic energy, and (during a visit by Xi Jinping) a $75 million agreement on cooperation in manufacturing Rapide S electric sports cars at the Aston Martin factory using the Geely firm's Chinese technology for making electric sports cars.

China is taking an active financial and technological part in the ambitious British project to develop and reindustrialize the north of the country (the Northern Powerhouse program). Beijing has invested large amounts of money in this project and is building speed roads to connect this once-industrialized region with the country's south. Beijing is helping to create a new urban agglomeration based on five cities (Liverpool, Manchester, Leeds, Sheffield, and Newcastle) and build the corresponding infrastructure. During his 2015 visit, Xi Jinping accompanied the then Prime Minister David Cameron to Manchester, visiting not only the local Football Academy but also the airport, in whose expansion Beijing is prepared to invest funds (a Chinese innovative technology park will be established there.) The visit was timed to coincide with the opening of direct Beijing-Manchester flights by China's Hainan Airlines.[17]

In the last two years, Great Britain has overtaken the Netherlands to become China's second largest trading partner in the European Union. In addition, Britain has become the largest recipient of Chinese investment in the European Union. Should Britain withdraw from the European Union, China will lose at least some of its hard-won positions, along with one of its main allies inside the Union.

This would indeed happen, but Brexit is not a result but a process – one that will be quite long and still has no clear outcome. Britain's political elite, which did not expect such an outcome of the referendum, is doing everything it can to draw out the process. It has every chance of doing so, despite changes in the Cabinet of Ministers. The official launch of the procedure must be initiated by London, not the European Union. In addition, Article 50 of the European Union Treaty calls for two years to decide any formalities, even after withdrawal procedures are initiated. This could require additional agreement from the British Parliament, in which the majority is against withdrawing from the European Union.[18]

Even if Britain should leave the Union, however, new agreements would (in the opinion of many commentators) most likely differ little from London's current regime of participation in the European Union.[19] After the end of the referendum and their unexpected victory, even ardent supporters of withdrawal announced they intended to "remain in Europe" and maintain the closest possible trade and investment ties, along with the free movement of citizens.

We should also consider that during the referendum, Scotland, Northern Ireland, and Gibraltar voted to remain in the European Union. This creates the problem of preserving Britain's unity, especially since attempts to withdraw from the United Kingdom continue.

Under these conditions, Great Britain could follow the same path as Denmark, which has partial EU membership (Greenland, which is part of Denmark, does not belong to the European Union.) For Britain, withdrawal could be the partial Brexit of England and Wales, while Scotland, Northern Ireland, and Gibraltar remain in the Union and the unity of the United Kingdom as a whole is preserved.

We should also consider that Great Britain is today not China's main ally in the European Union, and especially not its "fifth column," despite the striking results from Xi Jinping's 2015 visit and London's desire to position itself as China's main outpost in Europe. Britain is competing with Germany for the right to be China's main trading and investment partner on the European continent, but this does not mean it could become an active lobbyist for China's interests in Europe.

In recent years, China created its own ally and lobbyist in the form of the countries of Central and Eastern Europe, brought together in the 16 + 1 format. The existence of this structure can be traced back to 2012, when the first such forum was held and the Secretariat for Cooperation between China and the Nations of Central and Eastern Europe was established in Beijing.[20] China subsequently extended this practice to relations with Latin America as well.[21] The 16+1 format was created as early as the First PRC-CEE Summit in Warsaw, where Beijing was represented by the then Premier Wen Jiabao, and the Europeans by the prime ministers of Poland, Bosnia and Herzegovina, Croatia, the

Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Romania, Serbia, Slovakia, Slovenia, and Albania, and by the vice-premier of Bulgaria. Of these, Croatia became a member of the European Union only the following year, and the five Balkan nations have yet to become EU members. Representatives of the European Union, Austria, Greece, and the European Reconstruction and Development Bank attended the fourth such summit, held in Nanjing in November 2015, as observers.

The Secretariat for Cooperation between China and the Nations of Central and Eastern Europe is composed of representatives of all interested PRC ministries: Commerce, Agriculture, Education, Culture, Foreign Affairs, and others. The Central and Eastern Europeans are represented by special government coordinators. The Secretariat itself is headed by PRC Deputy Foreign Minister Song Tao. In addition, a new ally of China has emerged in Europe within the 16+1 format: the Visegrád Four, which is based on following a policy increasingly independent of Brussels and Berlin, especially where refugees are concerned. China, therefore, already has enough allies in Europe even without Britain.

At the same time, Brexit is exacerbating the European Union's problems and creating additional uncertainty that could drag on for years. The crisis situation in the European Union and Europe as a whole casts doubt on their stability and is forcing the European countries to seek allies while solving their problems on the side. The most convenient ally for them is China, which can help solve economic problems with a minimum of political risk.

Despite the opinions of many domestic analysts, the crises in the European Union will not necessarily lead to its collapse. Far from it, for the Union is extremely resilient. Even if it remains stable, however, the Union will be forced (in the words of one commentator)[22] "not to build a new home or even to renovate fully, but to patch holes and shore itself up." The European Union's ability to solve one sort of international problems or another (i.e., its representation on the international arena) will in any case be seriously impared. This will also benefit China, in whose strategy the European continent ranks near the top. Beijing's European offensive thus continues; only in the context of its overall foreign policy offensive strategy has it temporarily taken a back seat to the One Belt, One Road concept.

NOTES:

1. For more detail, *see*, e.g., A. Vinogradov, "Asimmetrichniy otvet, ili strategiya Kitaya v global'nom mire [An Asymmetrical Response, or China's Strategy in a Global World]," *Filosofskiye nauki*, # 1, 2015; A. Vinogradov, "Yevropeyskoye nastupleniye Pekina – taktika ili strategiya? [Beijing's European Offensive: Tactic or Strategy?]," *Problemy Dal'nego Vostoka*, # 5, 2014; A. Vinogradov, "Odin poyas, odin put' – yevropeyskoye izmereniye [One Belt, One Road: The European Dimension]," *Noviy Sholkoviy put' i ego znacheniye dlya Rossiyi. Sobraniye statey* [The New Silk Road and Its Meaning for Russia: A Collection of Articles]," Moscow, 2016, pp. 189-206, and others.

2. This was the main claim made by the Chinese to the EU leadership, along with a demand to cancel the embargo on supplying arms to China dating back to 1989 (in connection with the events on Tiananmen Square.)
3. *Protocol on the Accession of the People's Republic of China.* WT/L/432. URL: https://www.wto.org/english/thewto_e/acc_e/a1_chine_e.htm
4. Along with China, the European Union's list of countries with nonmarket economies includes Albania, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, North Korea, Tajikistan, Turkmenistan, Uzbekistan, and Vietnam.
5. "Yevrosoyuz obsuzhdayet vozmozhnost' predostavleniya Kitayu statusa strany s rynochnoy ekonomikoy [The European Union Discusses the Possibility of Granting China the Status of a Country with a Market Economy]." URL: http://ru.ictsd.org/bridges-news/ (Retrieved on January 15, 2016.)
6. URL: http://m.fondsk.ru/news/2016/05/12/kitaj-vto-navstrechu-rokovoj-date-11-dekabrja-2016-goda- 40194.html
7. Switzerland, which is not an EU member, is the only European nation to recognize China as a country with a market economy. In the rest of the world, it is recognized as such by Russia, Brazil, New Zealand, Australia, and a number of other countries.
8. URL: http://m.fondsk.ru/news/2016/05/12/kitaj-vto-navstrechu-rokovoj-date-11-dekabrja-2016-goda-40194.html
9. For more detail, *see*, e.g., M. Karpov, *Zamknutiy krug "kitaiskogo chuda"* [The Vicious Circle of the "Chinese Miracle"], Moscow, 2014.
10. *See:* the works of Friedrich List and others, including John Maynard Keynes, and American economists of the 20th century.
11. Just because a country has market economy status does not mean it is exempt from antidumping investigations. Such investigations are regularly conducted into exports of Russia's cast steel industry as well.
12. Europarliament resolutions are not binding on EU leadership, but under the conditions of the already complicated situation in the European Union, the heads of the Eurocommission need parliament's support and will do their best to find a common language with it, even one that is pure rhetoric.
13. To this day, the text of the resolution itself remains a classified information. This is reminiscent of the collision in the agreement on EU partnership reached with the leadership of Ukraine, only in this case it was the Ukraine who bought a "pig in a poke". It also evokes justified dissatisfaction and fears in both Europe and China.
14. The *South China* website. June 25, 2016. URL: https://www.south-insight.com/node/218 292
15. *Ibid*.
16. *See:* A. Vinogradov, "KNR-yevropeyskiye strany: struktura mnogostoronnego sotrudnichestva [The PRC and European Union: Multilateral Cooperation Structure]," *Far Eastern Affairs*, # 1, 2016, pp. 55-66.
17. *Ibid*.
18. *See:* T. Romanova, "Krizisy Yevropeyskogo soyuza i yego budushcheye [Crises of the European Union and Its Future]," *Rossiya v global'noy politike* [Russia in Global Politics] (website). URL: www.globalaffairs.ru/valday/Krizisy-Evropeiskogo-soyuza-i-ego-buduschee-18320
19. *Ibid*.
20. *See: Kitaiskaya Narodnaya Respublika: politika, ekonomika, kultura* [The People's Republic of China: Politics, Economy, Culture], Institute for Far Eastern Studies, Russian Academy

of Sciences, Moscow, 2013, pp. 335-337. *Also*, URL: http://www.odnako.org/blogs/silniy-kitay-slabaya-evropa-o-novom-sootnoshenii-sil-v-evrazii-chast-ii/; URL: http://www.odnako.org/blogs/asimmetrichniy-otvet-ili-strategiya-kitaya-v-globalnom-mire-chast-2/; A. Vinogradov, "Yevropeyskoye nastupleniye Pekina – taktika ili strategiya? [Beijing's European Offensive]," *Far Eastern Affairs*, # 2, 2017.
21. *See:* A. Vinogradov, "Noviy tip otnosheniy i noviy Sholkoviy put': k voprosu o vneshnepoliticheskikh innovatsiyakh Kitaya [A New Type of Relations and a New Silk Road: A Study of China's Foreign Policy Innovations]," *Kitai v mirovoy i regional'noy politike. Sobraniye statey* [China in Global and Regional Politics. A Collection of Articles], Institute for Far Eastern Studies, Russian Academy of Sciences, Moscow, 2015, p. 82.
22. *See:* T.Romanova, *Op. cit.*

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