

# Reshaping the EU-China and China-UK Trade Relations after Brexit

Der-Chin Horng\*

**Abstract** The national referendum, held on June 23, 2016, in the UK, resulted in a 51.9% vote to exit the EU. Brexit (British Exit) has strongly impacted EU-UK relations and China-EU and China-UK relations. China has already become the second-largest economy globally since 2010, functioning as the world's factory and the world's marketplace. Both the EU and the UK are focused on strengthening their post-Brexit trade relations with China. The EU and China have concluded a Comprehensive Agreement on Investment (CAI) in 2020.

The UK has adopted a "Global Britain" policy and will negotiate free trade agreements (FTAs) with other countries. Whether China signs a CAI or an FTA with them or not, both the EU and the UK are focused on the importance of such agreements with China. China will be a beneficiary of Brexit. The changes and impacts which Brexit will bring for UK-EU, China-EU, and China-UK relations are only the beginning. Re-adjustment is indeed needed in order to reach new and cooperative relationships. All this rebalancing will require hard work and political will from all parties - China, the UK, and the EU.

This paper will examine the impact of Brexit on China-EU and on China-UK trade relations and the opportunities and challenges that Brexit will afford to China's One Belt, One Road Initiative, among other key issues. Suppose China joins the EU and UK in upholding WTO multilateralism. In that case, China is expected to become an essential pillar of the international trade system and make a significant contribution to international economic growth and the common well-being of humanity.

**Keywords:** Brexit, EU, Global Britain, Belt and Road Initiative (BRI), Comprehensive Agreement on Investment (CAI), Free Trade Agreement (FTA).

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## 1. An Overview of China-EU Trade Relations

China and the European Union established diplomatic relations in 1975. From 1978 onwards, China adopted a policy of reform and opening up. By 2010 China had become the second-largest economy in the world, and at present, it is the second-largest trading partner of the EU after the USA. Most of the EU's imports come from China, and it is the EU's second-largest export market (World Bank 2010). For trade in goods in 2020, EU imports from China stood at 383.4 billion euros and exports to China at 202.6 billion, in which China enjoyed a trade surplus of 180.8 billion euros.

In 2019, the EU enjoyed a trade surplus with China in the services sector of 19.7 billion euros, with EU imports from China at 32.8 billion euros and exports at 52.5 billion euros. The EU received 59.7 billion euros of investment from China in 2017 and invested 176.1 billion euros in China in the investment area. The total daily average trade between China and the EU exceeds one billion euros. The importance of China-EU bilateral trade is evident. In terms of the trade structure, the top products imported by the EU from China are manufactured goods, consumer goods, machine parts, footwear, and clothes. The EU's main exports to China are machine parts, cars, aircraft, and chemicals. The EU's services trade to China constitutes more than 10% of the EU's total trade and 19% of its trade by value (European Commission n.d.).

The China-EU trade is complementary. The EU has competitive power in services, cars, aircraft, machine parts, and others, in which the added value of the products is high. The EU also has a large amount of investment in China, constituting an essential source for introducing technologies into China. China enjoys a massive trade surplus in trade in goods, which greatly benefits its foreign exchange earnings, job creation, foreign currency reserves, economic growth, and so forth. So, China-EU trade is exceptionally dense and vital. As the UK is the second-largest economy in the EU, constituting approximately 15% of the EU's GDP, then the scale and structure of China-EU trade and cooperative relations will be affected to some degree by Brexit (Eurostat 2021: 1-3). In particular, after the UK leaves the EU, the EU will no longer be China's largest trading partner; post-Brexit, the US will once again occupy that position. China enjoys an enormous trade surplus with the US, and in the current fierce trade war between China and the US, China is in an increasingly disadvantageous position in trade negotiations between the two. Therefore, Brexit impacts foreign relations by increasing instability and uncertainty in international economic and trade relations, which affects both the China-US and the EU-China relations (Goulard 2020: 65; Summers 2017: 12-13).

## 2. The Impact of Brexit on China-EU Trade Relations

Current trade relations between China and the EU are based upon the China-EU 2020 Strategic Agenda for Cooperation, which outlines comprehensive cooperative

relations on such broad topics as peace, security, economy and trade, climate change, environmental protection, and continued development of the exchange of personnel. It also puts the Comprehensive Agreement on Investment (CAI) at the centre of long-term China-EU cooperation. Negotiations for the China-EU CAI began in 2013 and concluded in 2020 (European Commission 2020). The aims of the CAI are: (1) the provision of a high standard of protection for investors and investments; (2) increased transparency from both parties on economic, trade, and investment policies; (3) to increase investment opportunities, advance the opening up of markets, liberalize trade, and through non-discriminatory treatment, and national treatment; (4) create guarantees which benefit the international investment environment, labour, continued development, et al.; and (5) invest in dispute resolution mechanisms in order to promote cooperative relations between China and the EU on the economy, trade and investment.<sup>1</sup>

At the 21st China-EU Summit held in Brussels on April 9, 2019, there were early gains from the CAI with, for example, the signing of a China-EU Geographical Indication Agreement, controls on the state or government aid, and a Memorandum of Understanding on Fair Competition Monitoring (Council of the European Union 2019: 1-2). China and the EU will also do joint research to determine the extension of a rail transport corridor between China and the EU. This circumstance will be advantageous for the geographical layout of the Asia-to-Europe rail transport component of China's (Belt and Road Initiative, BRI) and partly reflects a business-like, confident, diversified "EU strategy" towards China.

At the Summit mentioned above, China and the EU both upheld the WTO-centred trade system and gave guarantees to make China-EU trade and international trade rule-governed, transparent, open, inclusive, and non-discriminatory. Brexit will affect the overall size of the EU economy and its share of trade so that the EU will focus more on the Chinese market and that trade relationship. Therefore, under the generally hostile external environment of Brexit, the negotiation of the China-EU CAI might, counter-intuitively, be accelerated and the CAI signed in 2020 without any hitches. However, this depends on there being solid political will from China and the EU. The international economic and trade system has been going through troubled times since 2018 due to both the heating up of the China-US trade war and the COVID-19 pandemic. China hopes that Brexit will go ahead in an orderly manner, as this is necessary to maintain stability for China-EU trade and avoid Chinese and western partners being caught up in crises, which would threaten Chinese export trade profits and economic growth (The Economist 2019: 3-4).

There are some uncertainties too about the impact of Brexit on China-EU trade relations. Regarding the potential adverse effects, will the EU incline towards being a trade protection organization post-Brexit? The UK has always been an important supporter in the EU of trade policies for opening up, and it was the main promoter

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<sup>1</sup> EU-China 2020 Strategic Agenda for Cooperation, 23/11/2013, pp. 3-16.

of the signing of an FTA between the EU and China. After the British referendum about leaving the EU, populism was ignited in other European countries, too, each one wanting priority to be given to their own country's interests. If this spills over into economic nationalism, it will force the EU to adopt trade protections for certain sensitive sectors and products in order to relieve the internal pressures from populism (Ginsburgh et al. 2021: 23; Jenne 2021: 342-343). Furthermore, if the China-US trade war heats up, the EU will also tightly control restricted Chinese goods coming into the EU market. The EU will delay recognition of the Chinese economy as a market economy and increase its use of trade remedies, such as anti-dumping against Chinese imports (Halikiopoulou 2018: 63-64).<sup>2</sup>

On October 4, 2006, the EU produced a document entitled *Global Europe: Competing in the World* (European Commission 2006), in which it began to promote a new generation of FTAs directed at opening up the markets of the relatively large economies such as Korea, China, Japan, India, Brazil. China was one of those priority countries for the EU to sign an FTA with, but the EU made the CAI the aim of the negotiations. It had invested heavily in China, and the CAI can safeguard the profits of those EU investments in China, getting treatment equivalent to a national, and opening up the Chinese services market, which would be comparatively advantageous for the EU trade in services. The FTA will completely open up the markets of both China and the EU. As China has a vast goods trade surplus with the EU, the FTA is relatively advantageous for China. In particular, if China gains a market economy status through the FTA, then the EU trade deficit with China is expected to get even more significant, and the EU's position of strength would come under solid internal pressure.

Although a China-EU FTA or CAI, or a China-UK FTA, could bring economic and trade benefits to both contracting parties, it would also further increase the status and influence of China within the international economy and trade. This concerns the EU and causes it to gradually tend towards a more conservative stance (Stanzel 2016: 3-5). For this reason, the China-EU CAI became the EU's preferred option.

From China's point of view, the CAI is a kind of "second best" option in comparison to the FTA, but China can pragmatically choose first to acquire something, then to improve on it, along the lines of the saying "if there is no fish, then prawn will do." Having become both an importer and exporter of foreign capital, China could reciprocally gain national treatment for its investment in the EU market through a CAI. Equally important, the CAI enables China to break through placed by many EU Member States on "national security grounds" upon Chinese investment in specific sectors and fields.<sup>3</sup> The CAI will probably help with technology transfers to China, and

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<sup>2</sup> Regulation 2016/1036 of 8 June 2016 on protection against dumped imports from countries not members of the European Union, OJ 2016, L176/21, as amended by Regulation 2017/2321.

<sup>3</sup> Regulation 2019/452 of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, OJ 2019, L791/1.

with opportunities in the European market, it may also accelerate the negotiation and signing of a CAI between the US and China (Huyghebaert 2019: 417-418).

The China-EU CAI does accord with China's "going out" policy by further internationalizing the Chinese economy, and it could also stimulate more reforms of the economic and trade system. A clear example is that after the Foreign Commercial Investment Law, passed on March 15, 2019, comes into force on January 1, 2020; China will adopt a "negative list system" for market access, relaxing the permissions greatly for the entry of foreign investments and guaranteeing treatment equivalent to a national. Through its compliance with international treaty obligations, the Chinese government can perpetuate and consolidate the "opening up and reform" theme, which has been present since 1978. The Foreign Investment Law demonstrates China's will and confidence to liberalise further its trade policy for foreign investment (Haftel et al. 2021: 5, 15), which would create secure strength and contribute to international economic stability and international trade growth.

As well as focusing on its relations with the EU, China is also keen to have contact with some individual EU Member States to facilitate a breakthrough in cooperation on certain issues and in order to have their support for China's point of view. For example, in 2017, Greece voted against and prevented the EU from censuring China's human rights in the United Nations. China also combined 11 central and east European states and 5 Balkan countries to call a 16+1 summit, drawing the EU's attention (Tiezzi 2019: 1-2). China's relations of cooperation with Italy and the other Member States partly reflect the continuing limitations of the EU's common foreign policy; the continued lack of an effective mechanism for mediating conflicts between the Member States over their individual interests; that the EU's single policy is relatively inflexible; its inability to satisfy the particular needs of individual Member States or to resolve common problems. The departure of the UK will also affect the unity of EU foreign policy and bilateral economic and trade relations between the Member States and China, Italy's entry into the BRI that China has been promoting since 2013 is a case in point (Ghiretti 2021).

### **3. The Impact of Brexit on the EU Member States**

The UK makes a significant contribution to EU finances: it paid 13 billion pounds per annum as its share of the 2014-2020 EU multi-year budget, but it only received a 4.5 billion pounds sterling rebate annually from the EU. The UK's annual net contribution to EU finances is 8.5 billion pounds sterling, almost 1% of the UK's overall government Budget in 2015 and 0.5% of UK GDP. The net contribution to the EU from the UK during the years 1973-2015 is 319 billion pounds sterling (Miller 2016: 34; Keep 2016: 11-12). When the UK leaves the EU, a large hole will appear in the EU finances, and if Germany and France do not increase their contributions, it may reduce EU subsidies to the countries of central, eastern, and southern Europe. Moreover, ever

since the 2008 global financial crisis and the 2012 European debt crisis, companies in indebted European countries like Greece and Portugal have needed foreign capital and one after the other, they have accepted Chinese investment in harbours, and transport infrastructure, and others. As early as 2016, Greece accepted Chinese investment in the Port of Piraeus, and in 2018 a China-Portugal Memorandum on the Belt and Road Initiative was signed (Zeneli 2019: 1-2).

On March 23, 2019, Italy signed a Memorandum<sup>4</sup> with China on the BRI and an agreement worth 2.5 billion euros for cooperation on 29 other items. China will invest in the Italian ports of Trieste and Genoa, railway transport lines, and oil refineries, among other things (Tiezzi 2019: 1-2). The China-Italy BRI Memorandum is highly significant in material and symbolic terms. After the UK leaves the EU, Italy will be the third-largest economy in the EU. It is currently among the largest ten economies globally, a G7 member, and the first developed country to enter the BRI. For China, this is a significant breakthrough, moving the BRI onwards from central and eastern Europe and Greece and advancing it a step further to Italy, which has strengthened the geopolitical position of the BRI in Europe and its economic and trade impact (Dossi 2020: 61, 71).

The BRI currently involves China in the basic infrastructure of more than 139 countries through railways, ports, and refineries. The BRI is of enormous strategic significance because it resolves China's production surplus in several fields, such as steel, IC, IT, solar panels, guarantees the security of its oil and mineral raw material imports, creates trade and market opportunities, exports technology and capital, extends China's influence, and so forth (Wang 2021: 296-298). The BRI is thus China's "new silk road," which seizes market economy status, reasserts China's international status, and opens cooperative trade relations from China to Eurasia and Africa. It also reflects the traditional strategy employed during the Communist-Nationalist Chinese civil war period, "surround the city with countryside," as applied to contemporary foreign relations (Dian 2021: 11).

Through the BRI, China has increased its economic and trade influence with certain EU Member States. After the signing of the China-Italy BRI Memorandum, the EU began to view China as a "systemic rival" and not simply as the "strategic partner" it had earlier identified it as (Zeneli 2019: 1-2). On March 12, 2019, the EU published an 11-point document entitled "EU-China: A Strategic Outlook," outlining ten response strategies that concretely opposed China's sudden rise and European expansion. These included an emphasis on the importance within China-EU economic and trade relations of human rights, safety, climate change, compliance with rules, fair competition, scrutiny of investment, specifications for state subsidies, fair trade, the

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<sup>4</sup> Memorandum of Understanding between the Government of the Italian Republic and the Government of the People's Republic of China on Cooperation within the Framework of the Silk Road Economic Belt and the 21<sup>st</sup>, [https://www.governo.it/sites/governo.it/files/Memorandum\\_Italia-Cina\\_EN.pdf](https://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf)

security of Europe's digital infrastructure, foreign capital risk controls, all with the common aim of defending European interests, ideals and unity (European Commission 2019: 11).

The document was supported at the Berlin EU Summit on March 22, 2019, and constituted a joint towards EU stance against China as a partner and a competitor and a "systemic rival" (European Council 2019: 4). By using the BRI and AIIB to construct a China's new foreign policy of "Major Country Diplomacy," China has already drawn wariness from the EU and pushback from the US. Such fact will be the big challenge a rising China faces, which is also strengthening its cooperation with European countries (Smith 2021: 6-7). With the rise of China and its trade expansion, the relationship between China and the EU will become one of cooperation but approaching competition, where both competition and cooperation are present, and this will constitute a big challenge to EU Member States' solidarity and to EU identity (Small 2019: 4-5).

#### **4. The Impact of Brexit on China-UK Trade Relations**

For China-UK trade relations, on February 2, 2017, the UK published a "Brexit White Paper," in which it set out the goals of the UK's Brexit negotiations and stated that post-Brexit, the UK would adopt a "Global Britain" policy, whereby it would staunchly support free trade and promote the signing of FTAs with its main trading partners, China among them (HM Government 2017: 48-50).

While China welcomes in principle the signing of an FTA with the UK, FTA negotiations typically take, on average, five years, and the process would deal with some sensitive issues, such as finance, services trade, investment, the opening up of the market in top-level science and technology, and even Hong Kong and human rights. Furthermore, after Brexit, the UK will focus more on signing a high-level FTA with the US, or a comprehensive economic and trade strategic partnership agreement, to guarantee the opportunities in the US market and consolidate the traditional special relationship with the US. A China-UK FTA will also receive close attention from the US, forbidding, for example, the export to China of any dual-use technology, restricting the UK's use of Huawei 5G equipment, and not granting China market economy status. Therefore, a China-UK FTA is still very uncertain (Oliver and Williams 2016: 548-549; Miller 2016: 158).

It is worth noting that China's President Xi Jin Ping visited the UK from 19-23 October 2015 and strengthened China-UK cooperation, prompting the assertion that China-UK relations were entering a "golden era". The work on the UK's Hinkley Point nuclear power station is part of this plan for a golden age of Chinese-British cooperation. Despite oppositional pressure from the US and domestically in the UK, China in the end still invested 6 billion pounds sterling in the Hinkley Point project in September 2016. The UK ignored American opposition and applied to enter the Asian Infrastructure

Investment Bank (AIIB) on March 12, 2015, becoming the vanguard for large European countries to do so and triggering France, Germany, Italy, and others to follow suit (Lunn and Curtis 2020: 3, 5, 13, 17). The foreign policy of the post-Brexit UK will be to make every effort to maintain equilibrium and have harmonious relations among its main trading partners: the EU, the US and China, reflecting the UK's pragmatism and the foreign policy principle it has long maintained, paraphrased as: "England has no perpetual enemies and no eternal friends, only eternal national interests."<sup>5</sup>

Brexit also has a profound significance for the EU's integration theory and provides it with lessons to learn. The UK is the first country to apply to withdraw from the EU, which is a significant setback for EU integration. The UK's departure makes plain the importance of national sovereignty, that the concession of sovereignty has its limits and that there is difficulty in endlessly transferring sovereignty to the EU. Ideals such as the EU political union and the United States of Europe still have a long and troubled path (Jones and Menon 2019: 180). Brexit reveals that sovereignty is the very basis of the state and that the main thing to be considered in regional integration is the gain for a state which joins such integration, following the theory of "realism" (Maher 2021: 92-93, 99-100). The "theory of integration" mainly expounds on functionalism and federalism; it can only sound rational and be implemented effectively under circumstances where neither national sovereignty nor the core interests of a country are endangered. The UK's departure from the EU thus exactly fits the sense of a Chinese saying: "For all types of the kingdom, when they have been long apart, they must eventually unite, *vice versa*."

These things will thoroughly test the UK's and the EU's arts of splitting up and their political ingenuity. To quote Shakespeare's *The Tempest*, "What is past is prologue," and the tempest of Brexit may give way, like a prologue, to a new chapter of future UK-EU cooperation. Therefore, the UK and the EU need to arrange a framework for new future relations and resolve this Brexit problem which "can be neither reasoned out nor cut apart." Fortunately, a Trade and Cooperation Agreement between the EU and the UK signed on December 30, 2020, applied provisionally as of January 1, 2021, and formally entered into force on May 1, 2021.<sup>6</sup> The Agreement covers trade in goods and services and a broad area, such as investment, competition, State aid, tax transparency, air and road transport, energy and sustainability, fisheries, data protection, and social security coordination, among others. As a *sui generis* model, the Agreement goes beyond traditional free trade agreements and provides a solid basis for preserving the EU-UK longstanding friendship and cooperation.

<sup>5</sup> Quotation Lord Palmerston: We have no eternal allies, and we have no perpetual enemies. Our interests are eternal and perpetual....; Susan Ratcliffe (2019: 141).

<sup>6</sup> Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part, OJ 2021, L149/10.

Brexit may stimulate some careful reflection on the part of the EU, and it offers some lessons for EU integration. It may initiate a new understanding of the theory of EU integration, build a new European order, and new China-EU and China-UK relationships. In *Diplomacy*, Henry A. Kissinger writes: “A new world order is only a beginning, it is not the endpoint of contemporary foreign relations. With every new century, a strong and ambitious new power has appeared, motivated by wisdom and ethics, to mould a new international system in accord with its own values and ideals (Kissinger 1994:7; Mearsheimer 2019: 45-49).” Accordingly, the UK, the EU, and China could all play essential roles in reshaping a new international order in the post-Brexit era. It is essential to pay attention to the safeguarding of “soft power” aspects such as moral, ethics, culture, arts, religion, as much as to the “hard power” of politics, economics and trade, in order to advance East-West cultural exchanges, cooperation and innovation, and create a real peaceful order and win-win-win relations among the EU, China and the UK (Dominese 2010: 827; Pelc 2009: 350).

## 5. Conclusions

Brexit will profoundly impact EU-China-UK triangle relations and even reset the Eurasian geopolitics and geoeconomics. There will also be knock-on effects, altering China-EU and China-UK relations. China has already become the second-largest economy globally, functioning as the world’s factory and the world’s marketplace. Therefore, both the EU and the UK are focused on strengthening their post-Brexit trade relations with China. This paper examined Brexit’s impact on China-EU and on China-UK trade relations and the opportunities and challenges that Brexit will afford to China’s One Belt, One Road Initiative, among other key issues.

Following Brexit, both the EU and the UK will focus on establishing closer economic and trade relations with China. Whether China signs an FTA with either of them or not, both the EU and the UK are focused on the importance of such agreements with China. China will be a beneficiary of Brexit, and it is anticipated that cooperation in China-UK and China-EU trade relations will increase greatly due to Brexit. For example, the signing of a China-EU CAI and the negotiation of a China-UK FTA may be accelerated. The changes, competition and cooperation that Brexit will bring for China-EU and China-UK relations are only the beginning. The re-adjustments needed in order to reach new, rebalanced and cooperative relationships will require hard work and political will from all parties - China, the UK and the EU. If China, while benefiting from Brexit, can also focus on the resurgent safeguards of fine traditional Chinese ethics, it can turn a crisis into an opportunity and create cooperative China-EU and China-UK relationships such that all three parties win. If it joins the EU and UK in upholding WTO multilateralism, China would become an important pillar of the world economy and greatly contribute to the international trade system’s innovation, stability, and sustainable development.

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