

EU Leaders Turn to China After Trump Visit Clouds U.S. Relations 2017-05-31 21:00:00.4 GMT

By Bloomberg News

(Bloomberg) -- After a tumultuous week hosting U.S. President Donald Trump, European leaders will look to fare better when Chinese Premier Li Keqiang visits Brussels on Thursday.

The two-day summit presents an opportunity for China to demonstrate its leadership on global issues from free trade to climate change at a time when the U.S. is turning inward. Yet European Union officials remain skeptical that China will follow through on President Xi Jinping's commitment to global trade expressed in Davos in January, and the two economic powers remain mired in long-standing tussles over issues such as market access and selling goods below cost.

EU President Donald Tusk and European Commission President Jean-Claude Juncker will attend the summit, where China will be looking for progress on the EU's proposal to begin recognizing it as a market economy -- a status that makes it more difficult to impose anti-dumping measures on its exports. The two sides will also seek to work on a stalled investment deal that's seen as a precursor to a potential trade agreement.

"The country needs to walk the talk," European Commissioner for Trade Cecilia Malmstrom told the European Business Summit in Brussels in May. "Whatever President Xi says in Davos, China is still far from a market economy."

'Very Bad'

The summit is taking place days after German Chancellor Angela Merkel -- who will meet with the Chinese premier in Berlin on Thursday morning -- gave her strongest indication that Europe and the U.S. are drifting apart. During his first foreign trip, Trump raised questions over relations with traditional U.S. allies when he hectored NATO nations for not spending enough on defense and called Germany's trade surplus "very bad." The summit gives China's leaders the chance to show that their aspirations to lead on economic globalization are sincere, said Mats Harborn, president of the European Union Chamber of Commerce in China. He said it's time for the two economies to back up their words by moving forward to complete the investment agreement and to offer reciprocal market access.

At the meeting, the EU and China will seek to create momentum for a bilateral investment agreement, according to a European official with knowledge of the discussions who asked not to be named because talks are ongoing. Europeans have said an investment accord is a precondition for any move toward a broader EU-China trade deal.

"The Sino-European relationship is up in the air," said Philippe Le Corre, a visiting fellow at the Brookings Institution's Center on the United States and Europe. "From Brussels, the list of unsolved issues remains: market economy status, bilateral investment treaty, lack of market access to

European companies in China.”

Stalled Talks

Three years of talks between Brussels and Beijing on the Comprehensive Agreement on Investment have stalled. European businesses remain disappointed with China’s efforts to level the playing field for companies operating in the nation, the EU’s second-largest trading partner, a survey by the European Union Chamber of Commerce in China showed on Wednesday. Half of European companies feel less welcome in China than when they first entered the market, according to the survey. More than half reported that they are treated unfairly compared to domestic Chinese companies.

A January report conducted by Rhodium Group and the Berlin-based Mercator Institute for China Studies estimated that Chinese direct investment in the EU surged 77 percent to 35 billion euros (\$39 billion) in 2016. In contrast, the value of EU transactions in China decreased for a fourth straight year to only 8 billion euros.

At the Brussels meeting, the EU will press the Chinese government to accelerate steps to open up the domestic economy, according to the official, who also said Europe would raise sensitive trade matters such as demands for China to cut steel overcapacity.

Difficulties, Discrimination

“We all know European companies investing in China face difficulties and discrimination,” EU Trade Commissioner Malmstrom said. “It’s not fair competition or fair trade when the playing field is tilted against you, with dumping and subsidies.”

China is also complaining. Beijing has alleged the EU’s method for calculating anti-dumping measures against Chinese products including steel violates agreements at the World Trade Organization, which has begun investigating the issue, Bloomberg reported in April.

The European Commission drafted legislation late last year that would abolish the non-market-economy label the EU assigns to China when probing alleged below-cost imports. The measures, which would make it more difficult to impose high anti-dumping duties, need the support of EU governments and lawmakers in a process that can take months or years.

The EU should “avoid causing negative impact on the development of China-EU trade and economic relations,” Wang Hejun, director of the Chinese commerce ministry’s Trade Remedy and Investigation Bureau, said in a statement objecting to the EU’s extension of anti-dumping measures relating to photovoltaic products in March.

Aside from trade and investment, other potential sticking points may include tensions over China’s construction of military facilities in the East and South China Seas. Leaders at last weekend’s Group of Seven summit urged parties to “pursue demilitarization of disputed features” in the disputed waters.

The meeting may yield more common ground on combating climate change, with both the EU and China already signaling their intentions to advance the Paris Agreement. Trump failed to commit to the global pact at the G-7 gathering and announced on Twitter on Wednesday that he would make a decision on whether to remain in the accord “over the next few days.”

Regardless of the U.S. president’s decision on the Paris Agreement, the EU and China will pledge to stand by their commitments on curbing greenhouse-gas emissions, according to the European official.

As China-EU economic and trade relations continue to grow, some existing differences between them may be eliminated while others arise, according to Ambassador Yang Yanyi, head of the Chinese mission to the EU.

“This is just natural,” Yang told China’s official Xinhua News Agency in an interview before the summit. “The key is to understand how to manage and handle these differences properly.”