

INTRODUCTION

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China has become an essential actor on the global economic scene, including for local economies like Barcelona's. In 2021, 2–3% of Catalan and Spanish exports went to China. While this may seem a small figure, it conceals China's real impact on our economy, since global value chains mean that many Spanish products are exported to China via third countries. In terms of value added, China accounted for over 5% of the value exported by Spanish companies in 2016, the most recent year for which there is data. China's impact on local infrastructure is no less significant. In 2021, it was the origin or destination for 40% of containers unloaded and 15% of containers loaded at the port of Barcelona.

However, China's role in international trade causes tensions. Its state capitalism, with its public companies, subsidies and forced transfers of intellectual property, entails a model that distorts the world economy. Without breaking any of the rules of the world's trading system, China breaches its spirit.

During the pandemic, the Asian giant has both closed off from the rest of the world and become a more assertive actor. Lithuania and Australia have recently been subjected to commercial reprisals for making decisions against Chinese political interests. Meanwhile, tensions between China and the United States (US) persist despite the Phase One agreement reached at the end of 2019. Talk of greater economic interdependence has given way to debate about the benefits of decoupling, especially when it comes to products that are essential to national security such as rare earths. In the United States a new episode of great power competition is already openly discussed, and the debate has only grown in prominence since the Russian invasion of Ukraine and China's pro-Russian neutrality.

In this context, the European Union's (EU) strategy of trying to open up a third way of rapprochement with China through the investment agreement signed at the end of 2020 – which former German Chancellor Angela Merkel defended – seems to have been unsuccessful. But even if that agreement had materialised, it would have been insufficient to face all the challenges China presents, according to the European Parliament (2021/2037(INI)). The recent restrictions on Lithuanian products mean Europe has also become a target of Chinese coercion. This monograph, funded by the Barcelona Metropolitan Area (AMB), seeks to understand

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this complex state of international economic relations, which has such potential to impact Europe's economy and, by extension, Barcelona's. As the vice president of the AMB, Ernest Maragall, pointed out, this monograph aims to help reduce the uncertainty in which institutions make decisions, and thus has a foresight function.

The monograph is structured into two sections. The first deals with China's economic and trade strategy and the second with the EU's response. The theses of the authors of this monograph were presented at a seminar held in Barcelona on October 6th 2022. The subsequent debate revealed the existence, even in Europe, of the two opposing visions of how to approach the relationship with China that are so prevalent in American debates. The doves, on the one hand, who lean towards the liberal school of international relations, defend cooperation with China and emphasise the absolute gains from its participation in the international economy. The hawks, meanwhile, who are closer to the realist school, argue that cooperation should not naïvely disregard China's objectives of global supremacy. For this group, cooperation must show relative gains – integrating China into the international system has not worked, and its aim is not cooperation but the overhaul of the international system. Both sides agree that a level playing field with China does not exist – and on the need to establish one.

Aranca González Laya, current Dean of the Paris School of International Affairs at Sciences Po, and former Minister of Foreign Affairs of the Spanish government, made the seminar's opening remarks. She began by stating that rather than deglobalising, the world is fragmenting. In our present situation commercial growth comes from services (mainly digital) and the great powers are competing to be pioneers in developing new technologies and setting standards for them. In this setting, Xi Jinping gives China a new type of leadership – more nationalist than Mao, more ideological than Deng Xiaoping and more controlling than his predecessor, Hu Jintao. Europe needs a trade relationship with China that involves a balance between openness, autonomy and sovereignty. In order to define this relationship, we must reflect on what challenge China poses, how much we want to depend on it, and, finally, what position the EU should adopt in the face of China–US decoupling. To find this balance, the EU has decisions to make about its instruments (it must be able to defend itself), its degree of dependency (it must diversify its sources), its ability to set standards (perhaps by allying with third parties), its degree of cooperation with China (a systemic actor) as well as with other actors, and it should increase its resilience (new public–private partnerships for investments in new technologies). In other words, the separation between trade and geopolitics is being redefined.

1. The Chinese economic model and its effects on Barcelona: impacted by the pandemic?

Alicia García Herrero, Chief Economist for Asia Pacific at Natixis and Senior Fellow at Bruegel, begins the first section of the monograph with a chapter on China's macroeconomic situation and its geopolitical aspirations. Her analysis shows that the government's anti-COVID-19 policy has affected Chinese growth and it will be unable, in the long run, to sustain its exponential growth. Nevertheless, China will

continue to harbour aspirations of global hegemony. Despite its anti-Western rhetoric over the Russo-Ukrainian war, Chinese companies are scrupulously complying with Western sanctions. The Chinese government backs Russia, but stops short of offering it material support. The author suggests that China will take advantage of the present opportunity to strengthen the role of the renminbi and to implement its payment system – another step towards achieving global supremacy.

Óscar Guinea, Senior Economist at ECIPE, discusses the dual circulation strategy promoted by the Chinese government since 2020. This strategy is based on internal and external circulation. With internal circulation, China seeks to develop its domestic economy and make domestic consumption the engine of the economy, thus providing greater insulation from the global economy – particularly the West, and any possible sanctions it may apply. To do this, China must substitute imports of high-tech materials with its own production, which requires a strong industrial policy like “Made in China 2025”. Through external circulation, China looks to continue maintaining its global export position, but with products of increasingly high added value. To date, foreign demand has been a major part of China’s growth engine. The government aims to maintain its position as the world’s leading exporter, without it being the main driver of the economy.

In his contribution, Guinea uses the example of medical technology products to show how Chinese industrial policy discriminates against foreign companies. This specific example helps us understand how national, provincial and local governments assist the country’s companies to gain capacity and become globally competitive in specific sectors handpicked by the authorities. In this particular case, the central government has used subsidies and large-scale public tenders to develop the sector domestically without offering equal competition to foreign companies. But this is not always a successful strategy. China may have achieved its goals when it comes to medical technology products and solar panels, but this has not been the case in sectors like aircraft construction and semiconductors, where it has spent years trying to break Western dominance. Now, developed countries (particularly the EU) are giving China a taste of its own medicine, deploying instruments that limit Chinese companies’ access to developed economies. In Guinea’s view, the EU’s relatively small degree of dependence on China allows it to advocate for maintaining cooperation.

Enrique Fanjul, partner at Iberglobal, presents the main means of developing China’s external circulation, the Silk Road. He introduces it as a Chinese tool for increasing its interdependence with other countries and extending its influence, while taking a leadership position in the Global South. Originally, the project was set to reproduce a large Eurasian connections corridor, but it has gradually expanded to other sectors, including healthcare and digital technologies. For the time being, the Silk Road seems to have lost momentum as its development slowed due to the pandemic, China’s economic slump, and the economic difficulties making recipient countries wary of taking on more debt. Fanjul sees the slowdown as temporary, because the Silk Road remains an essential component of China’s long-term foreign policy. Other developed countries, meanwhile, are presenting their alternatives to the Silk Road, such as the European Union’s Global Gateway and the G7’s Partnership for Global Infrastructure and Investment.

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At the seminar, these contributions were enriched by that of Marin Orriols, Director of the Business Internationalisation Area of the Barcelona Chamber of Commerce, who analysed the relationship between China and Barcelona's local economy. First, he explained that the difficulties European companies face when operating in China are paralleled by the issues Chinese companies face doing business in Barcelona. Some of these difficulties oblige Chinese companies to buy existing factories and distribution chains rather than creating them. On the other hand, he pointed out that China's pandemic restrictions against foreign travel are currently having a significant impact on Barcelona's local economy, especially at the luxury end. Nevertheless, he added, Barcelona retains features that favour good relations with China, and gave the example of its universities and business schools. Finally, he mentioned the need to continue cooperating economically with the Asian giant.

2. Europe in relation to China's geoeconomic strategy and the uncertainty of the conflict in Ukraine

The authors in the second section of the monograph agree that no level playing field exists with China, and discuss the EU's various responses. All three recognise that Europe is seeking to reform the World Trade Organization (WTO) in order to correct its deficiencies and revise the international trade rules against unfair competition. The WTO's 12th Ministerial Conference in June 2022 was the starting point for that reform, thanks to the EU's efforts. But a multilateral deal will take time. To achieve short-term results, this multilateral response must be complemented by bilateral relations with the US and China, as well as new trade instruments that allow the EU's values and interests to be better defended.

Clàudia Canals, Director of Avançsa and Luís Pinheiro de Matos, economist at CaixaBank Research, present the transatlantic response: the EU-US Trade and Technology Council (TTC). Albeit not explicitly, this initiative is the product of China's more than likely leadership in the technologies of the fourth industrial revolution. Canals and Pinheiro de Matos show that Europe depends more on China in the technology sector than on Russia for energy, although US China-dependence exceeds even Europe's. A hard decoupling from China is thus unfeasible in the short term. Given this, the TTC appears to be an endeavour to define technological standards that preserve transatlantic values, promote green technologies and strengthen global supply chains. The authors consider this tool to be more pragmatic than previous failed cooperation attempts like the Transatlantic Trade and Investment Partnership (TTIP), although caution must be exercised when assessing its potential successes.

Xavier Fernández Pons, Associate Professor of International Public Law at the University of Barcelona, focuses on the European Union's unilateral response. Thus far, it has relied on trade defence instruments against unfair competition (anti-dumping and anti-subsidy) that are acceptable under WTO rules. But these mechanisms do not allow it to tackle coercive pressures deployed by third country governments like

China's. A recent example are the Chinese trade restrictions against Lithuania in retaliation for allowing Taiwan to open an office in the country under its own name (an attack on the "One China" policy and, therefore, on China's political interests). In such situations, the European Commission's proposed anti-coercion instrument would allow the EU to act as a federal state and deploy trade countermeasures.

Finally, Pepe Álvarez, General Secretary of the UGT and Vice President of the European Trade Union Confederation (ETUC), who also participated in the seminar, expressed the need to maintain a bilateral relationship with China. Unions recognise that the economic opportunities the Chinese economy offers can attract many European companies, which can bring benefits to Europe's economy and workers. But European companies do not enjoy the same access to the China's market as their Chinese counterparts. And China is an opaque country ruled by a dictatorship that does not respect labour rights and which also exports low social, environmental and labour standards to the rest of the world. The existence of unions is essential to democracy, Álvarez said, and in China there are no free unions. Here, EU trade policy can play its part, as the proposal to ban the sale of products made with forced labour on the single market recently showed. It follows that a lack of European collaboration with China could in fact bring much worse outcomes for workers' rights.

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3. Final thoughts

China's economic ascendancy and more assertive global stance is creating tensions. The contributions in this monograph make clear that relations with the Asian giant pose four main problems to the international economic and political order. First, China considers its economic, social and political model superior to the West's and seeks both recognition and supremacy in the international system. Second, its model discriminates against foreign companies by tilting the playing field. Third, the fourth industrial revolution is underway and China wants to lead it in both standards and technology. Fourth, globalisation also brings dependencies, as the US–China trade war, the pandemic and the war in Ukraine have made abundantly clear.

The EU has been negatively affected by all these events. When it comes to trade, the EU is major global actor, but being a global power requires a multidimensional approach. Trade is one dimension – the others are foreign, security and defence policies. With Europe's defence outsourced to the US (Borrell, 2022), transatlantic alignment may seem the most logical choice. But while this is one potential strategy, it must be recognised that in the new world of great power competition European interests do not always align with the US. Europe and the US may agree on the economic and social model that needs defending, but it must be borne in mind that the US also defends its global hegemonic position.

As this new phase begins, Europe is not entering it naively. First, it has shed some of its naivety about the challenge China poses, and has already taken certain measures to limit its influence, such as investment review mechanisms. Second, the EU is approving new trade policy instruments that will allow it to better defend itself against coercive and

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anti-competitive pressure (Erixon, 2022). Third, it is aware that it has the capacity to define global standards and has fostered the creation of the TTC. Finally, the pandemic and the Russo-Ukrainian war have crystallised the problems generated by dependence on a single supplier and the need to diversify. The war has produced conditions that have highlighted Europe's vulnerabilities, but which favour the necessary strengthening of foreign policy. The EU continues to define China as a "partner, economic competitor and systemic rival" (JOIN(2019) 5 final). Parliament has given its view on the foundations of this strategy and, according to the press, the Council is negotiating a new, more assertive strategy towards China (Foy, 2022).

We thus find ourselves in an international setting in which the main powers (USA, China, Russia and the EU) are defining their instruments of competition and taking positions so as to be able to defend themselves. The contributions in this monograph have shown that decoupling would not only be bad for our economy, but that it is not even possible in the short term. For this reason, China should still be considered a significant economic actor for Barcelona's economy. However, this does not mean we should stop fighting for a level playing field. Only common rules that ensure fair competition will allow the different international players to interact with confidence.

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