

Column

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CAI and it's repercussions

CNBW China Post from Nanjing, February 23th 2021 ... Since the *Comprehensive Agreement on Investment (CAI)* between the European Union and China was signed at the end of 2020, it has been subject of a lot of controversial discussions. The general trend in the western news seems now to be, that the agreement was signed a too fast and also without taking into consideration the opinions of the incoming administration in the USA.

Chinese media hailed the finalization of the agreement (after seven years of negotiations) as yet another triumph of Chinese diplomacy, just more than a month after the conclusion of *RCEP (Regional Comprehensive Economic Partnership)* with ASEAN and four other Asian neighbors.

While CAI is not a free trade agreement between the EU and China, it regulates and protects investment between the two entities, based on the idea that each side should enjoy fair and even access to each other's investment markets.

Given that for many years since the beginning of the opening policy in China in 1978, all access to the Chinese market has been conditional and uneven, this agreement would be a certain breakthrough, since the many existing access restrictions for certain industries are to be eliminated. For European car manufacturers that could be good news, and also financial institutions and insurances etc. have now better access to the Chinese market. Of course, these are markets which are already dominated by Chinese players... Although European car brands are predominant on Chinese streets, they mainly come out of companies which are 50% owned major Chinese car industries, because for most of the time, the car industry and other industries were not fully open to foreign investors and only accessible for Joint Venture companies ... this while basically all industries in Europe were always fully open for any kind of foreign investment.

From the onset of the negotiations, the leverage of the EU side was not very strong. The European market is a very open market to foreign investors, there are not many restrictions, therefore Chinese and other foreign investors have been able to freely invest in all different kinds of industries. Many of the EU member states already have bilateral investment and trade agreements with China. Since 2014, the Chinese side is interested to also conclude a free trade agreement with the EU, because Europe is the biggest trading partner of China. Besides CAI, EU has concluded with China an agreement on the protection of Geographical Indication, in order to protect the specific agricultural products of each country (Cheese, wine etc.) against imitations.

Not only the timing of the agreement was seen as contentious, also the soft wording of some stipulations in CAI, specially regarding the expectations towards China to join UN agreements on labor protection and to limit forced labor have irritated many observers. China's credibility regarding the commitments to international agreements has suffered from its handling of its ethnic minorities and the imposition of the security laws in Hong Kong.

Apparently, the final weeks of the negotiations at the end last year brought considerable concessions from the Chinese side. In the Chinese press, this was justified with the importance of EU as the second biggest trading partner of China, the importance of the EU for present and future Chinese investment and also as a geo-political consideration in regards of the USA. One commentator the serious economical paper *Caijing Magazine*) wrote: 'Like it or not, the USA is the strongest country of the world and provides the present world order ... the security of the EU relies on the USA, also the economical ties between the USA and EU are extremely strong'. The protectionist and anti-globalization policy of the Trump administration supposedly created enough irritation in the EU to make to facilitate more cooperation with China, which will in the future benefit both partners. The USA are seen as the loosing party of the agreement. The same article also points out serious challenges for China if CAI should really work: The requirements for a much higher degree in transparency, the market economy requirements towards state owned enterprises, fair handling of disputes etc. would be a historical challenge for the present Chinese government, but in that sense, the CAI could also be a motor for further opening and reforming the Chinese economy.

This interpretation of CAI from a Chinese perspective sounds interesting and might indicate, that the Chinese side is indeed taking the agreement very serious. Now it will have to be seen, when and how the CAI will be ratified by the European parliament, and which mechanisms will be put in place to enforced it.

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