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COVER NOTE

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HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

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**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT AND THE
COUNCIL**

Elements for a new EU strategy on China

I. INTRODUCTION

I.1 Executive summary

This Joint Communication proposes elements for a new EU strategy on China. It is intended to constitute the China dimension of implementing the Juncker Commission's political guidelines, contributing to the jobs, growth and investment agenda and to reinforcing the EU as a global actor. It dovetails with the European Commission's "Trade for All" Strategy and takes into account the views of the European Parliament in its December 2015 report on the EU's relations with China, aiming to set out a policy framework for EU engagement with China for the next five years.

The EU and China are two of the three largest economies and traders in the world¹. Both have changed considerably since the Commission's previous Communication on China a decade ago². The rise of China has happened with unprecedented scale and speed. Not only is China different internally than it was before the current leadership took over in 2013, but China's increased weight and a renewed emphasis on "going global" mean that it is seeking a bigger role and exerting greater influence on an evolving system of global governance.

The EU-China 2020 Strategic Agenda for Cooperation fulfils an important role as the highest-level joint document guiding the EU-China Comprehensive Strategic Partnership. But the EU needs its own strategy, one which puts its own interests at the forefront in the new relationship; which promotes universal values; which recognises the need for and helps to define an increased role for China in the international system; and is based on a positive agenda of partnership coupled with the constructive management of differences.

¹ According to the World Bank, in 2014 the EU-28 accounted for 22.6 %, the US 22.3 % and China 13.3% (in total 58.2%) of global GDP measured at market exchange rates. In purchasing power parity terms the EU accounted for 17.1% of global GDP in 2014, the US 15.9%, and China 16.6% (IMF World Economic Outlook, April 2016). According to Eurostat, in 2014 the EU-28 accounted for 15.5% of world imports and exports, the United States 16.6%, and China 13.5%, making together 45.6% of world trade.

² European Commission Communication of October 2006: "EU-China: closer partners, growing responsibilities".

This Communication proposes that the EU should:

- Seize new openings to strengthen its relations with China.
- Engage China in its reform process in practical ways which result in mutual benefits for our relations in economic, trade and investment, social, environmental and other areas.
- Promote reciprocity, a level playing field and fair competition across all areas of co-operation.
- Push for the timely completion of negotiations on a Comprehensive Agreement on Investment and an ambitious approach to opening up new market opportunities.
- Drive forward infrastructure, trading, digital and people-to-people connectivity between Europe and China based on an open rules-based platform with benefits for all the countries along the proposed routes.
- Promote global public goods, sustainable development and international security in line with our respective UN and G20 responsibilities.
- Promote respect for the rule of law and human rights within China and internationally.
- Maximise EU cohesion and effectiveness in its dealings with China.

1.2 The China context

China is at a critical juncture. It has declared its old economic and social model to be "unsustainable", and aims to shift to a more balanced pattern of development which requires a strengthening of the institutional basis required for a market-led economy. This transition is complex and may not always be smooth. Moreover, economic reform has to take place against the background of competing political and economic interests. At the same time, stable economic growth and employment creation are important for domestic political legitimacy. China is witnessing rapid ageing of the population and rising regional and socio-economic disparities which create domestic tensions.

Internal change in China has external impact. Economically and financially, in trade and investment flows, strategically, increasingly militarily and in other areas, China is seeking space and a voice. As a consequence, the decisions China makes about its political, economic and social development matter to the EU more than ever.

The EU will have to deal with a number of emerging trends:

- China's policy of "going global" is accelerating. Its companies are being encouraged to trade, invest abroad, and find resources as never before. China's growing connection to global capital markets can generate benefits for all, provided that the right framework conditions are in place.
- China's growing global influence and interests lead to a corresponding demand for a greater say in global economic governance. In international relations, China is also

engaging more (e.g. on development, climate action, and international security hotspots). In its region, it is becoming more assertive.

- China is facing a structural economic slowdown that will generate challenges and opportunities both within and outside China. China's transition to a more sustainable pattern of development is complex and may lead to bouts of turbulence within China and more widely.
- The latest Five Year Plan is designed to accelerate economic, social and environmental re-balancing and a shift to consumption-driven growth, as well as continuing rule of law reform and anti-corruption efforts.
- There has been a lack of progress in giving the market a more decisive role in the economy in the key areas of concern to the EU. Recent legislative initiatives have introduced new restrictions on foreign operators in China, which go against market opening and the principles of equal treatment and a level playing field. They also deprive China of the best solutions to enhance economic activity.
- At the same time, China's authoritarian response to domestic dissent is undermining efforts to establish the rule of law and to put the rights of the individual on a sounder footing.

II. PRINCIPLES OF ENGAGEMENT

Given the rapid pace of change in the EU and China over the past decade, it is time to reassess and reaffirm the principles underlying the relationship.

The EU expects its relationship with China to be one of **reciprocal benefit** in both political and economic terms. There should be genuine implementation of the Chinese slogan "win-win co-operation". The EU also expects China to assume responsibilities in line with the benefits it draws from the **rules-based international order**.

The EU must project a **strong, clear and unified voice** in its approach to China. When Member States conduct their bilateral relations with China – whether one-on-one or as groups of countries such as the 16+1 format – they should cooperate with the Commission, the EEAS and other Member States to help ensure that aspects relevant to the EU are in line with EU law, rules and policies, and that the overall outcome is beneficial for the EU as a whole.

The EU's external action is governed by the principles which have inspired its own creation: democracy, the rule of law, human rights and respect for the principles of the UN Charter and international law. These principles are reflected in the Chinese constitution and in the international instruments that China has signed. The protection of **human rights** will continue to be a core part of the EU's engagement with China. The EU believes that treating human beings with dignity and respect is essential if citizens are to fulfil themselves and flourish creatively, and is good for the stability and security of Chinese society and the world order.

China's crackdown on defence lawyers, labour rights advocates, publishers, journalists and others for the peaceful exercise of their rights, with a new and worrying extraterritorial

dimension, calls into question China's stated commitment to the rule of law and its respect for international obligations. The recent adoption of a number of restrictive national security laws and regulations is also a matter of concern. The EU is particularly worried that China's newly promulgated Law on the Management of Foreign Non-Governmental Organisations' Activities could hamper the development of civil society in China and have a negative impact on people-to-people exchanges between the EU and China.

The EU and its Member States will continue to work with China and its people to promote human rights and to foster the rule of law, civil society, political accountability and freedom of expression, association and religion. This will require the full range of diplomatic, advocacy and other tools at both bilateral and multilateral level. The EU should also continue to urge China to release political prisoners, ensure fair trial, and fulfil its international commitments in terms of protecting the rights of people belonging to minorities, not least in Tibet and Xinjiang.

The EU confirms its **"One China" policy**.

The EU commits itself to maintaining its strong links with **Hong Kong and Macao** and to promoting respect for the Basic Law and the "One Country, Two Systems" principle.

The EU confirms its commitment to continuing to develop its relations with **Taiwan** and to supporting the shared values underpinning its system of governance. The EU should continue to support the constructive development of cross-Strait relations as part of keeping the Asia-Pacific region at peace. Accordingly, the EU will use every available channel to encourage initiatives aimed at promoting dialogue, co-operation and confidence-building between the two sides of the Taiwan Strait. The EU should promote practical solutions regarding Taiwan's participation in international frameworks, wherever this is consistent with the EU's "One China" policy and the EU's policy objectives.

EU policy-making on China should take place in the context of a broad and rounded policy approach to the **Asia-Pacific region**, taking full advantage and full account of the EU's close relationships with partners such as Japan, Korea, the ASEAN countries, Australia and others. Above all, given the fundamental importance of transatlantic links, EU-US co-operation and co-ordination in this regard should be reinforced.

- The fundamental principle of the EU's relationship with China is that it should be based on reciprocal benefit in both political and economic terms.
- The EU's engagement with China should be principled, practical and pragmatic, staying true to its interests and values. It will continue to be based on a positive agenda of partnership coupled with the constructive management of differences.
- EU Member States' engagement with China must comply with EU laws, rules and policies.
- The EU expects China to assume responsibilities in line with the benefits it draws from the rules-based international order.
- The promotion of human rights will continue to be a core part of the EU's engagement with China, with the well-being of citizens and respect for international obligations at the centre of its approach. The EU will hold China to account for its human rights record.
- The EU confirms its "One China" policy.
- The EU should continue to develop its relations with Taiwan and to support the constructive development of cross-Strait relations.
- The EU should support the continued implementation of "One Country, Two Systems" in Hong Kong and Macao.
- EU policy-making on China should take full account of the EU's close relationships with the US and other partners.

III. THE PROSPERITY AND REFORM AGENDA

At China's Party Plenum in 2013, President Xi Jinping announced a comprehensive reform of China's economic and social model by 2020. These longer term objectives have run up against short term worries over GDP growth, employment and stability, slowing the pace of reform, possibly to the detriment of longer term economic health. Chinese priorities create opportunities for the EU, for example greater potential for co-operation and exports in priority fields such as the environment and service industries. Yet "opening up" is focussed more on helping Chinese companies go abroad than improving access to China's market. There are also challenges, for example intensified direct competition in some sectors or in third country markets where China hopes to establish its State-owned Enterprises (SOEs) as global champions. The EU wants a China which is economically more open and stable, with significantly improved market access for foreign companies as well as a level playing field and fair competition for business and investment, benchmarked at the level of openness provided for all companies operating in the EU market.

III.1 The EU as a partner in China's reforms

The EU's prosperity is linked to **sustainable growth** in China. The EU therefore has a significant stake in the success of China's economic and governance reforms. As China's

biggest trading partner, representing about 15% of China's trade, and an attractive and secure destination for its outward direct investment, China needs the EU as much as the EU needs China.

China is managing a difficult **structural transition** towards a lower but more sustainable growth rate. This adjustment is essential to China's long term growth prospects but may itself generate short term volatility and risks. China has made significant strides in areas such as tax reform, broadening social security coverage, and reform of financial markets. In other areas, such as reform of the state owned sector or service sector opening, progress has been slower.

A top EU priority is to promote **reform and innovation** in support of transforming China's growth model into a more sustainable one, based on greater domestic consumption, an expanded service sector, and openness to foreign investment, products and services. This should be on the basis of mutual benefits and transparency, including safeguarding intellectual property. The EU's economic strengths are complementary to the priorities of China's 13th Five Year Plan, such as innovation, services, green growth and balancing urban and rural development. It is also in the EU's interest to support China's transition to a more sustainable and inclusive social and economic model by promoting core labour standards and decent work, welfare reform, and a shared commitment to responsible global supply chains.

As China takes steps to try to avoid the middle income trap by moving up the value chain, Chinese firms will continue to become stronger competitors in cutting-edge sectors. Indeed, the Chinese Government's industrial policies aim to create national champions able to compete globally in sectors such as civil aircraft, new materials, the digital economy, banking, energy and infrastructure. It is important for the EU to work with China to promote open and fair competition in each other's markets and to discourage China from underwriting its companies' competitiveness through subsidisation or the protection of domestic markets.

- The EU should continue actively to support and encourage economic, environmental and social reforms in China towards a more open, sustainable and inclusive growth model.

III.2 Boosting trade and investment

A **Comprehensive Agreement on Investment** is the EU's immediate priority towards the objective of deepening and rebalancing our relationship with China. The conclusion of such an agreement, as well as progress in China's reforms towards liberalising its economy and therefore creating a level-playing field for business, would open new market opportunities and allow both sides to envisage broader ambitions such as a Free Trade Agreement.

Any future FTA should be deep and comprehensive and aspire to a high level of ambition based on the benchmarks set by the EU's negotiations with partners such as Canada, Japan and the United States. Furthermore, with a view to helping EU investors operating in an increasingly integrated regional supply chain, the EU should envisage a broader network of investment agreements in the region. Building on the investment provisions under negotiation with China, the EU will explore launching negotiations on investment with Hong Kong and Taiwan.

Geographical indications also matter economically and culturally as they create value for local communities. Both sides would benefit from the conclusion of an agreement on geographical indications based on the highest international standards of protection.

Deepening cooperation on **customs and trade facilitation**, over and above the commitments taken under the WTO Trade Facilitation Agreement, would be beneficial to both the EU and China and should cover risk management and the security of supply chains, as well as border enforcement of intellectual property rights.

The EU welcomes productive Chinese **investment** in Europe provided it is in line with EU law and regulations. We expect EU investment in China to be equally welcome. Mutually beneficial co-operation on all aspects of investment should be increased, including by finding practical ways for China to contribute to the Investment Plan for Europe. China should limit the scope of security-related reviews of EU investments in China solely to issues that constitute legitimate national security concerns. Similarly, the EU expects Chinese Overseas Direct Investment in Europe to be based on free market principles, and will use all the means at its disposal to address the potential market distortions and other risks of investment by enterprises which benefit from subsidies or regulatory advantages provided by the state. The possibility of establishing a common minimum definition of what constitutes critical national infrastructure in the context of inward investment in the EU should be examined in conjunction with Member States.

Reform of China's **financial system** is critical to China's economic transformation. As its capital markets become increasingly open, China's influence on the global economy will increase further. This growing interdependence has been demonstrated by the spill-over from Chinese stock market volatility to world markets, and puts a premium on co-ordinated and transparent economic and monetary policies. Since the risks arising in Chinese financial markets may become systemically important, the EU has a strong interest in maintaining and developing positive and effective cooperation with China in the area of financial regulation.

A more globally integrated Chinese economy should also mean that China acknowledges interdependence and adheres to domestic economic policies that do not distort international markets and trade relations. The EU is seriously concerned about **industrial over-capacity** in a number of industrial sectors in China, notably steel production. If the problem is not properly remedied, trade defence measures may proliferate, spreading beyond steel to other sectors such as aluminium, ceramics and wood-based products.

Although this problem is being given increasing political attention in China, the scale of the challenge remains considerable. Overcapacity in China's steel industry has been estimated at around 350 million tonnes, almost double the EU's annual production. While China's aim to cut 100-150 million tonnes of crude steel production by 2020 is welcome, it should engage constructively with its trading partners at international level (e.g. via the OECD Steel Committee) and put in place a more ambitious, measurable and transparent restructuring plan to reduce capacity. Subsidies and other government support measures that contribute to expanding or exporting steel capacity or to maintaining structurally loss-making operations should be eliminated as soon as possible. China should also honour its WTO commitment to notify subsidies, starting with those granted to the steel sector. In the medium term, China needs to reform its state-led economy and let market forces naturally address the problem.

In the light of the upcoming expiry of certain provisions in China's Protocol of Accession to the WTO, the Commission is analysing whether, and if so how, the EU should change the treatment of China in anti-dumping investigations after December 2016, and will revert to this issue in the second half of 2016. Further strengthening the effectiveness of the EU's Trade Defence Instruments notably through the swift adoption of the Commission's Trade Defence

Instruments modernisation proposal of April 2013 is key. A global approach to addressing the underlying causes of over-capacity will be essential.

Legal reform and strengthening the **rule of law** in China are preconditions for the overall success of China's reforms. A transparent and impartial legal system is an essential part of the institutional bedrock for a market-based economy and would provide effective guarantees for EU and Chinese businesses alike. The EU should build on the launch of the new Legal Affairs Dialogue which first took place in June 2016 focussing on e-commerce and consumer protection online.

The EU should continue to pursue dialogues with China on **standards, regulation and conformity assessment procedures** in key sectors in order to reduce costs and entry barriers, and to promote the primacy of international standards in areas such as health and safety, pharmaceuticals, environmental protection, food and consumer product safety, climate action and data protection. Co-operative research can be deployed to promote the use of common standards in the future. In the sanitary and phytosanitary field the EU is committed to working with China to promote the highest food safety standards. The modernisation of China's food safety model currently underway will, if implemented in a proportionate and transparent manner, make it more compatible with that of the EU. This in turn will increase opportunities for growth and jobs in both the EU and China, create mutual benefits for consumers, and improve market access for agricultural commodities. To this end, the EU encourages China to adhere to international scientific standards and to act reciprocally to recognise the EU as a single entity.

While strengthening the EU-China partnership, the EU should continue to deepen its engagement in **Asia** and elsewhere with a view to multiplying and diversifying economic opportunities and sources of growth.

- The EU aims to ensure reciprocity and a level playing field in all aspects of its trade and investment relationship with China. To that end, it will step up its monitoring of access to Chinese markets and to China's R&D support schemes by European companies.
- A Comprehensive Agreement on Investment is the EU's immediate priority towards the objective of deepening and rebalancing our economic relationship with China.
- The EU puts a high priority on the rapid conclusion of an agreement with China on Geographical Indications for the protection of food names, based on the highest international standards.
- The EU is developing a new generation of modern, high standard trade agreements, and could consider broader ambitions such as a deep and comprehensive FTA with China, when the conditions – including implementation of the necessary economic reforms in China – are right.
- The EU expects China to make significant and verifiable cuts in industrial over-capacity based on a clear timeline of commitments and an independent monitoring mechanism.
- The EU welcomes productive Chinese investment in Europe provided it is in line with EU law and regulations. In return, the EU expects improved market access for foreign companies in China and a level playing field for business and investment. China should reduce the number of protected sectors and minimise national security reviews.
- Co-operation on the rule of law, competition enforcement, as well as standards, rules and regulations in key sectors, should be reinforced.

III.3 Research, innovation and the digital economy

China is moving fast towards a **knowledge-based and innovation-driven economy**. The EU, as a world leader in this area, has a strong interest in working with China to achieve EU objectives in line with the Digital Single Market strategy. Co-operation on the digital economy should harness growth through open markets, common standards and joint research on the basis of reciprocity in areas such as 5G mobile communications and the Internet of Things.

Ambitious initiatives such as "Made-in-China 2025" and the related "Internet +" action plan underline the importance that China attaches to the **digital economy** as well as its transformative potential for sectors such as manufacturing. However, Chinese policy and regulation have increasingly been marked by protectionism. European information and communications technology companies face market access problems all along the value chain, including technologically biased standards, complex and discriminatory licensing and certification requirements, disproportionate restrictions arising from security-related legislation, lack of fair access to standardisation bodies, and closed public procurement. The EU should redouble its efforts to improve access to China's growing market for digital products and services, and to achieve a level playing field. The EU should also promote stronger privacy and data protection rights in China, and insist that EU data protection rules be respected in all personal data exchanges with China.

Protection and enforcement of **intellectual property rights** (IPR) are crucial for the promotion of innovation. Relevant dialogue and cooperation should intensify and address growing challenges, such as online counterfeiting and piracy. While recognising that governments have a legitimate interest in the security of the digital market, the EU opposes generally applicable policies that require access to or transfer of software source code as a precondition for market access. The EU should seek a political agreement with China on combatting cyber-enabled theft of IPR and trade secrets.

The EU stands to gain from strengthening **research and innovation** cooperation with China by jointly developing knowledge and technology, tapping into China's talent pool, promoting the EU as an attractive location for research and innovation, and finding solutions to shared social and environmental challenges. Ensuring a level playing field for research and innovation, including reciprocal access to research and innovation programmes and resources, remains essential. Cooperation through the EU's Horizon 2020 and Euratom programmes should be further developed and expanded on that basis. Co-funding mechanisms and flagship initiatives in the context of Horizon 2020, as well as agreements between respective research institutes, should help develop long-term partnerships in science and technology.

- Mutually beneficial co-operation on research and innovation should be strengthened, while ensuring a level playing field.
- Co-operation on the digital economy can bring benefits to both the EU and China. It should harness growth through common standards and joint research on the basis of reciprocity.
- The EU should intensify co-operation with China on the protection and enforcement of intellectual property rights. The EU should reinforce measures to counter cyber-enabled theft of intellectual property and trade secrets.

III.4 Connectivity and people-to-people links

Improving infrastructure links between the EU and China would boost the economic prospects for all concerned. The EU-China **Connectivity Platform** should create synergies between EU policies and projects and China's "One Belt One Road" initiative, as well as between respective sources of funding, in the field of transport and other kinds of infrastructure.

China will need to fulfil its declared aim of making its "One Belt, One Road" initiative an open platform which adheres to **market rules and international norms** in order to deliver benefits for all and to encourage responsible economic behaviour in third countries. Co-operation in this field should be based on full respect for relevant policies, and applicable regulations and standards, including with regard to public procurement, and guarantee a level playing field for economic operators from both sides. This should also apply to those countries outside the EU which have pledged to apply EU standards. The aim should be to help build sustainable and inter-operable cross-border infrastructure networks in countries and regions between the EU and China. Joint work on a pipeline of priority investment projects should involve close co-ordination with the countries concerned, not least to ensure compatibility with their fiscal constraints. EU-China co-operation on connectivity should fully benefit Asian partners, including Afghanistan, Pakistan and countries in Central Asia, by contributing to their integration in international trade flows.

People-to-people engagement should support opportunities for EU sectors such as higher education, creative and cultural industries, and tourism. This would also contribute to fostering inter-cultural dialogue and promoting cultural diversity and civil society participation. People-to-people contacts should be mainstreamed throughout EU-China relations. Full use of existing channels for legal migration in the EU and China should be encouraged. Once the first steps to facilitate mobility and combat illegal migration have successfully been taken, the EU-China Migration and Mobility Dialogue should move ahead with negotiating agreements on visa facilitation and co-operation against illegal migration.

- The EU should use the EU-China Connectivity Platform as its main vehicle for working with China to connect the Eurasian continent via a physical and digital network through which trade, investment and people-to-people contacts can flow.
- Co-operation with China on its "One Belt, One Road" initiative should be dependent on China fulfilling its declared aim of making it an open platform which adheres to market rules and international norms in order to deliver benefits for all.
- People-to-people dialogue should be broadened in scope, and new initiatives identified to encourage a greater pluralism in contacts. People-to-people contacts should be mainstreamed throughout EU-China relations and the dialogue on mobility and migration should be strengthened.

IV. FINDING COMMON INTERESTS ON FOREIGN POLICY AND SECURITY

China sees itself as emerging from its past passive participation to take on a leading role in global affairs consonant with its economic size. In line with its expanding interests, China's horizons have broadened from its neighbourhood. A concentration on the US still looms large. There is a renewed interest in the EU as a more balanced partner in a multipolar world, although regional security in the Asia-Pacific region will remain a challenge in the light of China's increasing assertiveness. Behind the major "One Belt, One Road" initiative lie largely economic and domestic considerations, but there will be major geostrategic consequences. China now has good reason for more active participation in global governance, security and defence issues. The challenge and the opportunity for the EU is to channel China's participation into positive areas such as co-operation on peace in Africa, and fulfilment of the duties which come with being a global power (e.g. in the Middle East). A deeper dialogue with China on investment co-operation in countries of common interest would reflect China's growing financial involvement in many countries which are also partners of the EU.

IV.1 Reinforcing co-operation with China on foreign policy

China's growth has led its interests to expand far beyond its immediate neighbourhood, and boosted its commercial, financial, diplomatic, and even military presence in the world, with increasing numbers of Chinese nationals living abroad. This too increases China's reliance on international peace and security. It has led China to take a more proactive approach to peacebuilding and neighbourhood processes in countries such as South Sudan and Afghanistan.

The EU should seek a broader shared foreign policy agenda with China based on encouraging China's constructive and active participation in providing security as a global public good. China should be encouraged to participate consistently in international conflict resolution processes in fulfilment of its responsibilities as a permanent member of the UN Security Council. Building on China's constructive engagement during the negotiation of the Iran deal, the EU should seek active co-operation with China in areas such as Afghanistan, Syria, Libya, the migration challenge, and the overall settlement in the Middle East. What is often perceived in Africa as EU-China competition should be turned into greater cooperation on crisis settlement (be it locally or in multilateral fora such as the UNSC), building African peace and security capacities, fostering an improved economic environment, as well as on the global commons, notably the environment and the oceans. The EU should also work with China to improve due diligence for minerals from areas affected by conflict and other risks.

One of China's foreign policy priorities is to develop its links with Europe, and it is allocating significant financial and diplomatic resources to achieving this goal. It is in the EU's interest to work with China to ensure that any Chinese involvement in the **EU's Eastern and Southern neighbourhoods** helps reinforce rules-based governance and regional security. The EU stands firm in upholding Ukraine's sovereignty, independence and territorial integrity, principles to which China also subscribes. The EU wants China to be a partner in investing in the long-term viability and prosperity of Ukraine and in ensuring a stable and peaceful region to the benefit of all sides. Further afield, the EU's strategy on **Central Asia** also provides opportunities to step up co-operation with China in areas such as security, connectivity, development assistance, and the sustainable use of water and energy resources.

The EU should continue to contribute actively to regional security in the **Asia-Pacific** through diplomatic and economic means while further developing its partnerships in the region. The EU remains concerned about the situation in the East and South China Seas, and should continue to emphasise the importance of peaceful settlement of disputes and to oppose unilateral actions that could alter the status quo and increase tensions. The EU upholds its position on compliance with international law by China and others in the context of their claims in the South China Sea. The large volume of international maritime trade passing through that area means that freedom of navigation and overflight are of prime importance to the EU. The EU should encourage China to contribute constructively to regional stability through confidence-building measures and support for the rules-based international order, especially respect for the UN Convention on the Law of the Sea and its arbitration procedures, and the rapid conclusion of the ASEAN-China negotiations on a "Code of Conduct".

The EU should seek a regular and substantial dialogue with China across the whole spectrum of **export control, disarmament and non-proliferation** issues, including regional challenges such as the policies and actions of the DPRK. Specifically, the EU should encourage China to ratify the Comprehensive Nuclear Test Ban Treaty, to accede to the Arms Trade Treaty, to join the Hague Code of Conduct on Ballistic Missiles, and to adhere to the export control standards for arms and dual use goods which apply under the relevant international export control regimes. EU exports to China are governed by the arms embargo established by the European Council Conclusions of 1989 and the eight criteria established under the Council Common Position on exports of military technology and equipment (2008/944/CFSP).

In view of the increasingly acute global terrorist threat, the EU should be open to co-operation with China on **counter-terrorism** subject to mutually agreed terms including a robust rule of law and human rights component. The focus should be on international efforts to address root

causes, on cutting off sources of terrorist finance (including in the context of the Financial Action Task Force), and on preventing and countering radicalisation.

In its international **cyberspace** policy, the EU promotes the openness and freedom of the Internet and encourages efforts to develop agreed norms of state behaviour. China's restrictive approach to internet governance risks fragmenting the internet to the detriment of global stakeholders and with negative economic and human rights consequences. The EU should continue to urge China to make a greater contribution to developing responsible norms of behaviour and applying existing international law in cyberspace, including promoting further global agreement on protecting critical cyber assets. Relevant aspects of the recent Joint Communication on countering hybrid threats, notably with regard to cyber-security and protecting critical infrastructure, should also be taken into account.

- Recognition of China's greater role in international relations and governance should be linked to greater adherence by China to international rules and standards.
- The EU encourages China to mobilise its diplomatic and other resources towards providing security as a global public good, including engagement on Afghanistan and Syria.
- The EU has a stake in Asian security and will continue to reinforce its positive contribution in that regard. Similarly, the EU encourages China to contribute actively to peace and security in the EU's neighbourhood in line with international law.
- The EU wants to see freedom of navigation and overflight upheld in the East and South China Seas. Disputes should be settled peacefully based on the rule of law and unilateral provocations avoided.
- EU dialogue with China to seek more common ground on disarmament, non-proliferation, counter-terrorism and cyberspace should be reinforced.

IV. 2. The security and defence dimension

In recent years, the EU has increasingly deployed civilian and military crisis missions overseas, notably in Africa. Likewise, recognising its growing global responsibilities, China is making a growing contribution to peacekeeping and counter-piracy operations, and has increased its military assistance to the African Union.

Africa in particular offers significant potential for the EU to co-operate with China where interests are shared, including extending the successful EU-China offshore co-operation on counter-piracy to peacekeeping and capacity-building onshore. Co-ordination on counter-piracy under the auspices of the Shared Awareness and De-confliction Mechanism has helped to foster co-operative instincts while burden-sharing in escorting World Food Programme shipments has shown the added value of such co-operation.

Building on the outcome of successive EU-China security and defence consultations, the EU should engage with relevant Chinese actors on the ground (for example, Chinese embassies and peacekeeping contingents in countries such as Mali and Somalia) to explore practical co-operation, and support Chinese efforts to fund the **African Peace and Security Architecture**. Other areas of potential shared interest include co-operation on the police dimension of

peacekeeping operations, and arrangements for the protection and evacuation of EU and Chinese nationals.

- The EU should ensure that it has a clear understanding of China's defence and security policies in order to inform its engagement with China.
- Africa offers the best opportunity for EU-China security co-operation, both at sea and on land. Anti-piracy co-operation off the Horn of Africa should continue.
- The EU should seek opportunities for practical co-operation and co-ordination with China on issues such as capacity-building and supporting African peacekeeping efforts, making full use of both sides' diplomatic and security assets on the ground.

V. GLOBAL GOVERNANCE AND WORKING TOGETHER IN THE MULTILATERAL CONTEXT

China wants a say in global governance, both political and economic, in line with its importance. The EU should build on this, while promoting multilateralism and encouraging China to support global standards and institutions. Part of the equation is also successfully to handle differences over respect for the international order, law and human rights, especially in the light of increased Chinese external assertiveness and internal repression. Many areas are ripe for promoting dialogue and co-operation, in particular climate change, energy, oceans and resource efficiency, as well as helping to resolve China's immense environmental problems (whose effects will be felt by the EU). Equally, there is much to be gained from working together on development, global health, peacekeeping, humanitarian affairs, and disaster risk management. Here, China's increased global presence and interests present the EU with an opportunity to marry our experience with China's resources.

V.I Promoting effective multilateralism

The EU is committed to supporting effective multilateralism, with the United Nations at its core. Like the EU, China has been a beneficiary of the **rules-based international order**. In 2015, the 70th anniversary of the UN's foundation, China recommitted itself, as one of the original signatories, to the principles of the UN Charter. It has become one of the biggest contributors to the UN budget and is an increasing contributor of troops to UN peacekeeping operations.

As a permanent member of the UN Security Council and a member of the Human Rights Council, China has a particular duty to support the three pillars of the UN, namely Human Rights, Peace and Security, and Development. The EU should work with China towards consolidating **global governance**. As global institutions gradually evolve, this means giving the proper weight to China's voice concomitant with the contribution that it is ready to make, while insisting on the universality of the international law, rules and principles which lie behind the international order. In the same spirit, China should be encouraged to support aspects of UN reform and improving the global governance framework which would bring wider benefits for the international community.

Through constructive engagement, the EU should work with China to find solutions within the existing global governance structures wherever possible, and above all to ensure that new initiatives meet global standards and are complementary to the existing international institutions. Multilateral decision-making should be inclusive and involve all relevant stakeholders.

The growing importance of the **G20** in the wake of the global economic crisis demonstrates the need to work effectively with emerging market economies to find solutions to global challenges. Building on the results of China's G20 Presidency and close co-operation on the G20 finance track, the EU should look for a common platform with China in such areas as growth strategies, investment in interconnected infrastructure, climate finance, and global anti-corruption standards. China has also stepped up engagement with the **Bretton Woods institutions**. The EU should build on this enhanced commitment to foster stronger, more sustainable and balanced global growth, ensure a strong and adequately financed IMF, and strengthen the Global Financial Safety Net.

The EU should encourage China to play a more engaged and active part at the **World Trade Organisation** (WTO) and in multilateral and plurilateral trade and investment initiatives, assuming responsibilities in line with the benefits it draws from an open trading system and strengthening the ambition of these initiatives, such as the negotiations on environmental goods. The EU expects China to submit a Government Procurement Agreement (GPA) accession offer which matches the importance of the Chinese market. The EU also encourages China to engage in a meaningful and substantive way in the International Working Group on export credits. In the G20 context, the EU should encourage China to engage further in the reform of international investment rules, in particular the work towards creating a multilateral investment court.

Additional areas where the EU should seek common ground with China include peacekeeping, conflict prevention and early warning, peaceful settlement of disputes, humanitarian affairs, disaster risk management, economic and social rights, and health. The EU should encourage China to increase its contribution to international efforts to tackle the ongoing refugee and migration crisis.

- The EU and China share a common interest in supporting multilateralism. The EU should work with China towards consolidating rules-based global governance.
- The EU should seek a common platform with China on key G20 priorities.
- The EU should encourage China to play a more active and engaged role in the WTO and in multilateral and plurilateral trade and investment initiatives, assuming responsibilities in line with the benefits it draws from an open trading system and strengthening the ambition of these initiatives. The EU expects China to submit a GPA accession offer which matches the importance of the Chinese market.
- The EU should work more closely with China on disaster management, humanitarian crises and migration.

V.2 Respect for international law and universal values

A rules-based international order based on respect for international law, including international humanitarian and human rights law, is a fundamental prerequisite for securing international peace, security, and sustainable development. Accordingly, the EU should work with China to promote the universal advancement of human rights, in particular compliance with international human rights standards at home and abroad. Examples include supporting the implementation of the obligations contained in human rights treaties already ratified by China, and promoting the ratification of the International Covenant on Civil and Political Rights (ICCPR), which China signed in 1998. The EU should also continue to encourage China to ratify further UN and ILO instruments, for instance the two conventions on forced labour and the two on freedom of association and collective bargaining.

China's progress over recent decades, for example with regard to realising economic and social rights, may provide entry points to build up EU-China cooperation in such areas as women's rights, labour rights, social standards, business and human rights, and cultural rights.

- The EU should continue to insist that China complies with its international legal and human rights obligations, both within China and abroad, and should work with China to this end.

V.3 Global challenges and global public goods

In recent years, China has made a growing contribution to setting more ambitious global goals with regard to sustainable development including climate change, health and education. It has become a donor of global stature and is working on new and more sustainable development concepts. The EU should work closely with China across these areas of common interest.

The **2030 Agenda for Sustainable Development** is universal in application and requires all countries to implement it domestically as well as to contribute to the global effort. It gives the EU and China a common stake in delivering poverty eradication and sustainable development for all through effective institutions, good governance, the rule of law and peaceful societies. The EU should engage China in regular dialogue on the implementation of the 2030 Agenda and its Sustainable Development Goals.

China plays an increasingly important role in **international development co-operation** and has increasing impact on development processes in third countries. It is therefore important that the EU and China have channels to discuss their respective approaches to development co-operation. The prominence given by China to the 2030 Agenda during its Presidency of the G20 provides an opportunity to step up engagement to work together with developing countries. The EU should advance bilateral and multilateral cooperation on development to support the implementation of the 2030 Agenda with the aim of establishing a donor-to-donor partnership with China in such areas as development effectiveness and donor co-ordination, and promote practical engagement both in multilateral fora and on the ground, for example in Africa and Asia. The EU should encourage China to act in line with the principles endorsed by both parties at the Busan High Level Forum on Aid Effectiveness, and to participate in the Global Partnership for Effective Development Co-operation. Relevant EU institutions, as well as EU Member States, should continue to support the development of the Asia Infrastructure Investment Bank, and engage in dialogue with the New Development Bank, so as to

strengthen good governance and the multilateral system. In addition, the EU should seek a dialogue with China on best practice in terms of lending to developing countries, including aspects such as debt sustainability, environmental and labour standards, and fighting bribery and corruption.

The EU welcomes the leading role played by China, which accounts for about a quarter of the world's greenhouse gas emissions, in the negotiation and early ratification of the Paris agreement on **climate change**. Based on the results of UNFCCC COP21 and the 2015 EU-China joint statement on climate change, the EU should boost its co-operation with China both bilaterally and internationally. The EU should work with China based on the shared commitment to accelerate transition to a low carbon/carbon neutral economy. Joint approaches should be pursued to speed up the implementation of the Paris agreement wherever possible, including the implementation of Nationally Determined Contributions. Outreach to China through EU climate diplomacy should include issues related to the Montreal Protocol (global phasedown of hydrofluorocarbons), the International Civil Aviation Organisation (global market-based measure on aviation emissions) and the International Maritime Organization (curbing maritime emissions). The EU should continue to support China on emissions trading in view of its plans to roll out a nation-wide system in 2017. Enhanced dialogue should be sought in areas such as climate policy-making and emissions modelling, low-carbon cities, low carbon technologies, carbon capture and storage, adaptation, and climate resilient investments. The innovative recommendations of the G20 Green Finance Working Group should be implemented wherever possible.

The EU and China are both net energy importers and have a common interest in transparent, well-regulated and open energy markets to ensure improved energy security. To this end, the EU should work together with China towards a more modern, inclusive and effective global **energy** architecture, and continue to support increased engagement by the International Energy Agency with China with a view to promoting collaboration on energy security, energy data and statistics, and energy policy analysis. The EU should also seek to co-operate with China on transparency, standards and regulation in the energy sector, including with regard to energy infrastructure projects in third countries, and support domestic energy reforms including energy efficiency, energy sustainability and resource efficiency. Opportunities for joint research and development of clean energy technologies should be pursued.

China faces huge **environmental challenges** in terms of air, soil and water pollution. For the sake of its own interests, in particular to reduce problems from China's massive and unsustainable resources use, EU know-how can help support China's efforts to develop the appropriate policies and regulatory frameworks to move towards a green, low carbon and circular economy. This will involve applying green scientific and technological solutions which help to bring environmental and economic benefits to both sides. The EU should share best practices on environmental governance, the management of air, water and soil resources, waste management, and the phasing out of dangerous chemicals, as well as on the implementation of international environmental agreements and standards. Co-operation on water issues, not least through the EU-China Water Platform, should be reinforced. The EU should strengthen co-operation with China to tackle global concerns such as deforestation, illegal logging, and wildlife trafficking which, through its links to corruption and organised crime, undermines sustainable development, biodiversity and good governance.

The EU should also work with China to improve **ocean governance**, not least by combatting illegal, unreported and unregulated fishing, and should encourage China to ratify the UN Fish Stocks Agreement and the FAO Port State Measures Agreement.

The EU should also encourage China to play a more engaged and active role in developing policies to fight the spread of antimicrobial resistance and to support a global strategy to tackle this serious **health** threat.

- An enhanced EU-China development dialogue should be launched.
- The EU should capitalise on China's commitment to tackling climate change by reinforcing partnership in this field at both bilateral and multilateral level.
- The environment is now a top Chinese policy priority, as recognised by the latest Five Year Plan. The EU should build on this to create a positive common agenda in areas such as tackling air, water and soil pollution, the circular economy, sustainable management of ocean resources, and fighting threats to habitats and biodiversity.
- The EU should seek to work more closely with China on fighting antimicrobial resistance.

VI. A MORE JOINED-UP APPROACH TOWARDS CHINA

Dealing with such a comprehensive strategic partner as China requires a "whole-of-EU" approach which links up the activities of the Commission, EEAS and other EU institutions in a coherent way with what EU Member States are doing. Member States should reinforce agreed EU positions in their bilateral relations with China, while the Commission and the EEAS should ensure that Member States are made aware when EU interests need to be safeguarded. The Commission and the EEAS should work closely with the European Parliament, which has shown itself to be a strong advocate of effective EU policy-making towards China.

The EU should pursue an ambitious agenda of co-operation with China. Mutual economic and commercial interests are strong but should not prevent the EU from upholding its values in its relations with China. China's needs are as great as ours and failure to cooperate also brings adverse consequences for China.

The EU must therefore project a strong, clear and unified voice. EU coherence and cohesiveness is vital on the big policy choices and on the maintenance of the rules-based international order. The EU should seek to build trust and co-operation with China based on shared interests. However, EU-China relations must also deal with the reality that China is a one-party system with a state-dominated model of capitalism.

The EU should work to find linkages across different policy areas and sectors in order to exert more leverage in pursuit of its objectives. Good cross-sectoral co-ordination is required in order to ensure that immediate sectoral interests are put behind the greater good.

EU-China Summits and the EU-China High-Level Strategic Dialogue, High-Level Economic and Trade Dialogue and High-Level People-to-People Dialogue should be used to their full

potential as platforms to deliver cross-cutting strategic orientation on political, economic and trade issues, to encourage greater pluralism in contacts, and to facilitate synergies and trade-offs between the many facets of the EU-China relationship at the highest level.

Active use should be made of the available EU co-ordination mechanisms, both in Brussels and locally in Beijing. As a complement to work on reinforcing the EU-China partnership, the Commission services, EEAS and Member States should also strengthen scenario-based planning in order to act in a quicker and more cohesive manner when required.

The number and variety of EU-China dialogues is a sign of the diversity and vitality of EU-China relations, but carries the risk that efforts may be fragmented or dissipated. The EU and China are engaged in almost one hundred dialogues and workshops in a typical year. A more rigorous prioritisation is required and resources should be concentrated in the first instance on top order priorities. The EU should regularly review the outcomes of these dialogues in order to ensure that they contribute effectively to the EU's overall objectives and are streamlined where necessary. Priorities such as achieving a level playing field should be mainstreamed.

The first joint assessment of the implementation of the EU-China 2020 Agenda took place in Beijing in April 2016. Yearly implementation reviews should continue at senior officials' level, with a reporting link to the EU-China summit.

The EU's Partnership Instrument, Development Co-operation Instrument, Horizon 2020, "Erasmus +" and other relevant sources of EU funding should be used more strategically to promote EU interests concerning China. Public diplomacy should be boosted line with EU priorities. Cultural exchanges and co-operation should also be further encouraged.

The EU should network its analytical resources so as correctly to assess the motivations of Chinese policy and capitalize on opportunities to strengthen EU-China relations. Current contacts with China at all levels, Party, government, legislators and society, should be improved, as well as reaching out via the full panoply of 21st century media to future generations of Chinese leaders in all fields.

- Dealing with China requires a comprehensive approach to ensure maximum impact.
- Member States should reinforce agreed EU positions in their bilateral relations with China, while the Commission and EEAS should ensure that Member States are made aware when EU interests need to be safeguarded.
- Annual EU-China summits and high-level dialogues will set the objectives and priorities to implement the common strategic agenda. Yearly implementation reviews of the EU-China 2020 Agenda should take place at senior officials' level, with a reporting link to the EU-China summit.
- The EU will work with China to assess the effectiveness of the many joint dialogues and seek to streamline them where necessary in line with EU priorities.
- Active use should be made of the available EU co-ordination mechanisms in order to promote EU unity.
- The EU should continue to improve its analytical capacity on China and to reach out to future generations of Chinese leaders in all fields.
- The implementation of the EU's strategy on China should be reviewed at regular intervals in the appropriate formations of the Council. The EU should be prepared to update its approach as and when the underlying assumptions change.

VII. NEXT STEPS

The Council is invited to endorse the elements proposed in this Communication. Specific recommendations for follow-up will be made in the following areas:

- Improving the preparation and follow-up of EU-China Summits and other high-level meetings as well as their coherence with Member States' high-level contacts with China;
- Proposing common policy frameworks in specific areas (e.g. connectivity);
- Mainstreaming key themes and objectives across all EU-China dialogues and concentrating resources on a smaller number of priorities where the EU has the greatest added value.