

Global trade

## EU and China agree new investment treaty

Deal brings 7 years of negotiations to a successful close, but risks EU tensions with US



China's president Xi Jinping and EU leaders during a videoconference on Wednesday

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Jim Brunsten, Mehreen Khan and Michael Peel in Brussels  
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The EU and China have unveiled a long-awaited investment treaty that aims to open up lucrative new corporate opportunities but which risks antagonising president-elect Joe Biden's incoming US administration.

The accord was confirmed by China's president Xi Jinping and EU leaders including European Commission president Ursula von der Leyen on Wednesday, bringing seven years of often difficult negotiations to a close.

Valdis Dombrovskis, the EU's trade commissioner, told the Financial Times the deal contained the “most ambitious outcomes that China has ever agreed with a third country” in terms of market access, fair competition and sustainable development.

“We expect European businesses will have more certainty and predictability for their operations,” he said, adding that “for a long period, trade and investment relations with China have been unbalanced”.

A backlash began even before the deal was unveiled. Reinhard Bütikofer, chair of the European parliament's delegation for relations with China, late on Tuesday branded it a “strategic mistake”. He tweeted that it was “ridiculous” for the EU side to try to sell as “a success” commitments that Beijing has made on labour rights in the deal.

Rights activists will scrutinise the deal closely over allegations that China uses Uighur Muslims detained in large numbers in Xinjiang province as forced labour. Beijing denies the claims.

By any measure it's a setback. It validates China's view that its economy is an irresistible force — despite Hong Kong, Xinjiang, Taiwan and India — Former Obama administration official

The accord may also create friction with the incoming Biden administration, which has stressed the need for transatlantic co-operation to put pressure on Beijing.

An official in Mr Biden's transition team said: “The Biden-Harris administration looks forward to consulting with the EU on a co-ordinated approach to China's unfair economic practices and other important challenges.”

Meanwhile, John Ulyot, a spokesman for the US National Security Council, said: “Any commitment from [China] that is not accompanied by strong enforcement and verification mechanisms is merely a propaganda win for the [Chinese Communist party].”

The deal will remove some barriers to EU companies' hopes of investing in China, such as specific joint-venture requirements and caps on foreign equity.

Industries where the EU has secured improved access terms include automotive, private healthcare, cloud computing and ancillary services for air transport, Mr Dombrovskis said. The improved market access arrangements for car manufacturing also cover electric vehicles and hybrids, he added.

On financial services, the deal will secure the same benefits for the EU as the US obtained in its “Phase 1” trade deal with the country, including openings on insurance and asset management.

Other parts of the agreement seek to ensure transparency of subsidies and to set clear rules against forced technology transfer. EU officials said that Brussels also secured guarantees of non-discrimination compared to state-owned enterprises. All of these points have been core EU grievances in its trade relationship with China.

For Beijing, the deal will lock in existing market access rights while securing some openings in the areas of manufacturing and renewable energy.

[The agreement is] unquestionably damaging and will have many justifiably asking if it's worth Biden's time placing a big bet on Europe  
— Thomas Wright, senior fellow at the Brookings Institution

Brussels has pressed ahead with the agreement despite the incoming Biden administration stressing that it wants a multilateral alliance with the EU and other partners to put pressure on Beijing over human rights and trade.

The new US administration would “welcome early consultations with our European partners on our common concerns about China's economic practices”, Jake Sullivan, who will serve as Mr Biden's national security adviser, wrote on Twitter last week.

“Jake's tweet was very, very careful in the text but the message was unmistakable,” a former Obama administration official told the Financial Times, adding that Beijing's belated decision to close a deal was part of a deliberate effort to derail the prospect of greater US-EU co-operation over China under the next administration. “Jake basically said ‘hey slow things down,’ and that's not happening.”

“By any measure it's a setback,” the former official added, saying the deal handed Beijing a diplomatic victory. “It validates China's view that its economy is an irresistible force — despite Hong Kong, Xinjiang, Taiwan and India.”

Mr Dombrovskis told the FT that the deal represented a “levelling up” with the US which secured market access and level playing field commitments from China in the Phase 1 deal negotiated by the Trump administration.

“We had a certain catch up to do here,” he said, adding that the EU wants to “engage very closely with US” on trade issues.

“I am not seeing the Phase 1 deal or our comprehensive agreement on investment as hindering this co-operation in any way,” he said.

But Thomas Wright, a senior fellow at the Brookings Institution, said on Tuesday that the EU’s choice of pressing ahead with the investment agreement was “unquestionably damaging and will have many justifiably asking if it’s worth Biden’s time placing a big bet on Europe.”

EU officials said the question of labour rights was the final sticking point to be overcome in the talks, with the EU securing commitments that China will work to ratify and implement International Labour Organization conventions.

The commitments include Beijing making “continued and sustained efforts” to ratify ILO conventions against the use of forced labour.

China had made important last-minute concessions, European officials said, in what many observers see as an effort by Beijing to get the agreement done before Mr Biden takes office on January 20.

While Mr Bütikofer and others have criticised China’s sustainable development commitments as insufficient, Mr Dombrovskis said that they went further than those made by Beijing in trade agreements with other partners. He also said they would be subject to a robust “enforcement mechanism”.

The announcement of the deal comes only two days before an end of 2020 target date agreed on by Brussels and Beijing last year. The agreement will need to be ratified by both sides to take effect. Brussels is aiming for the deal to take effect in early 2022, according to EU officials.

*Additional reporting by Aime Williams and Katrina Manson in Washington and Sam Fleming in Brussels*

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