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China and the EU Strengthen Alignment of Development Strategies

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Considering the highly overlapping nature of the implementation cycles of China and the EU's new development strategies, there is still plenty of room for the two sides in the future to actively explore points of convergence in the alignment of their development strategies and to strengthen their mutually beneficial cooperation. First, China-EU bilateral trade still has great potential for growth. Second, there is much room for improvement in mutual investment between China and the EU. Third, there are broad prospects for China-EU cooperation in the areas of green economy and digital economy. As long as China and the EU adhere to mutual respect, treating each other as equals, seeking common ground while reserving differences, and keeping a pragmatic attitude while actively promoting the alignment of their development strategies, we can expect that they will achieve a higher level of mutual benefit and win-win results.

During a video meeting with European Council President Charles Michel and European Commission President Ursula von der Leyen in Beijing on April 1, President Xi Jinping emphasized that China and the EU should strengthen the alignment of development strategies and explore the convergence of China's new development concepts and new development patterns with the EU's economic and trade policy of "open strategic autonomy." It can be said that strengthening the alignment of development strategies is of great significance to the common development of the two major markets of China and Europe both at present and in the future, as it would promote the steady recovery of the world economy.

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[1] This essay was first published in *Jingji ribao* (*Economic Daily*) on April 13, 2022.

In today’s world, changes the like of which have not been seen in a hundred years are intertwined with the pandemic of the century; the international political and economic landscape is undergoing drastic changes. Within the context of intensifying de-globalization, the world’s major economies have been introducing development strategies that tend to be “inward looking.” They promote the localization and diversification of industrial chains and supply chains through the adjustment of domestic and external policies in order to ensure their own economic security. It is within this context that China and the EU’s new development strategies have been proposed.

In 2020, China proposed building a new development pattern, the main body of which would be the domestic cycle, and the domestic and international cycles would stimulate each other. Since then, accelerating the construction of the new development pattern has become a key task during the “14th Five-year Plan” period (2021-2025). China’s construction of a new development pattern is a major measure for implementing the new development concept. The core logic is that, as China’s economy continues to grow, the marginal contribution of external demand to economic growth has gradually declined, so it is necessary to strengthen the fundamental role of domestic demand. At the same time, it is also necessary to respond to an increasingly complex and harsh external environment with a high level of self-reliance and self-improvement. However, taking the domestic cycle as the “main body” does not mean shutting the door and operating in a closed manner. Instead, it is necessary to unleash the potential of domestic demand, make the domestic and international markets better connected, and make better use of domestic and international resources to achieve stronger and more sustainable development. In short, China’s economy cannot achieve a higher-quality dynamic balance without a high level of opening to the outside world.

On the EU side, the current European Commission has sped up the deployment of “strategic autonomy” and proposed “open strategic autonomy” in the economy. The core content of this move is to further deepen and improve the large internal European market, especially by vigorously promoting the integration of Europe’s services market. In essence, it is promoting the internal or domestic cycle. It is worth noting that although the EU still emphasizes maintaining openness to the outside world, what is different from the past is that the EU is formulating a series of defensive internal market rules, emphasizing "rules-based" opening; at the same time, it is promoting "peer-to-peer" opening with its economic and trade partners through bilateral trade and investment agreements and other channels.

In short, China's new development pattern and the EU's "open strategic autonomy both seek to shape a more autonomous economic development model on the basis of digging deep into the potential of their respective domestic markets, but they are not closed and exclusive, and both emphasize that opening up better serves their own development needs. Although China and the EU's comparative economic strengths have undergone great changes in recent years, and the EU has also been intensively adjusting its economic and trade policies towards China, one cannot deny that current China-EU economic and trade relations have not undergone fundamental changes. First, there is no fundamental geopolitical conflict between China and Europe. Although the EU has frequently touched China's bottom line on issues relating to Hong Kong and Xinjiang in recent years, these issues do not in the final analysis represent the EU's core interests, nor will they lead to the "decoupling" of the EU and China in terms of economy and technology. Second, China and the EU are highly complementary economically. The two are deeply integrated in the areas of technology, market, capital, and talent. They also need to rely on each other in the formulation of international economic rules. Economic and trade cooperation will still function as "ballast stones" in bilateral relations. In view of this, considering that the implementation cycles of China and the EU's new development strategies are highly overlapping, there is still plenty of room for the two sides to actively explore and find the points of convergence between their development strategies and to strengthen their mutually beneficial cooperation.

First, China-EU bilateral trade still has great potential for growth. In 2020, against the backdrop of shrinking global trade caused by the pandemic, the trade volume between China and the EU still bucked the trend and increased by 4.5%, and China surpassed the United States to become the EU's largest trading partner for the first time.

In 2021, the trade volume between China and the EU reached US$828.11 billion, a year-on-year increase of 27.5% and a record high. China remains the EU's largest trading partner, and the EU is China's second largest trading partner. In the same year, the number of China-Europe trains exceeded 15,000, a year-on-year increase of 22%. Although the sharp increase in China-EU trade against the trend during the pandemic was driven by many short-term factors, it suffices to show the complementarity of the two economies and the vitality of their economic and trade cooperation. It indicates that EU products meet Chinese market demand, that China is an important, safe, and reliable production base for EU companies, and that it is a very resilient link in EU global supply chains. In fact, against the background of China's proposal to build a new development pattern, high-quality products "Made in Europe" are contributing to better meeting domestic demand in the Chinese market. Chinese market demand for high-quality consumer goods and mid-to-high-end industrial equipment will continue to grow, and this will provide more export opportunities for "Made in Europe." It will not only help to balance China-EU trade, but also create opportunities for the EU to create a good external demand environment as it promotes "open strategic autonomy."

Second, there is a lot of room for improved mutual investment between China and the EU. In recent years, China-EU mutual investment has grown rapidly. Although the EU's approval process for the China-EU Comprehensive Investment Agreement (CAI), which was negotiated at the end of 2020, was interrupted by the "politicization" of the European Parliament, Chinese and European companies are still working hard to develop business in each other's markets, and they have achieved gratifying results. At present, the cumulative scale of two-way investment between China and the EU exceeds US$270 billion; investment and cooperation between China and the EU are active in vaccine research and development, new energy, electric vehicles, logistics, finance, and other fields. As for EU investment in China, the *Business Confidence Survey 2021*, released by the European Union Chamber of Commerce in China, shows that nearly half of the responding companies' profits in China were higher than the global average, approximately 68% of the respondents were optimistic about their business in China in the next two years, and around 60% said that they were considering expanding their business in China. As for Chinese investment in Europe, according to the latest research report released by Ernst & Young, a total of 155 companies in the EU will be acquired by Chinese investors in 2021, with a total transaction value of about US$12.4 billion; this is 23 more cases than in 2020. The new developments described above show that EU enterprises in China generally recognize China's sincerity in promoting a high level of opening up, and that they attach importance to the vitality and potential of the Chinese market. Although the EU tends to be conservative about opening up, it still takes a more positive attitude towards Chinese investment.

Third, China and the EU have broad prospects for cooperation on the green economy and digital economy. As for the priority areas identified in their new development strategies, both China and the EU have placed the green economy and the digital economy as top priorities, and have successively issued a series of development goals and plans. In the area of green economy, China has proposed achieving peak carbon by 2030 and carbon neutrality by 2060, while the EU has proposed achieving carbon neutrality by 2050 through the European Green Deal. In the area of digital economy, China has included a special chapter, "Digital Economy," in the outline of the "14th Five-year Plan," and it has released documents such as the "Notice of the State Council on Issuing the Development Plan on the New Generation of Artificial Intelligence." The EU, meanwhile, has issued its digital development plan through a series of strategic documents including "A European Strategy for Data," "White Paper on Artificial Intelligence," and the "2030 Digital Compass." The current European Commission will also promote the green and digital "dual transformation" as a core task, stipulating that the amounts invested toward green economy and digital economy in the national recovery and resilience plans that the member states formulate must account for at least 37% and 20% of their total investments before they can apply for funding from the "Next Generation EU" Recovery Fund.

Generally speaking, in these two areas, China and the EU are highly complementary in technology, capital, market, talent, and so on; they have many common concerns in promoting the formulation of global rules and standards, and they have extensive room for cooperation. In 2021, China and the EU launched a high-level dialogue mechanism in the environment and climate as well as in digital technology. In the green economy area, China and the EU are highly complementary, and earlier cooperation projects on environmental protection and sustainable energy have achieved fruitful results. In the future, China and the EU have great potential for cooperation in the development and application of energy-saving and environmental protection technologies, industrial chain cooperation on sustainable energy, green finance, and experience-sharing on carbon emission trading mechanisms. In the longer term, both China and Europe have formulated hydrogen energy development strategies, and in the future, they may carry out joint technical research to reduce the cost of hydrogen energy production and use.

In the digital economy area, China and the EU can consider exploring the potential of the "Chinese digital technology + European manufacturing" cooperation model on the basis of existing cooperation. On the one hand, China continues to attract high-end EU manufacturing enterprises to invest in China, and it uses its advantages in digital technology to provide a high-quality software and hardware environment for EU enterprises to achieve intelligent production and online sales. On the other hand, Chinese enterprises should also actively participate in the construction of the EU's digital infrastructure and industrial Internet, as well as the development of new types of business for smart medical care and smart transportation. In the past two years, international cooperation in the digital field has become more sensitive due to political factors, and China-EU cooperation has also encountered new challenges. However, we have seen that Chinese companies such as Huawei and ZTE are still conducting extensive cooperation with local EU partners and actively participating in the EU's digital infrastructure-building. It is believed that in the future, China and the EU will explore a digital cooperation model that better suits their respective development needs.

As long as China and the EU adhere to mutual respect, treating each other as equals, seeking common ground while reserving differences, and keeping a pragmatic attitude while actively promoting the alignment of their development strategies, we can expect that they will achieve a higher level of mutual benefit and win-win results. This will also inject strong recovery momentum and vitality into the world economy when it faces a high level of uncertainty.

Translated by Thomas E. Smith