Chapter 12
The Dynamics of China’s Trade Ties After a Brexit Announcement, UK and EU

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Abstract  The biggest challenge posted by Brexit comes from the uncertain future of the British economy. As researchers suggested, Brexit will also harm the European economy by a long term dipping in an instability consequence. In 2019, the trade volume between the UK and China reached US$86.2 billion, making Britain China’s second largest trade partner in Europe, behind Germany. Brexit would undoubtedly pose challenges for the trade ties between China and UK. Analysing the dynamics of China’s trade ties with a post-Brexit UK and EU, this paper focuses on the China—UK empirical involvement to establish the ‘Golden Era’ declared by two counterparts in September 2016 and the implementations of the China—EU partnerships base on the New EU Trade and Investment Strategy. This paper will also examine if the Brexit casts a shadow on China’s prospects of economic cooperation with Britain. This paper will also cover the EU’s efforts to enhance its trade crucial role by seizing opportunities through partnerships with China, which leads to foster the engagements of the new issues concerning the China-led ‘Silk Road Economic Belt’ initiative. And the decision in late January 2020 of both the EU and UK be willing to accept China’s 5G telecommunications company, Huawei, which the USA described as an arm of the Chinese state giving its security design. Nevertheless, to echo US’s accusation, UK announced in July that the UK’s mobile providers are being banned from buying new Huawei 5G equipment after 31 December 2020.

Index Terms  Post-brexit · China’s trade ties · UK · EU

1 Introduction

The biggest challenge posed by Brexit comes from the uncertain future of the British economy. If the world’s fifth largest economy goes into recession as a result of the Brexit process, the ramifications for the world economy will be significant, casting a shadow on China’s prospects of economic cooperation with Britain. Originally,

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Brexit means that the UK will leave the EU bloc, a unified single market. This will raise UK’s import tariffs and the price of exports to the EU, and increase non-tariff barriers for trade between the UK and EU member states, thus raising trade commodity prices and dealing a heavy blow to Britain’s international trade. Given the high economic interdependence of Britain and the EU, the two sides need to exercise prudence in future negotiations on issues related to market treatment.

In 2015, the trade volume between the UK and China reached US$78.5 billion, following the referendum held in June 2016, when 17.4 million people opted for Brexit, the trade volume between the UK and China reached US$86.2 billion in 2019, continuously making Britain China’s second largest trade partner in Europe, behind Germany. Brexit would undoubtedly pose challenges for the Trade Ties between China and UK. The UK formally left the EU on 31 January 2020, but there is still a lot to talk about and months of negotiation to come. If a new trade tie between UK and EU cannot be agreed in time, which already been tested as being quite possible, given that the Covid-19 outbreak has postponed the negotiation, then the UK faces the prospect of having to trade with no deal in place. That would mean tariffs (taxes) on UK goods travelling to the EU and other trade barriers. From a UK perspective, it is crucial that the trade tie with China be further enhanced to reduce the impact of Brexit.

The EU is China’s biggest trading partner, while China is the EU’s second-biggest trading partner behind the USA. Based on clearly defined interests and principles, the EU should deepen its engagement with China to promote common interests at a global level. The EU and China launched negotiations on the CAI (EU-China Comprehensive Agreement on Investment, CAI) in 2014. The European Commission conducted an impact assessment in 2013. A Sustainability Impact Assessment was carried out between 2015 and 2018 to assess the potential economic, social and environmental impacts of the agreement. With the EU-China (CAI), the EU seeks to create new investment opportunities for European companies by opening China’s market and eliminating discriminatory laws and practices that prevent them from competing in the Chinese market on an equal basis with Chinese companies and companies from other third countries. The EU’s key objective is to significantly improve EU investors’ access to the Chinese market, in particular by eliminating quantitative restrictions, equity caps or joint venture requirements. According to the ‘EU-China: A Strategic Outlook’, signed after the EU-China summit in Brussels on April 9 2019, EU and China agreed to strengthen their trade relationship, cooperate on WTO reform, widen market access, and not force businesses to hand over their intellectual property—the last a longstanding complaint of foreign investors in China. Nevertheless, the challenges for both sides to achieve the consensus towards the conclusion of an ambitious agreement in 2020 are still rigorous.

1Source: European Commission, News archive, 27 April 2020.
2Source: Eu (2019).


2 Dynamics of China’s Trade Tie with a Brexit Announcement, UK

The notion of a Golden Era in UK–China relations was originated by the government under former Prime Minister David Cameron, to promote Chinese President Xi Jinping’ UK visit in 2015. The two countries were to form a ‘global comprehensive strategic partnership’, with the UK representing China’s ‘best partner in the West’. In December 2017, at the time of the ninth EFD(UK–China Economic and Financial Dialogue), the British government announced a ‘new phase’ in its so-called Golden Era of relations with China, with agreements to cooperate more closely in such arenas as financial services, trade, and investment.³

Brexit has obviously drastically changed the picture of Golden Era. China established its first overseas sovereign RMB bond in London, viewing the UK as a gateway to the EU market. Unexpectedly, after a Brexit announcement of UK, the decoupling of the EU–UK in trade policy generated potential closer trade ties with China in a post-Brexit UK. Just days after the 2016 referendum, the Brexit secretary, David Davis, declared that ‘trade deals with the US and China alone will give UK a trade area almost twice the size of the EU’.⁴ However, The UK is scanty of obvious sector that China sees as of compelling benefit to its own interests, so an ambitious deal is unlikely to be agreed speedy.

In terms of the UK’s relative performance at attracting Chinese investment, the UK appears to perform well when compared to its EU partners. The Rhodium Group reports that over the years 2003–2011, the UK has received the second-most amount of Chinese FDI out of the EU27 (in terms of the total dollar value of investment deals recorded), behind only France. The well-known Britain’s unclear plant Hinkley Point C project, notably the first new nuclear plant, is 33.5% financed by China CGN (China General Nuclear Power Corp). Furthermore, The first Chinese-designed atomic reactor scheduled to be build in Britain has passed three out of four assessment stages of the unclear green light of Britain’s Nuclear Regulation office in February, 2020.⁵ The approval of energy sector from UK hints a policy keen to China. This approach from UK has even allowed Huawei a supporting role in Britain’s fledgling 5G infrastructure. Without concerning the contradictions in five Eye’s alliance which would evoke the wrath of Donald Trump, the British government approved a restricted role for Huawei in building the country’s 5G network announced on January 28, 2020. The constraints imposed by the political reality, UK annonced in July that the UK’s mobile providers are being banned from buying new Huawei 5G equipment after 31 December 2020.

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³Source: Turner (2018).
⁴Source: Mitter (2020).
⁵Source: Reuters (2020).
The COVID-19 crisis, however, may prove to be a turning point for the UK’s political rebalancing act between USA and China. The development of lockdown restrictions, with an unprecedented health emergency, pushes London’s desire to accommodate Beijing’s market power to the breaking point. However, as this confrontational approach is met by hawkish retorts to simply amount to a war of words, the UK would not afford to jeopardize its two important market in China and the USA.\(^6\)

3 Dynamics of China’s Trade Tie with a Brexit Announcement EU

3.1 The EU–China Comprehensive Strategic Partnership

The EU’s China strategy is based on a belief that China, under the influence of European engagement, will liberalize its economy toward the direction of sustainable growth, improve the rule of law and democratize its politics. The EU–China Strategic Partnership, based on the 1985 trade and cooperation agreement, has grown to include a multitude of activities in areas such as creating opportunities for both sides’ businesses, international security, environment protection, and academic exchange. After three decades of extraordinary economic development, China is shifting to a slower and more sustainable growth path. From the EU’s perspective, the priority is to seize the opportunities through the partnerships with China who commits to a more sustainable growth in which to foster a clean industry and reduce emission. China sees Europe as a source of technology, lifestyle goods like fashion garments, wine, cheese, and olive oil for its rising middle class and a market for its high-end products.

3.2 The EU’s Engagement with China’s ‘Belt and Road’ Initiative

At the beginning of China’s ‘Belt and Road’ initiative, the EU originally took advantage of the situation in November 2014 to propose a scale of 315 billion euros in infrastructure investment plan (Juncker Plan) to connect with China’s ‘Belt and Road’ (the Executive Committee launched the Eurasian platform in late 2015), and has also launched the Trans-European Transportation Network (TEN-T) policy. Moreover, EU’s acting members like Germany, France and Italy have joined the membership of the Asian Infrastructure Investment Bank (AIIB).

However, as China’s ‘Belt and Road’ process has caused a lot of controversy, and the USA has proposed the ‘Indo-Pacific Strategy’ to counter China’s ‘Belt and Road’, and has repeatedly appealed and questioned in the international arena that China will

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\(^6\)Source: Gray (2020).
use the ‘Belt and Road’ Investment, allowing the landlord’s debt to rise, leading to doubts such as the transfer of sovereignty to China, has also raised criticism within the EU, mainly focusing on the lack of transparency in the public procurement process that criticizes China’s ‘Belt and Road’ investment, and the government’s support for companies behind it, which causes unfair competition M & A in technology-sensitive sectors. In addition, China is planning to lay a 350-km high-speed railway between Greece and Central Europe in the ‘Belt and Road’ project connecting Europe and Asia, connecting Serbia and the capital of Hungary, and benefiting Chinese companies to trade directly with Europe. The EU obstructed the case, accusing Hungary of violating the EU’s exclusive powers on the common trade policy and the EU’s rules on national procurement.

3.3 The EU’s Greenlight to Huawei 5G

In 2020, it will move beyond strategic tech sectors like semiconductors, cloud computing, and 5G into broader economic activity. Aiming to participate the trend of 5G, in which affect not just the $5 trillion global tech sector, but other industries and institutions, EU gave its greenlight to Huawei following the approval of UK. Before the approval announcement, EU member states have different practices in terms of joining the USA in blocking Huawei’s infrastructure, giving the move could benefit the States in its trade bargain with China. Considering Huawei is already the largest global provider of telecoms equipment and the company is gearing up to roll out 5G network infrastructure across the globe, certain EU member states hesitate in blocking Huawei’s infrastructure. According to the EU Commission decision on March 26, 2019, EU member states will be required to share data on 5G cybersecurity risks and produce measures to tackle them by the end of 2019. Austria, Belgium, Czech Republic, France, Germany, Greece, Hungary, Ireland, the Netherlands, Lithuania and Portugal are all preparing to auction 5G licenses in 2020.

Globally, Huawei is a leading 5G technology vendor, enjoying an edge over Sweden’s Ericsson and Finland’s Nokia in offering high-tech, low-cost gears to telecommunications operators such as Vodafone. Huawei has decided to set up manufacturing bases of 5G equipment in Europe, in order to have 5G for Europe made in Europe announced in the early February, 2020.

4 Conclusion in Trade Tendency

The EU’s retaining too many of its former favourable terms with Britain would likely fuel Euroscepticism. Being overly stringent with the UK, however, will harm the European economy, which is still struggling to recover. Therefore, the two sides should seek a way to gain maximum benefits for both sides.
Brexit will nevertheless inhibit the UK’s access to gains by virtue of the unified EU market. Whatever the proposed plans, investors’ confidence in the prospects for the UK economy has been shaken, exerting negative impact on economic development. Britain has still not put forward any plan for discussion. Uncertainty will be a big feature of the Brexit process over the next few years. Currently, China–UK trade considers competitive lower trade volume, so Britain’s economic recession will not hugely affect China’s economy. However, the impact of Brexit uncertainty on the recovery of the world economy will definitely influence China’s economy under the ‘new normal’.

Confronting the crisis of the Covid-19, global growth will turn sharply negative in 2020, as *World Economic Outlook* predicted. In fact, we anticipate the worst economic fallout since the Great Depression. Given the necessary containment measures to slow the spread of the virus, the world economy is taking a substantial hit.

Brexit will also likely deal a heavy blow to the British financial industry, as financial institutions in London face the risk of losing service permits from the other 27 EU member states. In addition, according to EU financial regulations, if a financial institution set up in the UK is regarded as a third party when entering the EU market, it must satisfy all supervision requirements set by its home country—Britain—as well as the EU country, which will significantly hike supervision costs. In the post-Brexit era, whether the European Central Bank will allow London to be a euro trading centre remains to be seen. London’s position as a financial centre, therefore, could be seriously impaired. All these factors cast gloom on the prospects of China–UK financial cooperation.

Aiming at interests from bilateral relations with UK, keeping bilateral relations with Britain ‘golden’ is both economically and politically important for China. From China’s perspective, as UK depending more and more in China in the future, this will present a new opportunity for trade. Furthermore, China sees the UK as a political partner and a leading voice for granting China market economy status.

As a country with the world’s largest population and fastest-growing consumer market due to increasing disposable income, China represents a key market for British exports. Trade volume has been rising at a steady pace, if there is a trade agreement reached between the two countries in the future, this growth is sure to continue.

The UK exports a myriad of products to China, representing a cross-section of British industry and services. Looking at trade in goods only, the UK exported £18.0 billion to China in 2018, a record high, up from £17.4 billion in 2017. UK imports of goods from China were £43.0 billion, up slightly from 2017, resulting in a trade deficit of -£25.0 billion in trade in goods. The UK had a surplus of £2.9 billion on trade in services with China in 2018, exporting a record high of £4.6 billion of services and importing £1.7 billion. The UK has now recorded an overall trade deficit with China every year.\(^7\) The UK’s share of the Chinese market has fallen, and the reason the UK underperforms in regards to export performance in China is that its more

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\(^7\)Source: Statistics on UK trade with China. House of Commons library, Number 7379, 5 November 2019.
successful exports are not in line with China’s current demand. Other EU countries have stronger trade relationships with China, and competition in the Chinese market is very tough.

The sectors that provide the greatest income include machinery, fuels, metals, transportation services, business services, and travel services. However, the volume of UK exports to China is not exactly aligned with the rate of China’s market growth. As China’s economy transitions from heavy manufacturing to a service-driven economy, the balance of demand across the varying industries will shift. With services coming to the forefront of demand, the UK’s greatest goods exports in terms of value to China (such as machinery, electronic products, precision instruments, and metals) will be less in demand. These shifts in China’s calibration should be monitored by UK-based businesses in order to align offerings with China’s demands, especially as the UK already excels in its service sector.

With the EU-China (CAI), the EU seeks to create new investment opportunities for European companies by opening China’s market and eliminating discriminatory laws and practices that prevent them from competing in the Chinese market on an equal basis with Chinese companies. The engagement of EU-China (CAI) would be weighted more crucial after Covid-19 crisis.

Overall, the technical debate over securing 5G networks centres on claims the security from USA. However, a commentary from the technical director of the UK’s National Cyber Security Centre (NCSC) describes this proposition as ‘untrue’. He asserts the continued feasibility in 5G of separating high-risk vendors from sensitive data and functions despite the blockaded policy fixed in Trump ministration. Nevertheless, China’s One Road One Belt initiative would be the target to criticize from both USA and EU.

In conclusion, for both the EU and UK, an ambitious engagement trade tie with China would be the main theme to generate an ‘uptick’ for the following years as China looks to further widely open in response to the trade negotiations with the USA. China’s trade ties after a Brexit announcement UK and EU would be tighten in line with launching up to more international investment by China.

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