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EU Eastern Enlargement: Opportunities and Challenges for China's Trade

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CONTENT

1. Introduction

This paper aims at understanding how the enlargement of the EU brings opportunities and challenges to trade relations between the EU and China, and at giving advice to Chinese enterprises to better develop in the EU market, thereby promoting trade between China and the EU. Although the enlargement of the EU is an internal change in the European area, it influences not only the EU members, but also non-EU countries, including China. With this in mind, the paper raises the following questions:

- What are the changes that occurred within the EU due to its enlargement?
- What are the changes it brought for the trade relationship between the EU and China?
- What are the factors that influence the economic and trade relationship between the enlarged EU and China?
- Are these factors opportunities or challenges for China?
- What should China (especially Chinese corporations) do under the new initiatives and rules of the EU27[1]?

Based on the theories of trade creation, trade diversion and national income transfer, this paper argues that, because of the enlargement, the EU has been changed. On the one hand, because of the enlargement, the old and new EU members are in a customs union, thereby reducing trade and investment barriers between the EU15[2] and new members. Each EU member is differently influenced by the trade creation, trade diversion and welfare effects**.** On the other hand, the new members, like fresh blood, have been injected in to the EU economy, and are helpful to the revival of the EU economy.

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[1] EU-27 is the 27 countries of the new European Union after 1 January 2007, which includes Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, United Kingdom.

[2] EU-15 is the 15 countries of the original European Union, which includes Belgium, Denmark, Germany, Ireland, Greece, Spain, France, Italy, Luxembourg, Netherlands, Austria, Portugal, Finland, Sweden, United Kingdom.

It will also be argued that the changes not only influence the EU members, but also the non-EU countries, like China. The trade relationship between the EU and China, influenced by the enlargement, has changed. The opportunities for the Sino-EU trade, for example, the EU market is expanded and the demand of import is also increased; the new member states' tariff is down to the EU common external tariff; and the new members are more attractive for China's FDI. The challenges, like the eastern expansion of non-tariff barriers to the new member countries; the high substitutability of Chinese products; and the revival of the EU trade protectionism.

In order to further develop the Sino-EU trade, the factors, which block the development of the Sino-EU, should be avoided by Chinese corporations. Some of the results of this paper may help these corporations get some valuable sense about how to gain access to and develop in the EU market better, thereby contributing to the Sino-EU trade.

The paper is divided into eight parts: after the introduction and the overview of the relevant theories, the paper presents the changes of inside the EU27 countries and China's trade development, followed by the changes between the Sino-EU15 and the Sino-EU27 trade. The analysis of positive and negative influences caused by changes follows along with advice for Chinese corporations to better develop in the EU market. This is followed by a conclusion.

2. Brief review of theory

In order to better understand the influence caused by EU enlargement for intra-EU and the Sino-EU trade, some theories should be explained before the analysis. The theories and concepts to be discussed are customs union, free trade area, WTO rules, trade creation and trade diversion theory, and national income transfer theory.

2.1 Customs union versus free trade agreement (FTA)

Customs union and free trade agreement are regional economic forms within a certain range of cooperation on customs. The scope and extents of customs co-operation are different between customs union and FTA.

Customs union is a type of trade bloc which is composed of a free trade area with a common external tariff (CET). It means in a customs union, all trades between members are duty free, but non-member countries will be imposed common external tariff. In additional, the member countries set up common external trade policy for non-member countries, such as commercial diplomacy (tariffs, quotas), agricultural policy (seasonal tariffs), competition policy (anti-dumping duty), etc.

In a FTA, member countries mutually reduce or exempt import tariffs, but for non-member countries' goods are taxed according to their provisions. There is no common foreign trade policy and common external tariff. According to their specific situation to non-member countries, each member determines their own trade policies and tariff rates. This is clearly, compared to a FTA, customs union members have more obligations for the organization.

2.2 WTO rules

The World Trade Organization (WTO) is an international organization, which replaced the General Agreement on Tariffs and Trade (GATT), and commenced in 1947. The organization was formally started on 1st of January 1995, according to the Marrakech Agreement. The purpose is to supervise and liberalize international trade.

The Article 24 of GATT's specifically allows preferential liberalization, subject to a few restrictions. The most important of which are:

- Free trade agreement and customs unions must completely eliminate tariffs on substantially all the trade among members.

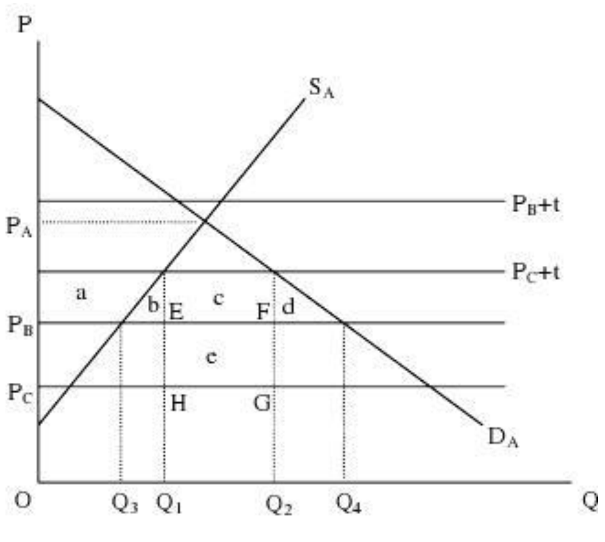
■ The phase-out of tariffs must take place within a reasonable period. Although there are no hard definitions, substantially all trade is usually taken to mean at 80 per cent of all goods and a reasonable period is taken to be 10 years or less.

■ For a customs union, there is the additional requirement that the CET shall not on the whole be higher or more restrictive than before the customs union. That is, when forming the customs union, the members cannot harmonize the CET to the highest level of any member. In the case of the EEC’s customs union formation, external tariff harmonization generally involved a reduction in French and Italian tariffs, a rise in Benelux tariffs and little change in the German tariffs.

2.3 The theory of trade creation and trade diversion

Trade creation and trade diversion theory is advanced by Viner, a Canadian economist, and analyzes the effects of customs union[3]. The theoretical framework is as follows:

Figure 2.1: ***Effect of trade creation and trade diversion under the customs union theory***



Assume there are three countries A, B, C. The three countries produce the same product Country A has the highest cost of production. Country B follows country A. Country C has the

3 Baldwin R. & Wyplosz C. *The economics of European integration* (2004), p.123-146

lowest cost. Assume country A is the importer. In Figure 2.1, curves S_A and D_A are country A's supply curve and demand curve. P_B represents the cost of country B's products, P_C represents the cost of country C's products, and the costs are fixed. When there is no alliance, the tariff of country A is t. The price of B's product selling in country A is $P_B + t$, while the price of C's product is $P_C + t$. Because P_C is lower than P_B, country A imports from country C. The domestic price of this product in country A is $P_C + t$. A's production is OQ_1. A's consumption is OQ_2. The import volume from country C is Q_1Q_2.

Assume that country A and B form a customs union and eliminate tariffs between each other. They use the same tariff ***t*** for foreign partners. As the figure shows, in country A, the price of country B's product is P_B, which is lower than P_C + t, so country A imports from country B. At the same time, due to the reduction of the prices, country A's production is down to OQ_3. Q_3Q_1 is the part of A's production that has been replaced by B's production. It is the production effect. On the other hand, because of the lower price, A's consumption is increased from OQ_2 to OQ_4. Q_2Q_4 is the net increase, which is the consumption. Since country A and B are in a customs union, the import volume of country A is increased from Q_1Q_2 to Q_3Q_4. The increased volume is the trade creation effect. As the figure shows, trade creation effect=production effect + consumption effect= Q_3Q_1 + Q_2Q_4. Q_1Q_2 is A's import volume from country C, now replaced by country B, which represents the trade diversion effect.

As shown, the consumer surplus increases (a + b + c + d), producer surplus reduces a. In addition, because country A imports from the member-partner country B, the tariff revenue (c + e) (e is the area of rectangle EFGH) from country C disappears. To summarize:

- ✧ The customs union for country A's net welfare effect = (a + b + c + d) - a - (c + e) = (b + d) - e.
- ✧ The welfare effects of trade creation is (b + d), in which *b* indicates the improvement of the efficiency of resource allocation, which led by the low-cost production within the

alliance (country B) replacing the high cost of domestic production. And *d* represents the net increase of consumer welfare, which caused by the effect on prices of the abolition of tariffs on imports within the alliance, encouraging the expansion of domestic consumption.

✧ The welfare effects of trade diversion is represented by *e*. Trade diversion means the high cost production within the alliance replaces the original low-cost production from outside of the union. This substitution causes the distortions in resource allocation. So trade diversion adversely affected country A's welfare.

In this way, a customs union's impact on country A's welfare can be expressed as the net impact of the welfare effects of trade creation minus the welfare effects of trade diversion. Is it beneficial for country A to join the Customs Union? It depends on if the welfare effects of trade creation can offset the welfare effects of trade diversion.

The above considerations are the effect of the customs union on country A's welfare. The effects on country B and C are as follows: For country B, since the formation of the customs union, its exports and production have increased. So it is beneficial for country B. Before country A and B formed a customs union, country C was the supplier of country A. However, now due to trade diversion, C's exports have declined. The decline of the scale of trade will cause a reduction in the country C's welfare.

Based on the above discussion, we can determine the welfare effects of a customs union by the following factors:

- The greater the flexibility of country A's supply and demand, the more obvious the welfare effects of trade creation. In the diagram, if country A's supply curve and demand curve are flatter, the area of b, d is bigger.

- Before the customs union is formed, the higher the level of country A's tariff, the greater the welfare effects of trade creation after the union is formed. The welfare effect of trade diversion is less.

- The closer the costs of country B and C, the less welfare losses due to trade diversion.

Therefore, so-called trade creation refers to the removal of tariff and non-tariff barriers between member states bringing about an increased volume of trade. If a customs union forms, higher-cost products will be replaced by lower-cost products. The demand for imports increases, so trade has been ‘created’. It could lead to rationalization in resource allocation, and welfare may increase. So-called trade diversion refers to the changed direction of the members’ trade. The membership country that formerly imported cheaper products from non-membership countries now turns to buy the products from membership countries with a higher price. As a result of the customs union practicing unified tariffs, the direction of trade has been transferred. Discrimination against the third country leads to reduced imports from the outside and turns to imports from partner countries. The former trade is ‘transferred’, This effect could lead to distortions in resource allocation, and welfare decline.

2.4 National income transfer theory

In Keynes's identity in the national income, $Y = C + I + G + XM$, $C = C_0 + cY$, $M = M_0 + mY$, where C_0 and M_0, respectively stand for spontaneous self-consumption and imports; c, and m respectively stand for the marginal propensity to consume and the marginal propensity to import, then

$Y = C_0 + cY + I + G + X - M_0 - mY$, finishing was

$Y = 1 / (1 - c + m) \times (C_0 + I + G + X - M_0)$, $1 / (1 - c + m)$ is trade multiplier, so a unit of exports, then the national income to increase $1 / (1 - c + m)$ units. Assume that country A and

B constitute a customs union between the two countries. If country A's export increases one unit, then the national income increases 1 / (1 - c + m) units, in the role of the marginal propensity to import, the imports increase m / (1 - c + m) units. Because there is no tariff between country A and county B, the large part of country A's increased imports must point to trade with country B. Under the effect of the multiplier, country B increased revenues, and through the marginal propensity to import reaction in country A. The process as mentioned above, country A's export increase would begin on a transfer process, this time the effect of increase in income will be less than the first round, the process continues in cycles until the effect of increasing in income is zero. Eventually the sum of the two countries to increase national income is greater than the sum of the two countries to increase export volume, therefore to achieve the goal through establishing a customs union to inject new vitality into the economy and stimulate economic growth. The conduction effect of the national income can be played very well in the members of customs union.

3. The significance of the changes after EU enlargement

The significance of EU enlargement, on the one hand, is the changes in population and geography, and on the other hand (and more importantly), is the change in economic scope. The total GDP of the EU27 is increased year by year. The individual tariffs of the new EU members are down to the EU common tariff level; so intra-EU trade and investment are increased, thereby benefiting the development of these countries.

As the wheel of EU integration is in constant motion, on May 1st 2004, ten Central and Eastern European countries became new EU member states (including Cyprus, Hungary, the Czech Republic, Estonia, Lithuania, Poland, Latvia, Malta, Slovakia, and Slovenia). After Bulgaria and Romania joined the European Union on January 1st 2007, the EU completed its sixth enlargement. Since 2007, the EU27, instead of the EU15, has formed the European

Union on the international stage.

Although the EU has experienced expansion several times in its history, this eastward expansion is unusual. First, this is the largest expansion in its history. The enlarged EU includes 27 countries in Western, Central and Eastern Europe, covering 4.3 million square kilometers and has 495 million inhabitants. It is the third largest population in the world. The value of the GDP (Gross Domestic Product) of the enlarged EU is nearly 10 trillion Euros, and the PPS (Purchasing Power Standard) is 24700 Euros in 2007[4].

Second, because of the enlargement, the EU has been injected with new vitality, which should be helpful to the EU economy in recovering from the recession. As Table 3.1 shows: in 2004 the value of EU GDP grew from 1.3% in 2003, to 2.5% in 2004. In 2005, GDP stayed at 2.0%. In 2006 the EU25[5] countries' GDP grew to 3.2%. Since the expansion of the EU in 2004, the GDP has increased, and the growth rate is at least 2% over the previous year.

Table 3.1: Real GDP Growth Rate*

Geo\Year	2003	2004	2005	2006	2007
EU-27	1.3	2.5	2.0	3.2	2.9
EU-25	1.3	2.5	2.0	3.2	2.8

*Growth rate of GDP volume - percentage change on previous year
Source: Eurostat http://epp.eurostat.ec.europa.eu

Third, the EU's eastern enlargement included a series of new economic policies. These policies were intended mainly to eliminate the import tariffs and quantitative restrictions between the European Union and the new member states (including the agricultural sector), therefore achieving the free movement of goods, services, capital and persons.

EU enlargement is an ambitious economic event. In this expansion, the EU targeted

[4] Data from official website of the EU see http://europa.eu/abc/keyfigures/index_en.htm
[5] EU 25 include the 25 countries of the new European Union after 1 May 2004, which includes Belgium, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland, Sweden, and the United Kingdom.

Central and Eastern European countries in transition. Compared to the original EU members, these countries are different in ideology, values, political systems, level of economic development and so on. As the description of the trade creation theory stated, since the twelve Central and Eastern European countries joined the EU, and since the EU members are in the common market and many in the Economic and Monetary Union, the trade barriers between the EU15 and the new members are reduced. The EU gradually abolished the former import restrictions on textiles, clothing, steel, coal and agricultural products, and other 'sensitive products'.

Table 3.2: Intra-EU trade, by Member State, total product

Geo\Year	2003	2004	2005	2006	2007
EU-27	1914.49	2071.76	2214.98	2496.31	2653.62
EU-25	1898.53	2052.65	2193.84	2471.01	2624.13
Change rate compare with the previous year		0.081179	0.068784	0.12634	0.063017

Source: Eurostat http://epp.eurostat.ec.europa.eu (exports in 1000 million of euro)

Looking at the EU's intra-regional trade (Table 3.2), the EU25's internal export trade volumes reached 2052.65 billion Euros in 2004; which compared with 2003, is an increase of 8.1%, accounting for 67.4% of total exports in the same year. In 2005, a further increase to 2193.84 billon Euros, compared to 2004, is growth of 6.87%. In 2006, the amount is a breakthrough of 2471.01 billion Euros, compared to 2005, is growth of 12%. In 2007 two more new members step in, and the amount reached 2653.62 billion Euros. The result of the analysis of Table 3.1 and 3.2 is, since the new members joined the EU, following the increased GDP growth rate, the amount of intra-EU trade has also increased.

Since the new member states joined in the EU, the elimination of tariffs within the EU and new member states has led to a larger context of the effective allocation of resources resulting in the trade creation effect, which is particularly evident in the new member states whose original allocation of resources and market were not rational. According to the continuous expansion of the European Union, its economic vitality increasingly getting stronger, the overall economic development of the EU members has significantly increased. The trade creation effect is caused by the customs union. Because of this, the allocation of resources is more rational in the whole EU, and the size of the EU trade in the region is greatly expanded, thus promoting economic growth.

Based on Viner's 'trade diversion effect' that was mentioned in section 2, we understand that free trade is implemented within the customs union, so the higher cost of domestic production will be produced in a member country whose production cost is lower. Thus, new trade has been 'created' between the member countries. And the mutual trade between member countries is replaced by the trade between member countries and non-member countries. The imports are 'transferred' from the non-member countries with lower cost to the member countries with higher cost. According to this theoretical analysis, after the EU's eastern enlargement, due to the lower labor costs of the new member states, goods from the EU member states will likely replace third-party goods. This is beneficial to the EU new member states to accelerate industrial restructuring, to expand foreign trade, to create jobs, to increase income, and to improve the level of technology and so on.

The EU's eastern enlargement is different from those in the past. This enlargement has absorbed many developing countries. There is a big disparity of economic level between the original 15 EU member states and the new members, with relatively low levels of domestic consumers, labor costs and productivity. The per capita GDP in the new member states is only about one-third of the original EU member states (EU15). But according to the empirical evidence, after the EU12 joined the EU, capital from the old members flowed towards the new member countries (Breuss, Fink & Haiss. 2004). Poor countries joining the EU experienced a subsequent increase in capital inflows (Baldwin.R.1997; Breuss, Egger and

Pfaffermayr. 2002). Moreover, the more backwards a country was when it joined the EU, the larger the capital inflows would be received (Grabbe,H. 2001).

After these new members joined the EU, the EU was bound to provide a lot of labor, material and financial resources for them, in order to improve the investment climate, political structure and public order in these countries. On the one hand, the EU implemented the original economic support plans to the new member states: the 'PHARE'[6], 'SAPARD'[7], and 'ISPA'[8]. On the other hand, it has increased the capital investment in these countries, through the 'Cohesion Fund'[9], 'Solidarity Fund'[10] and other financial allocation programs to aid them. For example, in 2005, the EU paid 1.8 billion Euros to the 10 new members, the same as 0.3% of the 10 country's GDP in the same year. From 2004 to 2006, the EU provided financial assistance to the new member states up to 40.2 billion Euros to help these countries' development[11].

According to Kregel, Matzner, Grabbe(1992) and King(2002), the accession of the new member states brought about several policies in order to accelerate their economic development; and take the initiative in attracting foreign investment(Hull and Teasar 2001),

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[6] PHARE: The Programme of Community aid to the countries of Central and Eastern Europe (Phare) is the main financial instrument of the pre-accession strategy for the Central and Eastern European countries (CEECs) which have applied for membership of the European Union. with a budget of over EUR 10 billion for the period 2000-2006 (about 1.5 billion per year).

[7] SAPARD: Special Accession Programme for Agriculture & Rural Development
aims to support the efforts made by the Central and Eastern European applicant countries in the pre-accession period as they prepare for their participation in the common agricultural policy and the single market. It involves two major objectives. Firstly, to contribute to the implementation of the acquis; secondly, to solve priority and specific problems in the area of agriculture and rural development. The overall budget in each year of the programme's seven-year run (2000-06) amounts to 529 million Euro.

[8] ISPA: Instrument for Structural Policies for Pre-Accession. Has a budget of € 452 million for Bulgaria and Romania in 2004. (Until 2003 the overall annual budget for the 10 countries of Central and Eastern Europe was € 1.1 Billion.)For the countries that are Member States since May 2004, projects previously financed under ISPA are still under the responsibility of DG Regional Policy as part of its Cohesion Fund policy. For the period 2000-2006, EUR 1 040 million a year (at 1999 prices) has been made available for this instrument. Assistance amounted to EUR 7 billion for an investment value of over EUR 11.6 billion (current prices).

[9] Cohesion Fund: The Cohesion Fund is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90% of the Community average. It serves to reduce their economic and social shortfall, as well as to stabilize their economy. It supports actions in the framework of the Convergence objective. It is now subject to the same rules of programming, management and monitoring as the ESF and the ERDF.

[10] Solidarity Fund: The European Union Solidarity Fund (EUSF) was set up to respond to natural disasters and express European solidarity to disaster-stricken regions. The Fund was created as a reaction to the severe floods in Central Europe in the summer of 2002. Six years later, it has been used for 26 disasters covering a range of different catastrophic events including floods, forest fires, an earthquake, a volcanic eruption, storms and drought. 20 different European countries have been supported so far for an amount of more than 1.5 billion euros.

[11] Data come from European Commission-Trade http://ec.europa.eu/trade/

use structural funds and their own advantage (lower trade and production costs, large number of highly-skilled, low price but high-quality labor, and their convenient location). All of this has greatly enhanced their attractiveness to foreign direct investment. As the example of Poland, the Czech Republic and Hungary (shown in Table 3.3), their inflows of foreign investment have improved greatly from 2003 to 2008. Poland especially attracted a large amount of foreign investment, reaching 17.242 billion Euros in 2007.

Table 3.3 The amount of foreign investment

Country/Year	2003	2004	2005	2006	2007	2008
Poland	4.067	10.237	8.33	15.741	17.242	9.971
Czech Republic	1.845	3.845	9.424	4.322	7.558	7.483
Hungary	2.182	3.45	5	5.082	4.049	3.5

Source: Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Czech Republic, Poland and Hungary. (in 1000 million of euro)

Absorbing the Central and Eastern European countries is one of the important factors for the EU to enhance its competitiveness in the international economy. The EU15 can take advantage of the fully open market when investing in these new member states. Therefore, the developed EUl5 countries are happily taking advantage of this opportunity. They want to turn the new member states into their base of manufacturing production, in order to reduce the imports from outside of the EU. Table 3.4 shows that, between 2004 and 2007, the direct investment of the original EU15 countries towards other EU members rose to 602,224 from 175,021 billion Euros. For example, in 2008 Poland attracted foreign investment totaling 9.971 billion Euros, 9.083 billion Euros of which came from intra-EU investment, accounting for 91.1%.

Table 3.4 Direct investment inward flows by EU (15 countries) investing

Geo\Year	2004	2005	2006	2007
EU27	175021	442589	479049	602224

Source: Eurostat. http://epp.eurostat.ec.europa.eu (in million of Euro)

Western European countries consider the new member countries as a manufacturing base, where they have invested and built factories. For example Germany's Volkswagen, Audi and Opel motors have invested and built factories in the Czech Republic, Hungary and Poland. French Citroen invested over 1 billion Euros in Slovakia to build a factory.

After the success of the European Union's sixth enlargement, the changes of the EU are not only in its internal economy, but also in the relationship between the EU and other countries, especially China. It is mainly these changes to EU-China trade development, referring to the scale, scope, form, difficulties and potential developing possibilities, which is of concern for EU-China investors. Before the section of the Sino-EU trade development, it is better to have the Chinese trade development in mind.

4. Overview of China's development of international trade

In 1978, China began to implement its reform and opening up policy. This policy included the areas of economic structure, foreign trade, institutional reforms and policy reforms. In over 30 years of reform and opening up, China has successfully transformed from an almost completely closed economy to an open economy. It has fully integrated into the world economy and become an active participant in the global market. Its rank in world trade has also climbed up from number 32 in 1978 to the third largest trading nation and the largest exporter in the world. The total of imports and exports increased from 20.64 billion USD in 1978 to 2.17373 trillion USD in 2007, an increase of 104 times. Within that, the amount of exports increased from 97.5 billion USD to 1.21778 trillion USD; and imports increased from

10.89 billion USD to 955.95 billion USD. Except for in 1993, China's foreign trade has maintained a rising trade surplus since 1990, and the amount reached 262.2 billion USD in 2007. At the same time, China has become the country with the fastest growing economy in the world. Between 1978 and 2007, China's average annual economic growth rate reached 9.8%, and the average annual growth rate of China's total foreign trade reached 17.4%[12]. In December 2001, China acceded to the WTO, the former regional openness transformed into all-around openness. The composition of China's foreign trade has undergone great changes. The composition both of exports and imports has undergone a rapid transformation from primary products to manufactured products. China's reform and opening up policy has attracted a large number of foreign investments to China. The factors of China's low-cost labor, good infrastructure, rapid economic growth, huge domestic market and encouraging foreign investment policy have been important advantages in attracting foreign investment.

The composition of export products has changed. Exports transformed from being dominated by primary products to being dominated by manufactured products, from textile and other labor-intensive products into electromechanical- capital- and high-technology-intensive products. The industrial products developed rapidly. The proportion of these exports increased from less than 50% in 1980 to up to 94.9% in 2007. Mechanical and electrical products have replaced the textile products to become the main component in exports. Since 2003, electromechanical products accounted for more than 50% of manufactured export products. Since the mid-90's, the export of high-tech products increased rapidly; the proportion is nearly 30% now. In addition, the proportion of processing trade in imports and exports has continually increased. The total imports and exports rose from 25 billion USD in 1978 to 986.05 billion USD in 2007, of which exports accounted for 617.65 billion USD and imports accounted for 368.4 billion USD[13]. In the composition of

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[12] China Statistical Yearbook 2008 http://www.stats.gov.cn/tjsj/ndsj/2008/indexch.htm

[13] China Statistical Yearbook 2008 http://www.stats.gov.cn/tjsj/ndsj/2008/indexch.htm

import products, resources and basic raw materials such as primary products have expanded significantly. Moreover, mechanical- electrical-products and hi-tech products have grown quickly. Due to the rapid development of processing trade, changes in the composition of China's imports and exports are basically a consistent trend.

Since the reform and opening up began, China's rapid economic development and the rapid growth of China's foreign trade have been inextricably linked. The core content of China's reform and opening up policy is attracting and utilizing foreign investment. To guide the direction of the market into domestic economic reform and foreign trade system reform, China's economy embarked on export-oriented economic development. The measures of China's trade liberalization include:

1) Initiatively reduce import barriers and tariffs. In the post-WTO, the average Chinese tariff is down from 15.3% in 2001 to 9.8% in 2009[14].

2) Reduce the direct control of the state in foreign trade. Reduce or abolish non-tariff measures. Implement measures to encourage exports, such as export tax rebate policy and the policy to encourage processing trade, etc.

3) Based on GATT / WTO rules, China improved its foreign-related legal system, and issued a large number of technical and anti-dumping regulations (People's Republic of China issued anti-dumping and countervailing regulations in 1997[15]).

In order to improve the openness of China's economy, China established four special economic zones in Shenzhen, Zhuhai, Shantou, and Xiamen in 1980. In the mid-80's to early 90's of the 20th Century, the scope of opening up has been expanded to the coast, along the rivers, and border areas. In the following years, China opened up a large number of inland cities for foreign-investment enterprises. In addition, it offered a wide range of preferential

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[14] Ministry of Commerce of the People's Republic of China http://www.mofcom.gow.cn

[15] in 25 July 1997, the Ministry of Foreign trade and economic cooperation PRC issued *anti-dumping and countervailing regulations of PRC.* http://www.mofcom.gow.cn

policies for land use, taxation and finance to them. It attracted foreign investment by extensive use of foreign direct investment, foreign loans, and international financing, etc.

China's foreign economic and trade exchanges expand from trade to investment and production fields. The main-point of foreign investment is from the general development of manufacturing industries to high-tech industry, basic industries and service trade areas. Commerce, telecommunications, finance, insurance, real estate and other service industries are popular for foreign investment. The scope of foreign economic cooperation has also been expanding. The business scope of foreign contract labor force has expanded into highly technical fields. After accession to the WTO, China's overseas investment enterprises developed rapidly. In 2002, China's FDI was only 2.7 billion USD, but in 2009, it had risen to 265 billion USD. These foreign investments covered more than 170 countries and regions[16].

In the areas of multilateral and bilateral trade and economic cooperation, China has actively developed and built Free Trade Agreements (FTA). China began to establish FTA with other countries and regions in 2000. By December, 2009, China had already established eight FTA in Asia, Oceania, Latin America and Africa, and is continually discussing with other different countries and regions to establish eight new FTA. In the area of bilateral and regional trade cooperation, China has signed bilateral investment protection agreements with 123 countries[17]. Moreover, it is actively establishing a strategic economic dialogue mechanism. For instance, China has conducted a number of meetings with the EU on establishing a strategic economic dialogue mechanism to promote bilateral economic cooperation.

However, China's foreign economic and trade development also has its own weaknesses. The openness is highly dependent on foreign investment. China's processing trade is a large proportion of total exports, and the Chinese brands are few. Moreover, the trade

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[16] Foreign Market Accesses Report 2009. Ministry of Commerce of the People’s Republic of China http://www.mofcom.gow.cn

[17] China FTA website. http://fta.mofcom.gov.cn/

competitiveness of export products is too low. China’s outward foreign investment scale is still small, and it is new to mergers or buying stock in the international capital market. Lastly, China's development in service trade has lagged behind.

5. The influence of the EU eastern enlargement on Sino-EU trade

5.1 The prospect of trade development between China and the new EU member states

Before the new EU members joined the EU, the trade volume between China and these countries was less, and its scope was very narrow. Some countries, such as Estonia, Cyprus and Lithuania, just had some trade with China in goods, and the volume was less. After the enlargement, trade came in the form of not only goods, but also services. There is a large space for China and these countries to develop in the future. Because the form of economic cooperation between China and these countries is quite simple, there are other ways that can be used to the develop the Sino-EU12 trade. Moreover, there is a lack of large-scale co-operation projects, the import-export commodity structure is not optimized, and China's trade in the region has been a large surplus. Based on these reasons, it is observed that China and the EU12 will have more opportunities to develop their economic relationship.

5.2 Sino-EU trade development (from the EU15 to the EU27)

On 6th May 1975, China formally established diplomatic relations with the European Community. In 1978, China and the European Community signed the ‘Trade Agreement’, which was the first Sino-EU intergovernmental agreement. This also meant that China and the European Community formally established a bilateral trade relationship. In 1985, the two sides signed the ‘Trade and Economic Cooperation Agreement’, covering trade, investment, development assistance, economic cooperation and other areas to replace the ‘Trade Agreement’ signed in 1978. From 1988 to 2003, the Sino-EU bilateral trade volume grew an annual average of about 17%, more than the European Union's foreign trade growth rate of 7% a year. In 2002 the bilateral trade volume reached 86.7 billion USD, accounting for 14.8% of China's total foreign trade. The Sino-EU trade volume in 2003 topped 100 billion USD, reaching 125.22 billion USD. In 2004, the bilateral trade between China and the EU increased to 1500 billion USD. The EU25 countries' imports from China amounted to 107.16251 billon USD, increasing 33.4% compared to 2003, and accounting for 12.4% of total EU outside imports[18].

Through this 30 years' effort, the development of the trade relationship between China and the EU has tended to be sustained and rapid. It has made remarkable achievements in the trading of goods and services, investment, economic cooperation and assistance. Due to the rapid development of the Chinese economy, China has re-emerged as the world's fourth economy and third exporter, but also an increasingly important political power (Rafael Leal-Arcas 2009). Sino-EU trade has increased dramatically in the past few years, doubling between 2003 and 2008. **(**See Appendix 5.1**)**

Before the EU's eastern enlargement, China and the EU treated each other as their second largest trading partners. According to data released by the Ministry of Commerce of the PRC, in 2006 the Sino-EU trade volume increased by 25.3%. The EU continues to be China's biggest trading partner. At the same time, according to EU Statistics in 2006, the EU imported 192.42 billion Euros worth from China. And in 2007, the EU27 countries imported 232.62 billion Euros worth from China; the total trade value being 295.43 billion Euros. From that time, China has replaced the US's role as the EU's largest importing country. Since the EU completed its eastern enlargement, as Table 5.1 shows, Europe is China's largest export market and China is Europe's largest source of imports. China is now the EU's 2nd trading partner behind the USA and the biggest source of imports. The EU is China's biggest trading partner.

[18] Ministry of Commerce of the People's Republic of China http://www.mofcom.gow.cn

Table 5.1: Rank of China's trade and EU trade with partners (2008)

CHINA'S TRADE WITH MAIN PARTNERS (2008)								
The Major Imports Partners			The Major Exports Partners			The Major Trade Partners		
RK	Partners	Mio euro	RK	Partners	Mio euro	RK	Partners	Mio euro
1	Japan	100914.5	1	EU 27	205526.6	1	EU 27	293968.6
2	EU 27	88442.1	2	USA	185701.0	2	USA	240584.5
3	South Korea	82693.8	3	Hong Kong	127078.5	3	Japan	182873.9
4	USA	54883.5	4	Japan	81959.5	4	Hong Kong	167521.6
5	Hong Kong	40443.2	5	South Korea	51136.6	5	South Korea	133830.4
EU TRADE WITH MAIN PARTNERS(2008)								
The Major Imports Partners			The Major Exports Partners			The Major Trade Partners		
RK	Partners	Mio euro	RK	Partners	Mio euro	RK	Partners	Mio euro
1	China	247857.6	1	USA	249595.3	1	USA	435995.5
2	USA	186400.3	2	Russia	105153.1	2	China	326325.0
3	Russia	173617.2	3	Switzerland	97742.1	3	Russia	278770.2
4	Norway	92035.6	4	China	78467.4	4	Switzerland	177848.3
5	Switzerland	80106.1	5	Turkey	54260.9	5	Norway	135736.0

Source: Eurostat http://epp.eurostat.ec.europa.eu

China's exports to the EU focused on clothing, shoes, hats, and other textile products, machinery and electronic products, transport equipment, metal and non-metallic products, textiles and raw materials, and manufactured goods classified by raw materials. Imports were mainly concentrated on high technology products and some industrial raw materials. The EU's exports to China are also concentrated on industrial products: machinery & transport equipment, miscellaneous manufactured goods and chemicals. The EU's open market has been a large contributor to China's export-led growth. The EU has also benefited from the growth of the Chinese market, and the EU is committed to open trading relations with China. However, after the EU enlargement, the original Chinese export products lost some competitive advantages compared to the new EU members. Some Chinese companies changed their plans in order to produce high technology products for export.

Chinese direct investment inward flows from the EU have increased, especially for technology projects. Chinese direct investment outward flows to the EU have also increased significantly. The EU has half of the world's foreign direct investment. It is the largest absorber and provider of foreign direct investment in the world[19]. In recent years, EU companies have increased investment in China, and have contributed to the development of bilateral trade. The cost of China to import technical projects from the EU is increased, and the quality of the technology has improved significantly. In 2006, the EU was China's largest source of technological imports and the fourth-largest investor. In the same year, there were 2,738 investment projects from the European Union in China; the amount of total contracts is 10.58 billion USD while actual investment was 5.39 billion USD. By the end of 2006, the total number of EU investment projects was 25.418; the actual investment was 53.18 billion USD, 8% of China's actual foreign investment[20]. China's direct investment in the EU focuses on Central and Eastern Europe and Western Europe. The form of Chinese investing in manufacturing enterprises in Western Europe is mainly through mergers, buying stock, exchanging stock etc., and involves automobiles, household appliances, textile machinery, telecommunications and other areas. The form of investment in the new EU member countries is mainly through owning factories to produce household appliances, machining wood, assembling bicycles and other manufacturing.

Generally speaking, the economy and trade development between the EU and China is going very well. However, in the process, some problems can not be ignored. On the one hand, since the EU completed the enlargement, the EU's non-tariff barriers are also expanded to the new member countries, in which the anti-dumping and technical barriers are the most important issues for China's trade export. Frictions regarding anti-dumping are happening more frequently. On the other hand, because the competitiveness of some products in the new member states are relatively weak, in order to protect their own profits the new members lobby the EU to set a higher threshold for imports based on the existing measures. It is

[19] WTO, Trade Policy Review: Report by the secretariat –European Communities Revision, WT/TPR/S/177/Rev.1, page 3, 15 may 2007.
[20] A Year-end Feature: China-EU Trade in 2006 increased by 25.3%, 30 January 2007, Network Center of MOFCOM. http://www.mofcom.gow.cn

becoming harder and more difficult for some of Chinese products to enter into the EU market. That would be detrimental for exports to the EU from other countries.

6. Intensive analysis of Sino - EU trade relationship

With this Sino-China trade development in mind, a question comes out. What are the factors that influence the economic and trade relationship between the enlarged EU and China? Are these factors opportunities or challenges for China? The expanded EU market, the increased demand of import and the reduction of tariff are opportunities for China’s export to the EU. In additional, the new members are more attractive for China’s FDI. The challenges are the high substitutability of Chinese products and the revival of the EU trade protectionism. At the same time, the EU may relatively reduce its FDI with China.

6.1 The increasing demand of imports to the EU

The explanations of the welfare effect described, the reduction the country C’s welfare caused by the decline of the scale of trade. However, in China’s case, its scale of trade is not decline but increase since the new members’ accession with the EU. As the data about China's total exports to the EU in recent years (Table 6.1) shows, after the EU's eastern enlargement, China’s exports to the EU did not decline due to trade diversion, but rather show stable growth. China's total exports to the EU grew from 72.1 billion USD in 2003 to 245.1 billion USD in 2007.

Table 6.1 China’s total exports to the EU

Geo/Year	2003	2004	2005	2006	2007
EU-15	72.1549	99.8365	134.484	169.025	221.328
EU-25		107.163	143.712	181.983	242.294
EU-27					245.192
New EU-Members		7.32598	8.87303	12.9586	22.1328

Source: Ministry of Commerce of the People's Republic of China http://www.mofcom.gow.cn (in 1000 million of USD)

It means that the welfare effect of trade diversion does work for China. Why? There are two main reasons. On the one hand，compared to the intra-EU trade with the EU member states, the growth of trade between the EU12 and the EU15 is relatively small, while the growth of EU-China trade has increased more rapidly. Table 6.2 shows, in years 2004 and 2007, the total exports from China to the EU15 were respectively higher during the same period of the previous year; 38.4% and 30.9% respectively. While the growth of intra-EU trade over the same period of the previous year was only 8.7% and 6.5%.

Table 6.2: China's exports to the EU Countries

Country （region）	2004		2007	
	Exports	Growth rate compare with Previous year in %	Exports	Growth rate compare with Previous year in %
EU-27			245.19	29.20%
EU-25	107.16	36.70%		
EU-15	99.83	**38.40%**	221.32	**30.90%**
EU-12			22.13	14.60%

Source: National Bureau of Statistics of China http://www.stats.gov.cn (in 1000 million of USD)

On the other hand，the proportional share of a new member state’s economy in the total EU economy is very small. The proportion of total GDP of the new EU member states (prices in 2000 as the base for the calculation) in the total GDP of the EU25 and the EU27 in 2007 is less than 6%.(Table 6.3)

Table 6.3: EU’s GDP at market prices (2001-2008)

Geo/Year	2001	2004	2006	2007	2008
EU-15/EU-25	95.78%	95.47%	95.18%	95%	94.85%
EU-10/EU-25	4.22%	4.53%	4.82%	5%	5.15%
EU-15/EU-27	95.20%	94.81%	94.46%	94.25%	94.02%
EU-12/EU-27	4.80%	5.19%	5.54%	5.75%	5.98%

*Chain-linked volumes, reference year 2000 (at 2000 exchange rates)
Source: Eurostat, http://epp.eurostat.ec.europa.eu

This shows that the trade creation effect caused by the EU enlargement is not obvious, and the trade diversion effects are not significant. However, because the new member states have the cultural and geographical advantages, trade diversion towards the new member states has happened within the EU (Robinson & Thierfelder, 1999). The proportion of intra-EU trade has also increased, and the national income of the new member states is also increase accordingly. Through the conduction of the national income transfer theory, the new member states have increased demand for imports， and the economic development throughout the EU has led to the expansion of its imports. The new members who joined the EU, according to the policy rules, must be the same as the rest of the European Union. This has encouraged those countries to speed up economic reform and to establish a relatively perfect market operation mechanism in the market system, thereby optimizing the configuration of factors of production. After the EU enlargement, the level of consumption is also more extensive than before, which means that product demand is more diversified and the EU market is more unified and vast.

It can be seen that in the past few years, the EU countries showed a steady rise in income levels. As incomes increased, consumers dedicated to improving their standard of living promoted consumer demand. Increasing levels of consumption were also being expanded and deepened, while the demand for investment became more robust, which also contributed to increased demand for capital goods. This offered new opportunities for Chinese products exported to the EU. Chinese products are more competitive and attractive in the new EU states. It can be expected that according to rising incomes of the citizens in the new EU members, the demand for Chinese products in those countries will increase. In addition, as the unified European market is expanding and deepening, the numbers of EU consumption and consumption levels are increasing, which will continually deepen and diversify the demand for commodities, providing an opportunity for Chinese enterprises to share the European market.

6.2 Tariff reduction

After joining the EU, due to the implementation of a common trade policy, the average tariff of the new member states went from 9% down to 4%. The new member states in the EU enlargement process have achieved internal trade liberalization. The reduction of the original high level external protection is beneficial for trading partners like China.

For China, the most direct benefit of EU enlargement is the reduction in tariff rates in the Central and Eastern European countries. It is no doubt that the reduction in tariffs will help Chinese enterprises to reduce transaction costs when they do businesses with the new EU states, and thus expand exports. In addition, the average tariff rate of the new members went down, which is conducive to China to expand trade projects with the new member states. After the new members joined in, all the European Union members implemented a unified tariff. However, before they joined the European Union, the import tariffs of the new member states were higher than the old EU member states. For example, the tariff on watches in Poland was as high as 20% -35%; the tariffs on clocks, toys, games and sporting goods were 12%; the tax rate of artificial jewelry was as high as 21%. For non-agricultural products, the average import tariffs in Poland and Hungary respectively were 19.9% and 9.8%, however, the average tariff of the EU is only 7.4%. For Chinese products, because of the reduction of tariffs of the new EU members, many products got a special benefit, such as watches and clocks, toys, games, sporting goods and artificial jewelry, just because the EU tariffs on these products are below 5%[21]. According to the implementation of a uniform tariff on the new member states of the European Union, Chinese products could enter the market of these new member states with lower tariffs, and get a larger market share.

6.3 A more unified and broader EU market

In accordance with WTO rules, the members of a customs union or free trade area

[21] Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Republic of Poland http://pl.mofcom.gov.cn

generally cannot impose tariffs and trade laws on third parties that are higher or stricter than before the establishment of the trade area, otherwise the injured state is entitled to claim compensation. This means that since the enlarged European Union has imposed tariffs on Chinese enterprises which go against the rules of the WTO, Chinese enterprises have the right to ask the European Commission for compensation. Therefore, all new member states joining the EU must adjust or even repeal their own trade barriers, which protect certain types of products, while the enlarged European unified market will use unified trade rules and unified management procedures. The trade barriers set up by members as protection for certain types of products are replaced by a unified trade policy with a clear, standard and higher level of transparency.

The European market is more unified and wider for China's exports. As long as its products can get into one of the European Union members, it can enter the other markets in the other members. For example, for those Chinese businessmen who had already set up factories or investments in some factories in Hungary or the other new members, after May 1st 2004, he was regarded as being among the European Union factories, and their products could freely circulate in the EU25. In 2007 there was the same situation with the EU27**.** In the past, Chinese products have always had a price advantage. For manufacturers who wanted to get into the EU markets from Eastern European countries, the main obstacle was the different technical requirements in different countries. After the EU enlargement, as long as the product has been certified in accordance with EU standards, it will be recognized in the new member states. This means that it will simplify the business between China and these new member states, and is conducive to China's relevant manufacturers and exporters in reducing operational risks, saving costs of product design and improving product competitiveness. Although the uniform technical standards increase the difficulty for Chinese products to enter the new market to a certain extent, it may also help Chinese enterprises expand the market for the new member states. Moreover, it may achieve greater economies of scale efficiency since products can be sold in both the Western and Eastern European markets. In addition, the new member states will follow the unified European Union rules to allow more Asian produced products to be sold in their domestic markets. This would also be a positive factor for China's exports.

6.4 Case study of two selected industries

In order to better understand the opportunities and challenges for Chinese trade, two industries – the machinery and auto industry will be selected and analyzed in this section.

6.4.1 The machinery industry

Until 1978, Chinese machinery industry was owned by large state-owned enterprises (SOEs), and it founded between 1950 and 1980. The structure of China's secondary industry changed fundamentally during the 1980s, particularly in 1999 with the efforts of privatization. Private Chinese entrepreneurs and foreign investors made increasing contribution to the remarkable growth.

The machinery industry is dependent on the investment activities of its industrial clients. Therefore it is very sensitive to developments as a whole. In the past 10 years, a large amount of money invested to expand China's industrial base. Therefore, China's investment into further production facilities, machinery consumption grew 32% per year from 2001 to 2006[22]. In 2005, machinery worth USD 267 billion was consumed in China, 31% more than the year before[23]. In 2004 and 2005, 22 % of the machines produced in China were exported. There is a significant market share of imported machinery in China, but the pattern changed in recent years. Although the source of domestic machinery in 2001 had about 40% market share in China, in 2004 this share had declined to 32%. Here one of the trends in the machinery

[22] Consumption = Domestic sales value minus Exports plus Imports. Estimated figures for 2005 and 2006; All growth figures mentioned in this study that are given for time frames of more than one year refer to compound average growth rates (CAGR), meaning average annual growth rates.
[23] Trade data estimated for 2005 and 2006. Source: UN Comtrade database based on SITC Rev. 3 classifications for all years up to 2004.

market becomes visible: import substitution. Interestingly, the support of foreign manufacturers contributed for this trend. They continually provide Foreign Direct Investment (FDI) in China to establish their own production. They are likely one of the biggest contributing factors in replace imported machinery, having access to higher value-added technologies[24]. In 2005, China's inflow of FDI amounted to USD 60.3 billion, remaining approximately at the same level as in 2004. A majority (70%) of the FDI went into the manufacturing sector. Within the manufacturing sector, the machinery and equipment market attracted USD 4 billion of FDI in 2005. In terms of countries of origin, roughly 7% of the total FDI in 2004 originated from the European Union. However, funds invested in China via offshore vehicles in locations such as the Cayman or Virgin Islands or even Hong Kong cannot be tracked back to the original investing country[25], therefore the real investment by the EU25 is likely to be higher.

The machinery industry in China has rapidly developed between 1990 and 2005. Since China's accession to the WTO in 2001, the machinery industry has experienced significant changes. The reduction of customs and duties for imported machinery, new regulations that at least officially eliminated local content requirements for government procurement of machinery, has increased the pressure on the Chinese machinery industry[26].

It is known that European's superior knowledge in producing specialized innovative, highly integrated, precise and high quality machines. Not only because of European machinery industry has a longer history, but European manufacturers were also facing stringent environmental regulations much earlier than developing countries. Compared to Chinese private companies and SOEs, most of the European machinery manufacturers have significant technology advantages. The technological advantages of power generation

[24] FDI can take many different forms: Joint Ventures (JV's) and wholly foreign-owned enterprises being the most prominent. But not all FDI has access to advanced technologies: In JV's the technology transfer is very dependent on the actual agreement with the foreign partner. Furthermore an unknown percentage of foreign-invested firms are domestic investors who disguise their investment as foreign in order to benefit from lower tax rates.
[25] See for example Brooks, Hill (2004), p. 24.
[26] US Fed News (31 March 2006).

equipment and energy-intensive and critical equipment, not only includes safety issues, but also energy efficiency. For China, it is not only challenge, but also opportunity. On the one hand, the manufacturing sector now accounts for more than 45% of China's fast-growing GDP[27]. However, the industry faces major problems. Such as domestic companies' lack adequate research and development but rising operating costs. Unless Chinese manufacturers have a comparable level of technology, they still have a negative outlook. On the other hand, since reduced tariff in the new member countries, China certainly purchases more energy efficient machines to make up China's power shortages.

6.4.2 Auto industry

Two trends of Chinese auto industry are: first, auto imports in China did not increase too much. Some analysts expected that WTO accession would eventually translate into the dominance for foreign manufactures. The number of imports actually has begun to decline. This is the result of several factors[28]:

- ✓ New models have been rapidly introducing by domestically-based companies.
- ✓ Overcapacity has led to price wars among domestically-based companies, and this has led auto prices to decrease faster than the WTO-mandated decrease in tariff barriers.
- ✓ The planned introduction of higher fuel taxes and consumption taxes on larger vehicles had decreased demand for imports (most of which tend to be large, luxury models).
- ✓ The regulation requiring that import duties be paid when imported vehicles arrive in port (rather than when they are delivered to the buyers), has made import dealerships less likely to order imports until they have firm orders.

The second trend is the rise of the independent auto companies. Xiali, Chery, and Geely are now three independent Chinese companies in the top ten. In 2005 the independent

[27] Wang (2006), p.6; including mining and energy sector.
[28] China Economic Quarterly, Q4 2005, p. 15

companies captured 25% of the market. (Eric Thun, 2007)

The strengths of Chinese auto companies are comparative advantage in low-cost and labor intensive manufacturing. Moreover, they are highly responsive to shifts in the domestic marketplace. Furthermore, the export of automotive components from China rapidly increased from $5 billion USD in 2003 to $7.8 billion USD in 2004.(Eric Thun, 2007)

However, Chinese auto industry is also weak. Firstly, the independent technical capacity is weak. It is heavily dependent on copies of foreign models. Most manufacturers in China are short-term financing (particular non SOEs). Secondly, in terms of value, total exports was only $1.6 billion USD, which was much less than the $5.2 billion USD value of imports and 65% of these exports were to developing countries in Asia, Africa, the Middle East and Latin America. (Eric Thun, 2007) Thirdly, component producers lack global OEM (Original Equipment Manufacturer)**.** If Chinese auto industry wants to be success in the future, will largely depend on the success of local manufacturers' expansion abroad.

The opportunities for Chinese companies are: firstly, obtain foreign Intellectual Property. The best way is through joint ventures and technology transfer agreements. Secondly, foreign investors see local sourcing as key to cost competitiveness within and outside China. Chinese companies can take advantage of new linkages to foreign companies to expand and upgrade their operations. Thirdly, there is complementary in auto industry between Chinese and EU. China has comparative advantage in low-cost products and inputs. European companies have an advantage in high quality and technology-intensive products. It is better to increase close cooperation for both of them.

The threats for Chinese auto industry can not be ignored. Overcapacity will drive Chinese car sales abroad in low value fringe markets (Africa; Middle East; etc). Moreover, many auto parts are more efficiently produced in proximity to the point of final assembly. Wage advantage of China is less important for capital and material intensive components (e.g.

direct labor contributes only 4% of the production costs of steering knuckles). Due to these factors, according to one estimate, Chinese companies have little or no advantage in approximately 50% of the value of a typical car[29]. These would block Chinese companies (especially independent auto companies) to develop EU market.

6.5 The EU12 – a popular place for China's FDI

The new member states are at a relatively low economic level. If they want to raise their economic levels to those of the Western European countries, they need about 10 years in order to catch up. In order to help these new member states develop their economies, the Cohesion policy of European Union, with a financial envelope of €350 billion for the period 2007-2013, provides considerable support to public investment[30]. The recipient countries will be taking some investment policies which are more attractive for investors than in Western European countries. For example, in the EU accession negotiations, Poland earned the right to retain 14 special economic zones until 2015-2017[31]. The Government implemented special preferential policies. Foreign direct investors who invested in these special economic zones enjoyed of the tax-rates of citizens. In addition, Poland used its relative lower labor costs, good regional transport location, the lowest tax rates in Europe, a large domestic market and its stable economic environment to attract a lot of foreign investment. Hungary offered foreign manufacturing enterprises in Hungary preferential policies for taxation and financial credit. In addition, the products, which are produced within these new member states, can freely circulate throughout the whole European Union. For example, as one of the new member states that joined the EU, Hungary's goal is to reach the average economic level of the EU in 2015. To achieve this goal, Hungary will focus on the development of information technology, tourism, economy and infrastructure, to attract investment from foreign countries,

[29] "China's Independent Automakers," *Fourin China Auto Weekly*, May 8, 2006.
[30] EC annual management plan 2009. see http://ec.europa.eu/dgs/regional_policy/documentation/document_en.htm
[31] The EU enlargement 2004 "Partnership for the accession of Poland". See http://europa.eu/legislation_summaries/enlargement/2004_and_2007_enlargement

in order to improve local employment rates and income levels, and to stimulate consumption growth. It is no doubt that these measures will provide a lot of business opportunities for foreign companies.

In addition, in the new member states, labor costs are relatively cheaper, the quality of workers is generally higher, and geography and transportation are convenient. These are the advantages which attract international corporations. Thereby, the new member states became a bridgehead and the main production base for international corporations to get into the European market. In 2006 Chinese electronics manufacturer Sichuan Changhong Co. is building a $30 million factory in Czech Republic and it turn out 1 million flat-screen televisions a year now. Chinese Hisense Co. in November 2007 opened a TV plant employing 110 people in the Hungary[32]. These factories can be thought of as a springboard to push into the European market.

Therefore, if Chinese enterprises can fully use of the above favorable conditions, and actively implement the ‘going global’ strategy to invest and build factories in these countries, Chinese products will be able to get a larger market share in the EU.

6.6 The relative reduction of EU foreign direct investment (FDI) in China

The EU is China's fourth largest source of FDI. The EU’s investment in China is about 9% of the total of investment in China[33]. After the EU's eastern enlargement, the EU has increased investment and economic and technical assistance to the new EU member states in order to stimulate the EU's economic growth through the economic growth of these countries. The EU's inward investment has also further increased. It has been discussed in the section3. Compared to the new member states, China's own conditions do not have an advantage, so a number of foreign investments from the EU have been lost.

[32] Business Week 8th January 2007- *made in China-Er, Veliko Turnovo.*

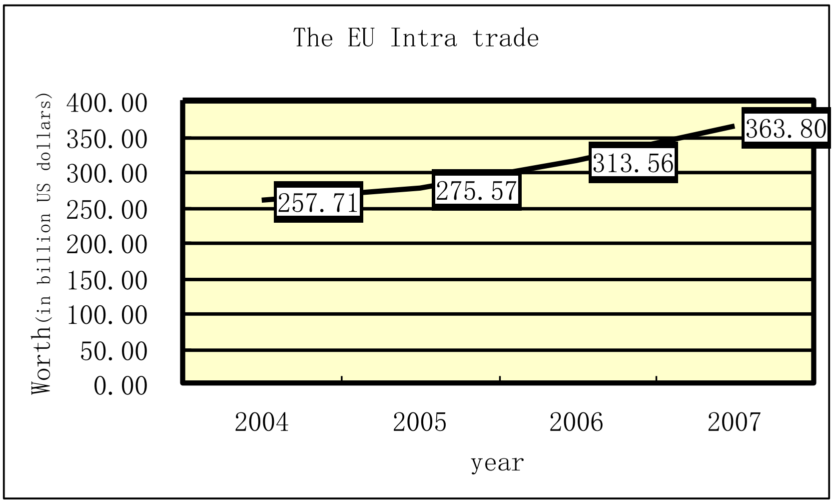
[33] Ministry of Commerce of the People’s Republic of China http://www.mofcom.gow.cn

Compared with the new member states, China's level of economic development, its industrial trade structure and the level of technical content are similar. The products have a high degree of substitutability, so there is less comparative advantage for China. The new member states have the advantages of geography, culture and language in their trade with the EU; and this is coupled to the relaxation of standards for market access and improved investment promotion policies. The old EU countries would therefore be more willing to invest their capital in the new EU countries. This means that China may lose a part of its investment from the EU.

6.7 High substitutability of some Chinese exports products

The EU is China's largest trading partner, while at the same time, it is also China's largest export region. However, after the enlargement, the EU has stepped up the intensity of economic development in its internal region. Intra-regional trade has further increased. Because China's exports of product types are similar to the new member states, and the substitutability of these export products is high, the EU has substituted imports from China for those from the new member states. Before enlargement, the proportion of their intra-EU trade was as high as 60%. After the new members' accession, the intra-regional trade has increased further. As Figure 6.1 shows, from 2004 to 2007 the EU's intra-trade has increased, and has almost reached 400 billion USD.

Figure 6.1 EU intra regional trades



Source of data: WTO statistics. http://www.wto.org/english/res_e/statis_e/statis_e.htm

The EU encourages the new member states to accelerate economic development, and provides financial and technical assistance to the new member states. Moreover, and the EU has introduced a range of subsidy policies to assist and encourage the production and intra-EU trade. (Especially for the agricultural subsidies; the taxes of EU member states on agricultural products is almost zero, and the stress of tax is lighter in the production, circulation, import and export of agricultural products. Besides, the EU invested 17.8 million Euros in EU member states to promote agricultural products in overseas markets in 2009[34]). This has increased the competitiveness of the new EU members' export products. With the low tax rates of product flows within the region, the EU is trying to increase intra-regional imports, thereby reducing the EU's dependence on imported products from outside of the EU.

The level of economic development between China and the new EU member states is similar. The export products of China and the new EU member states are also highly similar. According to data from the years 2003 to 2006 (see Appendix 6.1), the Export Similarity

[34] European Commission- Agriculture and Rural development http://ec.europa.eu/agriculture/index_en.htm

Index[35] of each new member state can be calculated (as Table 6.4 shows).

Table 6.4 Export Similarity Index of EU-12 (2003-2006)

Country/Year	2003	2004	2005	2006
Czech Republic	0.87	0.89	0.86	0.86
Estonia	0.83	0.82	0.82	0.81
Cyprus	0.43	0.63	0.64	0.56
Latvia	0.62	0.59	0.58	0.61
Lithuania	0.69	0.57	0.53	0.54
Hungary	0.74	0.75	0.71	0.73
Malta	0.95	0.94	0.92	0.83
Poland	0.88	0.85	0.83	0.83
Slovenia	0.94	0.93	0.91	0.88
Slovakia	0.90	0.88	0.85	0.86

Source of data: own calculation

Export similarity index is defined as: $S_{ij,k} = \sum [\min (S_{ij}, S_{ik}) *100]$. Where S_{ij} and S_{ik} are industry i's export shares in country j's and country k's exports, which usually include a group of countries or competitors. The index varies between zero and 1, with zero indicating complete dissimilarity and 1 representing identical export composition. The result of the calculations means that China's export products are more than 80% similar to the export products of the Czech Republic, Estonia, Malta, Poland, Slovenia, Slovakia and the other new members. In the period from 2003 to 2005, the similarity of export products between Malta, Slovenia and China was more than 90%; the remaining new countries are more than 50% similar. It illuminates that China's export products are highly similar with the new member states'.

Furthermore, in recent years most of China's export products have been machinery and transport equipment. The proportion of manufactured goods for export produced by the new EU member states has been increasing. As an example, in 2007 the top three domestic exports

[35] Export Similarity index measures the similarity of any two countries' products exported to the third market. This is based on the reasonable assumption that if two countries produce and export similar products, then the level of competition will be intensified by opening up trade between the two. The higher the Export Similarity Index between two countries, the greater degree of competition both countries may face, and vice versa.

of the Czech Republic were: machinery and transport equipment, other manufactured goods and chemicals. Production of machinery and transport equipment in Poland, the Czech Republic and China are shown in Appendix 6.2.

The RCA[36] and TSC[37] in the three countries can be calculated:

1) Poland's RCA of machinery and transport equipment:

In year 2006 is 0.9262; TSC=-0.0681374

In year 2007 is 0.9342; TSC=-0.0834764

2) Czech Republic's RCA of machinery and transport equipment:

In year 2006 is 1.2247; TSC=0.0093569

In year 2007 is 1.2367 TSC=0.01789362

3) China's RCA of machinery and transport equipment:

In year 2006 is 1.0834; TSC= 0.10081521

In year 2007 is 1.083; TSC=0.12045009

As the results show, Poland's RCA of machinery and transport equipment in 2006 and 2007 approximated 0.9 less than one. It illuminates the machinery and transport equipment of Poland doesn't have a revealed comparative advantage. Czech Republic's RCA of machinery and transport equipment in the same years approximated 1.2 greater than one. It illuminates the machinery and transport equipment of Czech has a revealed comparative advantage. China's RCA is in between and approximated one. It illuminates China's machinery and transport equipment does not have an obvious advantage.

In the comparison of TSC of machinery and transport equipment: Poland's TSC is less than zero, that means its machinery and transport equipment doesn't have international competitiveness; Czech Republic's TSC approximated zero, that means such product is in intra-industry trade, the competitiveness is as same as international standards. If TSC > 0, that means such product has strong international competitiveness; the more close to 1, the stronger

[36] Revealed comparative advantage (RCA) is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It can reflect the comparative advantage of a country (region)'s manufactured trade.

[37] Trade Specialization Coefficient (TSC) is the percentage between a country's import and export trade accounted for the proportion of the total import and export trade; the greater coefficient, the more advantage. TSC is an effective tool to analyze the international competitiveness of the industry structure. It can reflect that, comparing with one product produced by other countries in the world market, if the same domestic product has competitive advantage and its degree.

competitiveness. Although China's TSC is greater than zero, it's far away from 1. So it means that China's machinery and transport equipment does have strong international competitiveness.

Based on the above analysis, it is clear that the products which China and the new EU members are exporting to the EU are similar and can be highly substituted by each other. In the large circulation of the EU unified market, the advantage is obviously held by the new EU member states' export products.

6.8 The revival of EU trade protectionism

While the EU established a unified legal framework for its market, it also formulated the corresponding Foreign Trade Policy in order to protect its rights under international rules. Trade Barriers Regulation (TBR)[38] entered into force on 1 January 1995, and provides a complete set of procedural rules in the area of trade policy in order for the EU to protect its interests. After the eastern enlargement, the EU's common trade market is more expanded. Thus, the common trade policy and trade barriers have also been extended to the new member states. The hidden protectionism of intra-EU trade is gradually rising, and it is pointed especially at China's exports to the EU. There are two main reasons:

- The increasing unfavorable balance of trade for the EU.
- The protection of weaker industries in the new member states.

The favorable balance of trade for China is increasing year by year, as Table 6.5 shows. Although EU exports to China have doubled between 2004 and 2008, with the increase of China's exports, the EU's unfavorable balance of trade has also doubled from 80.219 billion Euros in 2004, to 169.39 billion Euros in 2008. In Figure 6.2 we can clearly see that, after the EU completed the eastern enlargement in 2007, the unfavorable balance of trade between the

[38] The Trade Barriers Regulation (TBR) is an instrument in effect since 1995, aimed at helping EU businesses overcome trade barriers and thereby develop their activities overseas. The TBR is specifically designed to remove obstacles to trade in third countries, as well as to tackle unfair foreign trade practices that cause injury within the EU internal market.

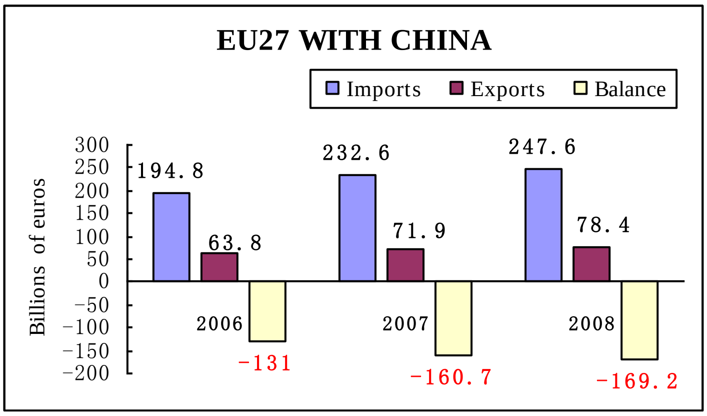
EU and China has not changed with the effect of trade diversion. On the contrary, it is getting more serious. In additional, although there is a certain similarity between the industry of the new member states in Eastern European countries and China, their export products, especially in consumer goods, and their export competitiveness is weaker than China's. In order to protect their own industry and enable healthy development in the EU, after the eastern enlargement, the new member states in Central and Eastern Europe implemented the common trade policy and trade barriers, therefore the China's export to the EU is more difficult.

Table 6.5 Trade balance-- EU with China (2004-2008)

Year	Imports Mio euro	Variation (%)	Share of total EU Imports (%) Mio euro	Exports Mio euro	Variation (%)	Share of total EU Exports (%) Mio euro	Balance Mio euro	Trade Mio euro
2004	128590	21.4%	12.5%	48371	16.7%	5.1%	-80219	176961
2005	160327	24.7%	13.6%	51825	7.1%	4.9%	-108502	212152
2006	194828	21.5%	14.4%	63785	23.1%	5.5%	-131043	258613
2007	232536	19.4%	16.2%	71887	12.7%	5.8%	-160649	304422
2008	247858	6.6%	16%	78467	9.2%	6%	-169390	326325
Average annual growth (2004-2008)		17.8%			12.9%			16.5%

Source: Eurostat http://epp.eurostat.ec.europa.eu

Figure 6.2 Trade in Goods—EU 27 with China (2006-2008)



Source: Eurostat http://epp.eurostat.ec.europa.eu

The EU trade policy as a tool for seven different types of common policy, each type maintains several instruments. This paper mainly focuses on of agriculture, development and competition policy. Mainly to analyze main instruments of these policies and trade barriers that pointed to China's export and became the most important issues for China's export to the EU, such as agriculture policy, anti-dumping, Generalized System of Preferences and technical barriers. The following parts will describe each of them in details.

✧ Agricultural policy

The Common Agricultural Policy (CAP) is a system of the EU agricultural subsidies and programs. It combines a direct subsidy payment for crops and land which may be cultivated with price support mechanisms, including guaranteed minimum prices, import tariffs and quotas on certain goods from outside the EU. CAP set down high specific duties such tariff peak, Seasonal duties and, Additional duties.

In the tariff peak, the EU agriculture about 40.3% of the EU's agricultural products are imposed a tariff rate of over 10%. The EU imposes a tariff rate of about 15% or a specific duty of 200 Euros per kilo on dairy products, fruits, vegetables, sugar etc[39]. China's priority exports to the EU such as vegetables, fruits, foodstuffs came under high tariff rates in the EU. The EU adopted a tariff peaks to protect its lack of competitiveness in industries and related industries. Moreover, for fruit and vegetable products, the EU also imposes seasonal duties, which are uncertain for China's export. Furthermore, the EU levies an additional duty on sugar products and flour products, depending on the agricultural contents of their composition (namely, anhydrous milk fat, milk protein starch and sucrose). Because the additional duties are changed every yea, so it increases uncertainty for the production of China's exporters.

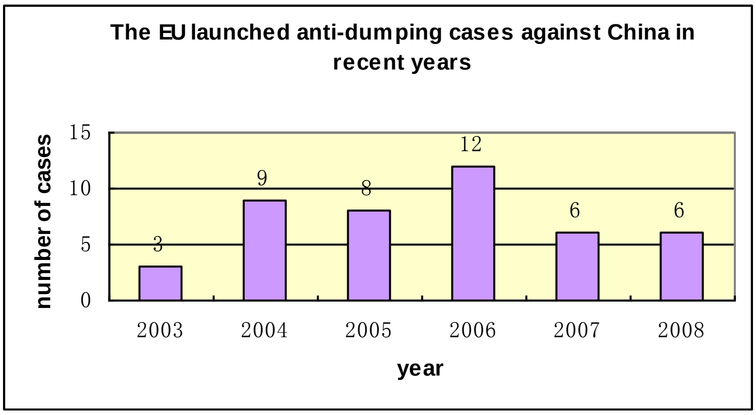
✧ Anti-dumping

Dumping is a form of price discrimination, in the sense of charging different prices in economically separated geographical markets at a given moment in time (Mario Felo 2009). In order to against predatory pricing, the most efficient remedy is anti-dumping. That is one of the main instruments of the EU competition policy. Anti-dumping is also the most used

[39] Foreign Market Accesses Report 2009. Ministry of Commerce of the People's Republic of China http://www.mofcom.gow.cn

trade remedy in relation to China. Before 31.December 2009, the EU launched a total of 150 cases of Chinese anti-dumping investigations[40]. China is the biggest target-country of EU trade remedy investigations (Piet Eeckthout 1997). In 1979, the EU launched the first anti-dumping investigations against China. The EU initiated anti-dumping investigations in different products covering 13 industries in China. Among them, chemical products were in the first case[41]. Relatively speaking, the situation of anti-dumping in Eastern European countries is much better for Chinese enterprises. Before the enlargement, most of the new member states did not have anti-dumping measures for Chinese products, except anti-dumping regarding Chinese pocket lighters, footwear and iron in Poland. After EU enlargement, the strict EU anti-dumping rules and measures replaced the original loose anti-dumping measures, and automatically applied to the new members. Due to the large number of new member states in the EU enlargement, this meant a dramatic increase of EU anti-dumping cases against China, especially in 2006, reaching 12 cases. In 2007 and 2008, though declining a bit, the number of cases remained at six (Figure 6.3). In application of the EU anti-dumping investigations against China, special attention should be paid to 'market economy status'; it's where the trade protectionism comes out.

Figure 6.3 The EU initiated anti-dumping cases against China（2003-2008）



Source: National Bureau of Statistics of China http://www.stats.gov.cn

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[40] Ministry of Commerce of the People's Republic of China announced on 10 February 2010. http://www.mofcom.gow.cn
[41] Liu aidong, Cai jianping *China's machinery and metallurgical enterprises responding to EU anti-dumping Case*. Journal of International Economics and Trade Reasearch. Vol.23 (2007)

The EU denies China’s status as a market economy. The EU laid down in relevant anti-dumping regulations five technical criteria to determine market economy treatment, but these five criteria are too abstract and give too much discretion to the investigating authorities. In 2007, the EU announced an update of the evaluation report on China's market economy status. The report concluded that China's market economy reform had made positive progress, and took important steps towards the status of a market economy. But China only met one out of five of the EU’s national market economy status evaluation criteria, with nothing in line with the other four criteria. To protect their own industries, EU member states will continue to use trade remedies as a powerful tool of protection, and as a tool against the recognition of China's market economy status[42].

In the anti-dumping investigations of Chinese products, the EU used surrogate or analogue countries to calculate the Chinese enterprises involved in the dumping margins. In recent years, the EU has often adopted double standards in granting market economy treatment to different Chinese enterprises. It is much easier for EU-invested enterprises in China to be granted market economy treatment. For example, some EU multinational companies may come to invest in China, and file anti-dumping charges against relevant Chinese products in the EU in order to beat their Chinese competitors.

The recent cases of anti-dumping can illuminate that the EU’s anti-dumping has become more aggressive. The period of investigation is becoming longer and the investigation happened frequently. These are unfavorable for China’s export.

1) In 2005, the EC opened an anti-dumping investigation against leather footwear from China and Vietnam. On 5 October, 2006, the EU decided to impose a 16.5% anti-dumping duty on Chinese shoe imports, but the period to which the anti-dumping duty applied was cut from the usual 5 years to 2 years. According to Chinese customs statistics, this case involved

[42] EU-China Trade Ministerial Meeting 12 June 2007. MEMO/07/237(12/06/2007).

730 million USD worth if Chinese exports in that same year. On 30 October, 2008, the European Commission announced that it was launching an anti-dumping sunset review of leather footwear from China and Vietnam in order to decide whether to continue the anti-dumping measures. 0n 30 December, 2009, The EU announced the results of the final ruling of the sunset review on anti-dumping regarding Chinese leather shoes. Due to the trade protection measures, the intra-EU trade in footwear has benefited for 4 years.[43–46]

2) On 14 December, 2007, the EC launched an anti-dumping proceeding concerning imports of hot dipped galvanized sheets from China. According to Chinese customs statistics, the amount of money involved was more than one billion USD, and involved more than 200 Chinese companies. This was the largest EU launched anti-dumping case against China. On 7 February 2009, the EC announced that, because the prosecution had informed the EC to withdraw an accusation, the EC decided to terminate the investigation. [43–46]

3) In 2008, in the anti-dumping case on seamless steel tubes originating in China, the EU for the first time agreed to open an investigation based purely and simply on threat of injury. [43–46]

4) On 16 February, 2008, the EC opened an anti-dumping investigation against candles and like products from China. The investigation of dumping covers the period from 1 January, 2007, to 31 December, 2007. Brazil was selected as the analogue country. According to Chinese customs statistics, the involved products among the Chinese exports to Europe in 2007 were worth about 360 million USD. On 14 May, 2009, the European Commission issued its final ruling on the anti-dumping case concerning Chinese candles and like products. Five Chinese enterprises were given zero taxes, while 3 respectively sampled enterprises were given the tax rate of from 171.98 to 367.09 Euros per ton, ranging from the amount of tax.

[43–46] Foreign Market Accesses Report 2009. Ministry of Commerce of the People’s Republic of China http://www.mofcom.gow.cn

The other 30 non-sampled enterprises involved were taxed from the amount of 345.86 Euros per ton, All non-respondent enterprises were taxed 549.33 Euros per ton. This case had the most enterprises given zero-rate from the EU's anti-dumping cases in recent years.[43–46]

The more stringent European Union anti-dumping rules and measures replaced the lenient anti-dumping rules and measures of the Central and Eastern Europe members, which caused an increase of export costs of Chinese products. An even more serious situation is that it may lead some Chinese products to be forced from the Eastern European market; thereby, the trade between EU and the new members will face a challenge.

✧ Generalized System of Preferences (GSP)

GSP, that is "Generalized System of Preferences," is a universal, non-discriminatory, non-reciprocal tariff preference scheme that concerns exports (in particular, manufactured and semi-finished products) from developing countries to developed countries. GSP exports are under the MFN average tariff rate of less than about 1/3. The EU's GSP is a trade arrangement through which the EU provides preferential access to the EU market to 176 developing countries and territories along over 6300 tariff lines, in the form of reduced tariffs for their goods when entering the EU market. There is no expectation or requirement that this access be reciprocated[47].

The expansion of the EU, on the one hand, means that "GSP" also expanded. China could get more GSP treatment from more EU countries. Before May 1, 2004, there were 28 countries worldwide to give China "GSP" treatment. The original EU15 countries belonged to those preference-giving countries, more than half of the total amount. Of the new member countries, only Poland, the Czech Republic and Slovakia, had GSP treatment with China. Currently, there are 39 countries that give GSP preferential tariff treatment to China[48], of which the EU's 27 member countries and Turkey are a unified economic bloc with a GSP

[43–46] Foreign Market Accesses Report 2009. Ministry of Commerce of the People’s Republic of China http://www.mofcom.gow.cn
[47] The Generalized System of Preferences (GSP) 2009-2011 - Brussels, 22 July 2008.Council Regulation *(EC) No 732/2008 of 22 July 2008, published in OJ L 211/2008 of 06.08.2008 Brussels.*
[48] Ministry of Commerce of the People’s Republic of China http://www.mofcom.gow.cn

preference-giving policy. As China's largest provider of trade preferences, the EU grants more preferential treatment than the other concessions offered by the other developed countries combined. After the EU enlargement, all the new member states, except Bulgaria, have given China's exports of manufactured goods and semi-finished products GSP treatment. This has brought many benefits for Chinese enterprises to enjoy preferential tariffs, expand exports, and improve the effectiveness of exports.

On the other hand, the European Union, in order to protect EU industry (especially the new EU members' industry) and not sustain the impact of products from beneficiary countries, also drew up and modified a special clause: graduation and de-graduation[49]. This reduces the types of Chinese EU-GSP products. On 22 July, 2008, the European Union issued a new GSP scheme for the period from 1 January, 2009, to 31 December, 2011; during this period, nearly 80% of Chinese product exports to the EU will no longer enjoy GSP treatment. Like China's chemical or industrial products, textiles and textile products, another 13 products have been graduated. There are only six types of products which enjoy EU-GSP preferential treatment, including: agricultural products, minerals, wood pulp, paper and paper products. Other problems such as plastic, rubber products, leather products, as well as most of China's industrial products are still excluded from the EU-GSP preferential arrangement[50]. Even more serious is that the EU has graduated the majority of industrial products from other beneficiary countries and regions while restoring their GSP treatment, such as Algeria's minerals and Indonesia's wood, grass, willow products, etc. This has greatly undermined China's industrial competitiveness in the EU market.

✧ Technical barriers to trade

The technical regulations of the EU often appear in EU directives, which have to be transposed by member states into national laws. Different member states, however, have

[49] Graduation and De-graduation: Whenever an individual country's performance on the EU market over a three-year period exceeds or falls below a set threshold, preferential tariffs are either suspended or reestablished. These calculations are made on the basis of Product Sections established in the Harmonized System for classification of goods for trade. This graduation mechanism is only relevant for GSP and GSP+ preferences: LDC access under EBA is not at all affected. Graduation is triggered when a country becomes competitive in one or more product groups and is therefore considered no longer to be in need of the preferential tariff rates.

[50] Foreign Market Access Report 2009. Ministry of Commerce of the People's Republic http://www.mofcom.gow.cn

different interpretations and applications of the same technical regulation. This causes various domestic measures among the member countries. Because of its voluntary nature, the European standards are not required to be submitted to the WTO by the EU, and their contents are not available to the general public, which causes uncertainty.

The EU's eco-design requirements for energy using products (EuPs) increased market uncertainty. For example: the EC issued relegation for regard to eco-design requires standby and off modes for electrical household and office equipment[51]. For small appliances, this does not produce a significant energy-saving effect, but it increases the cost of the product by 10%.

In 2006, Directive 2002/95/EC of the European Parliament and of the Council of 27 January, 2003, on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS) entered into force. The RoHS Directive applies to practically all the categories of Electrical and electronic equipment (EEE) for civilian use. According to the RoHS Directive, the EU member states may, according to their own national laws, adopt different measures to inspect EEE products placed on their markets and impose penalties applicable to non-compliance with the RoHS Directive. However, the RoHS Directive only provides very general rules regarding how to determine compliance with different kinds of EEE products[52].

The technical regulations of the EU are as the technical barriers for Chinese exporters. As data shows, the EU was the first to use technical barriers to protect their market economies in international trade. It is also the widest range of technical barriers and with the most oppressively demanding conditions. Although the policy of technical barriers are not unified and open, relative to other countries or regions, the EU's technical barrier measures have been more complete, and more effective. Because there is a big gap in economic and technological development between China and the EU, so many of the Chinese standards have not yet reached the strict requirements of the EU. This is why many Chinese products exported to the

[51] Commission Relegation (EC) No 1275/2008 of 17 December, 2008, and Directive 2005/32/EC of the European Parliament.

[52] RoHS-- Directive 2002/95/EC of the European Parliament and of the Council on the restriction of the use of certain hazardous substances in electrical and electronic equipment.

EU have suffered tens of billions of USD in damage, just because of technological limitation in energy-saving, safety and environmental protection. These technical barriers, such as quality standards, health inspections and quarantine standards, and the environmental protection index, largely reduced the volume of trade between China and the EU. Relative to the continuous expansion of the Sino-EU trade, those barriers may not have clearly discordant tones.

With the outbreak of the 2008 financial crisis, the problem of EU protectionism is getting serious for China's exports. The global economy has been hit hard by this financial crisis. Bilateral trade between China and the EU is facing a rarely difficult situation in its history. Moreover, the deep recession in the EU economy has negative impacts on bilateral trade.

The majority of the EU countries are deep in the quagmire of the financial crisis and recession, so external demand has dropped sharply. With the financial and economic situation deteriorating, the European countries took actions to actively rescue the market. On the one hand, European governments took actions to inject capital directly into financial institutions. On the other hand, by adjusting monetary policy, Central Banks of European countries tried their best to increase liquidity of their financial markets. However, the large-scale rescue from the governments failed to significantly improve the credit crunch situation. Furthermore, the resulting series of negative effects threaten the recovery of the European economy. With the EU member states taking a variety of economic measures to rescue the market, the new member states are facing a more severe economic situation. Many European countries have taken a number of actions to protect their own industries and employment. However, these financial rescue plans are limited to rescuing domestic financial institutions. Western European transnational corporations and banks withdrew a large amount of capital from Central and Eastern Europe, resulting in an extreme shortage of funds in the region. Moreover, in order to protect their employment, the Western European countries' actions forced a large number of workers to return to Central and Eastern Europe, causing the grim employment situation to get worse. The EU economic recession also affects China's development. It is a critical event for China, for China’s exports, and for Chinese exporters. The former conflict between China and the EU may be changed into a new opportunity. Thereby, how to deal with the financial crisis in the EU’s economic and trade relations is especially important. Is it a new challenge or a new opportunity? It depends on how China handles and deals with EU-Chinese trade relations during the financial crisis.

7. Measures to improve the trade between China and EU

From the above analysis, we can easily see that the EU's eastern enlargement is a ‘double-edged sword’ for China’s future trade with the EU. Although in the long term, the EU's enlargement will provide China with a broader, more unified, more stable market, in the short term, it will affect China's exports to Europe. China has only got to take effective measures to cope with EU enlargement, therefore, in order to seize the opportunity and avoid the adverse effects of EU enlargement, minimizing the losses as far as possible.

7.1 For export products

Today the low price, high-volume export expansion strategy is not fit to the development of world economy. In order to fully explore the vast market in Europe, China should improve the level of export products, optimize the export structure, achieve diversification of the commodity structure, and change the price competition to the integrated non-price competition; thereby changing the original to a low price, high-volume export expansion strategy. The high level commodity diversification strategy is the inevitable strategic choice in Chinese enterprise development. At the same time, it also accords with the international trend of seeking high-margins in the manufacturing chain as a competitive advantage. Therefore, based on the characteristics of income levels and consumption levels of the major EU member countries, Chinese export products should pay attention to quality, and thus improve the level of exported goods to the EU. The government, the major chambers of commerce, and trade associations need to fully play a role in adjusting and optimizing the export structure. It also needs to emphasize the coordination of related Chinese manufacturing with EU trade, to communicate with the EU market, and thereby avoid an adverse trading environment. In addition, Chinese enterprises should actively expand economic and technological cooperation with the European Union, encourage the rational use of foreign capital, and import the EU's advanced technology, equipment and management methods, to work to the advantage of Chinese products. This will create the world famous brand which truly belongs to China.

7.2 'Go global' strategy

Most countries favor actively attracting foreign investment, and would only support outward foreign investment passively. China, however, attaches importance to both inward and outward foreign investment. Its strategy for emphasizing outward foreign investment is known as 'Go Global'[53]. Besides, China has entered the post-WTO period. With the active implementation of the 'go global' strategy, China's enterprises are cultivating the international competitiveness of the country. China's private enterprises are the mainstay of the national economy, and the industrial chain plays an important role. Along with this, the trend of economic globalization is strengthening, and the Chinese market is accelerating the process. Private domestic enterprises will inevitably join 'go global'.

The reasons for the 'go global' strategy are, on the one hand, that with the new member countries joining the EU system, China should participate in developing the market space in the new member countries as quickly as possible. This does not refer only to the expansion of exports, but also to the need of using resources from these countries. The new members have a strong industrial foundation, and the human resources are cheaper than in Germany,

[53] Dai Qixiu *Structural transformation of China -EU trade in the financial crisis.* Deutschland-Studien Vol.3 (2009)

Switzerland, and Italy. Chinese enterprises should establish local production bases there. The Chinese government should encourage enterprises to enter the markets of the new members, by investing in factories and using local resources for production. For example, China's machinery and electronics manufacturers could establish a strategic alliance with EU manufacturers, fully use the local authentication service, and thus avoid rejection from EU interest groups. On the other hand, the financial crisis has brought the greatest challenge for the Euro since it appeared almost 10 years. However, the depreciation of the Euro against the Yuan is like a foreshadowing of the prospects of Sino-China trade. In August 2008, the exchange rate of the Euro against the Yuan began to drop sharply. With the background of the financial crisis and economic decline, the appreciation of the Yuan against the Euro will bring more challenges to Sino-EU trade. The sharp appreciation of the Yuan against the Euro reduced the profit margins of China's export enterprises[54]. With the evolution of the EU's economic recession into an economic crisis, the demand for imported products in the EU will decline. However, the appreciation of the Yuan against the Euro provides opportunities for Chinese enterprises to 'go global'. With the decline in corporate profits and the credit crunch, the financial crisis has resulted in the full tension of the liquidity in the EU financial market, and dealt a heavy blow to the entire economy. The European countries have begun to relax foreign mergers and acquisitions exclusions. Particularly in Central and Eastern Europe, capital is an extremely scarce resource due to the capital withdrawals of the European countries; so they generally welcome external capital. The changes in the exchange rate greatly reduced the costs for investment companies. All of this has offered a good opportunity for Chinese enterprises to accelerate the implementation of the 'go global' strategy and to expand their investment in the EU countries.

Czech encourages investment in such industries as high-tech manufacturing (such as

[54] Pan Qundi *China-EU trade: facing the new challenges and opportunities under the financial crisis.* Journal of Science and innovation Vol.10 (2009)

electronics, microelectronics, aeronautics and astronautics, high-end equipment, high-tech automobile, life science, pharmaceuticals, bio-technology, and medical equipment), and business support services (such as software development centers, solution centers, regional headquarters, client contact centers, high-tech maintenance centers, and shared services centers), and technology or design centers (such as innovation activity, application-oriented research and development)[55]. In October 2007, Shanghai-based SVA Group inaugurated a factory making TVs and other electronic products in the central Bulgarian city of Veliko Turnovo. It is the company's preparation to fully enter the European market. Other Chinese enterprises with developing potential should try to go out and use the good conditions for development in Central and Eastern Europe, thereby developing the whole European market.

7.3 Measures to the EU anti-dumping investigations against China

Faced with anti-dumping investigations, Chinese domestic enterprises no longer avoid, and have begun to dare to respond to, litigation. The rate and level of the response is gradually improving. At present, the absolute win rate of Chinese exports in anti-dumping proceedings (no tax or no harmful results) has reached 37.5%. Enterprises responding with enthusiasm have been greatly improved, and the response rate to the EU is 100%[56]. For example, in 1999, the EU initiated an anti-dumping investigation into bicycle parts and components from China. In the preliminary ruling, the EU selected itself as the surrogate country, resulting in a dumping rate of 122.9%. After China put forward a strong and fair argument, the EU eventually adopted the Chinese side and replaced Hong Kong as the surrogate country, which, in the final ruling, resulted in a dumping rate of only 1.3% - 6.9%[57]. The export enterprises and the government departments should pay attention to facing the increasing trend of the EU's anti-dumping complaints. In response to anti-dumping, the Chinese government

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[55] Foreign Market Access Report 2009. Ministry of Commerce of the People's Republic http://www.mofcom.gow.cn

[56] Zhao xin, Di linna *EU Anti-dumping "Research and Strategy of the Market economy status"* Journal of Market Modernization Vol.19 (2007)

[57] Ministry of Commerce of the People's Republic of China- Bureau of Fair Trade for Imports and Exports. http://gpj.mofcom.gov.cn/

established authorities and implemented relevant policies. The export enterprises should take the initiative and use the relevant national departments to actively respond to anti-dumping investigation.

By organized the options of Li Wei (2007), Zeng Zhen (2008) and Li Hui (2008), the suggestions for Chinese enterprises to respond to EU anti-dumping are:

1) Preventing the dumping of goods on the EU, doing it from within

① *Establishing a sound early warning mechanism.* The Government established a monitoring system to control exports, in order to control the prices and quantities of export products, which easily led to anti-dumping. Therefore, export enterprises can effectively use national monitoring systems to keep abreast of exports to customize their export product strategy.

② *Doing market research, and implementing product diversification strategy*. Export enterprises should study the international market trends and the capacity to develop export plans, thus preventing excessive concentration in the market. In particular, they should aim to prevent the sensitivity of the volume of exports of goods surged in the short term situation. At the same time, export enterprises should also pay attention to some countries' policy and industry trends; especially those countries which are able to protect sensitive products and products related to national interests. They should strategically adjust the export product strategy according to the actual situation of the importing countries, thereby increasing the category of export products and expanding the range of choices for the EU importers.

③ *Improve the quality and level of export products to the EU.* Export enterprises should recognize the EU income levels and the level of consumption characteristics, targeting the EU markets in the most attractive areas of high consumption and high profits, thereby improving the grade of export products to the EU. They also need to improve their own level of production by improving product quality, to ensure the quality of export products to the EU.

④*Seriously study the EU anti-dumping laws.* From a legal standpoint, anti-dumping is a relatively standardized administrative investigation mechanism. China's Ministry of Foreign Trade and Economic Cooperation has set up a Fair Trade Bureau. It is responsible for anti-dumping investigations, and through a variety of means, it introduces knowledge concerning EU anti-dumping to the export enterprises. Export enterprises should effectively use this national department to seriously learn about the EU anti-dumping rules, the EU social, political, economic status, and competitors.

2) Responding to anti-dumping investigations

①*Actively responding to it*. At present, after the occurrence of the EU anti-dumping cases against China, many export enterprises are afraid of difficulties[58]. If export products are imposed once with AD duties, it is difficult to continue to export. But these enterprises are still reluctant to actively respond with a defense.

There are two main reasons. First, being in a foreign court, according to foreign law, in a foreign trial, it is difficult to win. So getting arbitrage is better than failure for them. Second, responding to anti-dumping costs a lot of money. Failure means that money was wasted, so they prefer to change export markets or export other commodities.

Based on the above reasons, export enterprises are unwilling to respond to anti-dumping prosecution. But not responding to anti-dumping will bring more serious damage. It is like the chain reaction of the domino effect. If export goods to the EU are classified as dumping and AD duty is imposed, other countries will impose AD duties on these export products one after another[59]. This has already caused great damage to Chinese export enterprises. So, when the EU initiates an anti-dumping charge, all the involved export enterprises should join in a

[58] Li Wei *Response to EU anti-dumping: the anti-dumping case- frozen strawberries.* Journal of Heilongjiang Foreign Economic Relations & Trade. Vol.12 (2007)
[59] Zeng zhen *Reasons and coping strategies to the EU anti-dumping on China's footwear.* Journal of China Business. Vol.13 (2008)

collaboration to respond.

② *Expedite the formation of an anti-dumping campaign team, hire an experienced defense lawyer.* Once the EU initiates an anti-dumping charge, the enterprises should expedite the formation of an anti-dumping campaign team, and hire an EU lawyer with experience who is well-versed in international anti-dumping practices. The respondents should also take full advantage of the WTO anti-dumping law.

③ *Defend first, promise later.* In the EU anti-dumping rules, if exporters promise to a minimum price for exports in the future, the European Commission may terminate anti-dumping procedures, which is a prominent feature of the EU anti-dumping law[60]. The EU's requested increase in the price of the goods should offset the margin of dumping or the injury margin in the EU market. At present, a considerable part of the anti-dumping cases are closed by price undertaking. The empirical evidence proved that the appropriate price undertaking can not only be exempted from anti-dumping duties, but can also increase the export price[61]. However, committing to higher prices will make products uncompetitive, and thus may force with drawl from the competitive market.

Commitment to the right price can only be based on responding to anti-dumping. Therefore, it should be defense first, promises to minimize the dumping margin limit later. And if Chinese export enterprises win the suit, then they do not have any responsibility to increase the price. For example, the T / C Yarn case in 1991, at first the Chinese enterprises actively responded to the litigation, so that the dumping margin fell to 23.4% from 40.2%. After a lot of progress was made in the field, the margin fell to 15%[62]. This is a worthy lesson.

④*Provide proof of the five criteria of MES.* In determining the normal price of Chinese

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[60] *Council Regulation (EC) No 384/96 of 22 December 1995.*
[61] Li Hui *Countermeasures for China's foreign trade enterprises respond to EU anti-dumping.* Journal of Modern Chamber of Commerce Vol.17 (2008)
[62] Ministry of Commerce of the People's Republic of China- Bureau of Fair Trade for Imports and Exports. http://gpj.mofcom.gov.cn/

exports, enterprises should strive to use Chinese export prices instead of using third surrogate country prices. Although the European Commission has removed China from the list of ‘non-market economy countries’, it did not grant full MES to China. Chinese enterprises should provide sufficient information to demonstrate to the European Commission that it is in line with market economies in anti-dumping lawsuits, in the use of domestic prices and the cost of the five criteria. That means it needs to: meet the prices, costs and inputs, etc., that are determined by market supply and demand; show that firms have one clear set of basic accounting records which are independently audited in line with international accounting standards and are applied for all purposes; show that the production costs and financial situation of firms are not subject to significant distortions carried over from the former non-market economy system, in particular in relation to depreciation of assets, other write-offs, barter trade and payment via compensation of debts; show that the firms concerned are subject to bankruptcy and property laws that guarantee legal certainty and stability for the operation of the firm; and finally demonstrate that exchange rate conversions are carried out at the market rate.

If one does not, or can not meet the criteria, one must use a surrogate country. Enterprises should actively take the initiative in making recommendations, and choosing a surrogate country at the same level of economic development as China's market economy.

7.4 Use EU Generalized System of Preferences

According to a new 2009-2011 EU-GSP program, the Chinese products that can enjoy the EU-GSP preferential treatment are mainly concentrated among agricultural products, mineral products and paper products. In order to take better advantage of trade in services in the new program, and to resist the impact on China's export enterprises caused by the financial crisis, foreign trade enterprises should take active response measures.

1) Export enterprises should be aware of the difference between the MFN (agreement) rate and the GSP rates of related products, to continue to enjoy to the maximum the EU's GSP benefits on the export of products, thus promoting the healthy development of China's export trade with the EU. Under the new GSP program, some Chinese commodities are excluded from the EU-GSP preferential arrangements. If the tax rate itself is zero, GSP rates can only be zero, there is no difference between them, and thus there is no influence on graduation.

2) Seize the opportunity to increase the exports of ‘have not graduated’ products. According to the new EU-GSP program, agricultural products, mineral products and paper products can still enjoy 3.5% tariff preferences. We need to pay attention to these precious preferential treatments and fully use them. From 2008 to June 2009, the Inspection and Quarantine Bureau in Shanxi province issued 1148 copies of fruit juice certificates to the EU with the amount of 130 million USD, while 4.41 million USD was refunded due to tariff concessions[63]. This shows that China's exports of agricultural products can still actively make good use of the EU's tariff preferential policies to continually expand its market share in the EU and make the brand of ‘Made in China’ bigger and stronger.

3) Take full advantage of regional preferential certificates, to promote market diversification, reducing the impact of the financial crisis on the export enterprises. At present, China has signed regional preferential agreements with 17 countries. Chinese products, under these regional preferential agreements, are subject to the benefits of the lower tariffs. Therefore, the export enterprises should actively pursue multiple markets, to avoid risks and reduce the impact of the financial crisis on business. In addition, China has discussed a free trade zone with more than 30 countries and regions, including the ASEAN, Pakistan, New Zealand, and Singapore. If, in addition to being in the EU market, the enterprises were to develop in new international markets, they would effectively weaken the adverse effects of the EU's new GSP.

[63] Ministry of Commerce of the People’s Republic http://www.mofcom.gow.cn

8. Conclusion

the EU's eastern enlargement will have an enormous and direct impact on the very foundations of China-EU bilateral trade relations that cannot be ignored. EU enlargement is an ambitious economic event. Since 2007, the EU27 instead of the EU15 has presented itself as the new European Union on the international stage. The total GDP of the EU27 has increased year by year; the individual tariffs of the new EU members have dropt to the level of the EU common tariff, so intra-EU trade and investment have increased to the developmental benefit of both the original and the new EU member countries. After the European Union completed its sixth enlargement, the influences are not only on the EU’s internal economy, but also on the relationship between the EU and other countries, especially China.

This enlargement is a ‘double-edged sword’ for EU-China trade relations, which provides both great opportunities and challenges. Based on the above analysis, simple conclusions can be drawn.

Opportunities for China-EU trade relations are reflected in the following aspects:

For China, the scale of the EU market has been expanded dramatically. The enlarged European Union has nearly 500 million consumers. As the largest developed states’ group, this consumer market is larger in size than that of the United States, Mexico and Canada combined. New member states have different consumption requests, different needs and choices reflected in the commodity markets, which gives Chinese companies enormous business opportunities. With the European integration, a further expansion and depth of the market has emerged. EU consumption, increasing both in quantities and qualities, will give China more chances to develop in the European market.

The enlargement of the EU also reduced tariff rates in the new member states, which means that Chinese products can enter the EU markets with relatively low tariffs and increase theirs market shares. The enlarged EU established the single market and implemented integrated trade policies and tariff systems, carried out unified administrative procedures and uniform standards, so that goods, services, capital and people flow more freely. New member states will further improve the business environment, market management, market transparency and uniformity, thus greatly simplifying the operational procedures for those Chinese enterprises and help them effectively reduce the cost of market development. EU enlargement also means that China can get GSP treatment from more member states.

Enlargement made the EU's geographical location closer to China. China and the majority of the EU's new member states shared traditional friendly relations, especially in political, economic and cultural aspects. With trade liberalization with the EU after enlargement, Chinese companies can access the entire EU market easily as long as they sell products to a member state. By increasing investments and market shares in new member states, such as in textiles, electronics and other labor-intensive industries, Chinese companies can bypass the EU's traditional tariff and non-tariff barriers, and take new member states as a springboard to enter the broader EU market.

At the same time, China and Chinese enterprises have to face new challenges caused by the EU’s eastern enlargement

The EU enlargement has caused a trade diversion effect. As the result of the mutual cancellation of tariff and non-tariff barriers, the trade flows between old member states and new member states have experienced a major growth, which has directly impacted trade relations between the EU and other partners who have competitive products. The new member states have become China's strong competitors in exporting to the old EU member states. Those countries are similar to China in terms of economic development, industrial structure and production levels. The commodity export structures of the new member states and China are all focused on clothing, shoes, toys, metal and non-metallic products, textile raw materials, etc. High substitutability makes competition in the market inevitable.

In the enlarged EU, member states have different levels of economic development, and the vertical system of distribution in labor resources and sectors enables each country's comparative advantages to come into full play and greatly reduce dependence on external markets and resources. Therefore, high external trade barriers can not be avoided. The EU's new member states have been included in the EU trade protection camp. The current implementation of quantitative import restrictions, anti-dumping, technical standards, environmental requirements and other non-tariff barriers have also been promoted to the new member states. The introduction of the EU's anti-dumping measures to the new member states is bound to increase the export costs of Chinese enterprises, and will even lead to a number of Chinese products being forced to withdraw from the EU market.

The EU has strict standards on imported products and complicated technological standards. There are more than 100,000 quality standards covering almost all of the imported products[64]. The new member states have an obligation to obey the high standards, which means some products from China will encounter new access thresholds. This will undoubtedly affect China's exports to those countries and further increase trade friction. The new member states must also adopt the EU's Common Agriculture Policy, and then raise import tariffs on rice, sugar, cereals, mushrooms, dairy products and beef and other agricultural products from extra-territories. The huge subsidies given by the European Commission to the new member states will greatly enhance the competitiveness of agricultural products from those countries and the EU member states, and will also replace the original Chinese shares in the markets of the new member states.

Finally, the EU is carrying out a unified external trade policy. The application of this policy is automatically extended to the new member states, resulting in the loss of the

[64] Foreign Market Access Report 2009. Ministry of Commerce of the People’s Republic http://www.mofcom.gow.cn

efficiency of bilateral reciprocal trade agreements between China and the new member states, which also has some negative effects toward China's exports to the EU.

Faced with this situation, China should vigorously adopt various strategies, treasure these opportunities and actively respond to challenges, thereby attempting to eliminate the negative influences caused by the enlargement for Sino-EU trade relations.

The effect of the EU's eastern enlargement for Sino-EU trade covers various aspects. It brought both a large scope of opportunities and challenges for Sino-EU trade, and can be analyzed in depth. This paper aimed to raise awareness to these various aspects from the viewpoint of macroeconomics, and mainly focused on the analysis of the trade conditions concerning Chinese exports to the EU; thereby effectively providing a directive and instruction to the Chinese enterprises if they want to export or invest in the EU. In future research, more detailed analysis could be done on the different aspects, such us China’s and the EU's investment, anti-dumping cases and the GSP.

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Czech Statistical Office http://www.czso.cz

Foreign Market Access Report 2009, Ministry of Commerce of the People's Republic http://www.mofcom.gow.cn

Appendix

Appendix 5.1: Trade between China and EU (2003-2008)

in 1000 million USD

2008

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-27	425.577694	292.878199	132.699496	19.5	19.5	19.6
New EU-Members	38.25965	30.19335	6.0663	32.8	34.9	22.5

2007

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-27	356.15124	245.19173	110.95951	27.0	29.2	22.4
New EU-Members	32.73379	22.13281	10.60097	19.5	14.6	50.2

2006

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-25	272.30233	181.98335	90.31898	25.3	26.6	22.7
New EU-Members	15.94091	12.95855	2.98236	48.6	46	60.9

2005

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-25	217.307	143.71158	73.59542	22.6	34.1	4.9
New EU-Members	10.72649	8.87303	1.85346	16.5	21.1	-1.6

2004

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-25	**177.28696**	**107.16251**	**70.12445**	33.4	36.7	28.7
EU-15	168.07755	99.83653	68.24102	34.2	38.4	28.6
New EU-Members	9.20941	7.32598	1.88343	20.4	17.4	33.4
USA	**169.59858**	**124.94203**	**44.65655**			
Japan	167.83577	73.50904	94.32673			

2003

Country（region）	Total	Exports	Imports	Percentage change compare with Previous year in %		
				Total	Exports	Imports
EU-15	125.21674	72.15487	53.06187	44.4	49.7	37.7
USA	126.33286	92.46677	33.86609			
Japan	133.55683	59.4087	74.14813			

Source of data: Ministry of Commerce of the People's Republic of China, http://English.mofcom.gov.cn

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Appendix 6.1 Selected indicators of comparative advantage.

The calculation of the export similarity index is using SITC： According to Eurostat statistics caliber There are six categories: SITC0+1: Food, drinks and tobacco; SITC2+4: Raw materials; SITC3 : Mineral fuels, lubricants and related materials; SITC5 : Chemicals and related products, n.e.s; SITC6+8: Other manufactured goods; SITC7: Machinery and transport equipment.

10 new members export to EU-25 in different products:

Trade in SITC0+1 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	1.58	2.23	2.79	3.30
Estonia	0.37	0.47	0.58	0.66
Cyprus	0.25	0.38	0.44	0.49
Latvia	0.42	0.50	0.64	0.81
Lithuania	0.38	0.57	0.73	1.00
Hungary	0.86	1.45	1.83	2.11
Malta	0.23	0.29	0.31	0.33
Poland	1.82	2.70	3.65	4.23
Slovenia	0.47	0.64	0.76	0.87
Slovakia	0.71	1.00	1.48	1.61

Trade in SITC2+4 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	0.81	1.09	1.17	1.39
Estonia	0.12	0.14	0.18	0.20
Cyprus	0.05	0.05	0.06	0.06
Latvia	0.12	0.13	0.15	0.19
Lithuania	0.16	0.22	0.23	0.27
Hungary	0.46	0.51	0.58	0.69
Malta	0.03	0.03	0.03	0.03
Poland	1.04	1.41	1.60	1.85
Slovenia	0.40	0.50	0.58	0.70
Slovakia	0.39	0.51	0.59	0.70

Trade in SITC3 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	1.07	1.45	2.03	2.42
Estonia	0.11	0.21	0.27	0.60
Cyprus	0.07	0.16	0.31	0.37
Latvia	0.14	0.30	0.39	0.43
Lithuania	0.02	0.04	0.06	0.12
Hungary	0.71	0.88	1.21	1.50
Malta	0.12	0.12	0.21	0.25
Poland	0.84	1.39	1.96	2.30
Slovenia	0.55	0.74	1.02	1.31
Slovakia	0.48	0.82	0.87	1.01

Trade in SITC5 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	4.40	5.39	6.02	6.98
Estonia	0.43	0.54	0.67	0.85
Cyprus	0.33	0.35	0.37	0.41
Latvia	0.45	0.51	0.62	0.80
Lithuania	0.72	0.92	1.14	1.50
Hungary	3.23	3.72	4.24	5.04
Malta	0.18	0.21	0.21	0.23
Poland	7.42	8.75	10.23	11.92
Slovenia	1.27	1.51	1.69	1.87
Slovakia	1.65	2.02	2.43	2.84

Trade in SITC6+8 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	12.77	14.92	16.87	19.91
Estonia	1.25	1.58	1.88	2.22
Cyprus	0.86	1.04	1.14	1.21
Latvia	1.14	1.30	1.60	2.09
Lithuania	1.49	1.96	2.28	2.76
Hungary	8.21	9.25	9.34	10.85
Malta	0.48	0.52	0.55	0.55
Poland	14.04	17.26	19.81	23.84
Slovenia	3.17	3.92	4.26	4.83
Slovakia	4.86	6.10	6.86	8.63

Trade in SITC7 (in 1000 million euros)

geo/time	2003	2004	2005	2006
Czech Republic	13.25	19.56	20.80	25.27
Estonia	1.42	1.99	2.69	3.44
Cyprus	0.56	1.01	1.15	1.15
Latvia	1.22	1.43	1.85	2.70
Lithuania	1.97	2.55	2.97	4.00
Hungary	13.02	16.67	18.20	21.29
Malta	0.88	0.96	0.94	1.03
Poland	16.57	22.40	23.84	28.93
Slovenia	3.36	4.27	4.47	5.15
Slovakia	6.64	8.32	9.16	11.74

Source: Eurostat http://epp.eurostat.ec.europa.eu

Ten new members total exports to EU-25 in all products.

geo/time	2003	2004	2005	2006
Czech Republic	32.48	44.97	49.81	59.39
Estonia	3.70	4.93	6.27	7.97
Cyprus	2.12	3.01	3.47	3.70
Latvia	3.49	4.31	5.25	7.02
Lithuania	4.76	6.30	7.41	9.65
Hungary	26.66	32.57	36.22	41.92
Malta	1.94	2.13	2.26	2.42
Poland	41.73	53.93	61.10	73.22
Slovenia	9.26	11.60	12.79	14.73
Slovakia	14.73	18.83	21.53	26.68

Source: Eurostat http://epp.eurostat.ec.europa.eu (in 1000 million euros)

China's Exports to EU-25 (in different products)

geo/time	2003	2004	2005	2006
SITC0+1	1.67	1.82	2.27	2.81
SITC2+4	1.49	1.81	2.36	2.50
SITC3	0.68	1.17	0.73	0.58
SITC5	3.77	4.01	5.06	6.09
SITC6+8	49.53	56.40	73.33	87.39
SITC7	47.96	61.96	74.12	92.49

Source: Eurostat http://epp.eurostat.ec.europa.eu (in 1000 million euros)

China's total Exports to EU-25 (all product products)

geo/time	2003	2004	2005	2006
EU-25	105.39	127.46	158.44	192.42

Source: Eurostat http://epp.eurostat.ec.europa.eu (in 1000 million euros)

The derived export product similarity index is defined as:

$$S(ij,w) = \sum\{\min\left(\frac{x_{iw}^k}{x_{iw}}, \frac{x_{jw}^k}{x_{jw}}\right)\}$$

$S(_{ij,w})$ means the i country's and j country's export to third market, the product similarity index

$\frac{x_{iw}^k}{x_{iw}}$ means the market share of the k types of commodities the i country exports to the w market in its total exports toward the w market.

$\frac{x_{jw}^k}{x_{jw}}$ means the market share of the k types of commodities the j country exports to the w market in its total exports toward the w market. $S(_{ij,w}) \in [0,1]$. For example, the calculation of product similarity index between Czech Republic and China's in 2003. The w market is the EU25, i is Czech republic, j is China. As above tables show, in 2003 Czech and China export to EU25 in different products in 1000 million euros (from SITC0+1~SITC7) are:

Product/Country	Czech Republic	China
SITC0+1	1.58	1.67
SITC2+4	0.81	1.49
SITC3	1.07	0.68
SITC5	4.4	3.77
SITC6+8	12.77	49.53
SITC7	13.25	47.96

Czech and China's total exports to EU25 in all products are 32.48 and 105.39 billion euros.

$$S(ij,w) = \sum \{\min\left(\frac{x_{iw}^{k}}{x_{iw}}, \frac{x_{jw}^{k}}{x_{jw}}\right)\}$$

=min(1.58/32.48,1.67/105.39) + min(0.81/32.48, 1.41/105.39)

+min(1.07/32.48, 0.68/105.39) + min(4.4/32.48, 3.77/105.39)

+min(12.77/32.48, 49.53/105.39) + min(13.25/32.48,47.96/105.39)

=0.0158 + 0.0135 + 0.0065 + 0.0358 + 0.3934 + 0.4078

=0.8728 ≅ 0.87.

Means that product similarity index between Czech Republic and China's in 2003 is 0.87. The product similarity index of other countries can be calculated by the same way.

Appendix 6.2 Exports of machinery and transport equipment

Czech Republic	Machinery and transport equipment		Total	
	2006	2007	2006	2007
export	42.2446	49.5765	79.3492	91.6252
import	32.2172	37.9774	77.8780	88.4038
Poland	Machinery and transport equipment		Total	
	2006	2007	2006	2007
export	35.3993	41.6244	87.9259	101.8387
import	36.2387	42.8555	100.7841	120.3895
China	Machinery and transport equipment		Total	
	2006	2007	2006	2007
export	342.2573	432.7835	726.7017	913.3318
import	267.7658	309.3443	593.5957	716.9627

Source: Czech Statistical Office http://www.czso.cz, Central Statistical Office http://ww.stat.gov.pl, National Bureau of Statistics of China http://www.stats.gov.cn (in 1000 million euros)

EU27 trade, by product group; Exports in 1000 million of EURO

SITC06\Year	2006	2007
Food, drinks and tobacco	57.93	62.03
Raw materials	28.55	30.28
Mineral fuels, lubricants and related materials	59.02	63.68
Chemicals and related products, n.e.s.	184.57	197.9
Machinery and transport equipment	504.3	543.16
Other manufactured goods	293.85	309.81

EU total Exports in 1000 million of EURO

	2006	2007
EU-27	1160.10	1241.50

Source: Eurostat http://epp.eurostat.ec.europa.eu

Anhang 1

Abstract

Es handelt sich bei der vorliegenden Arbeit um eine Studie über die Chancen und Herausforderungen der Handelsbeziehung zwischen EU und China nach der EU Osterweiterung. Ziel dieser Studie ist es, den chinesischen Unternehmen bei der Aufschließung des EU-Markts zu helfen und somit die Handelsbeziehung zwischen der EU und China zu fördern.

Nach einer allgemeinen Einleitung werden die dieser Arbeit zugrundeliegenden Theorien behandelt, zu denen Zollunion, Freihandelsabkommen, WTO-Regeln, Handelserschaffung, Handelsablenkung und Übertragung von staatlichem Einkommen gehören.

Als nächstes wird auf die Veränderungen des innereuropäischen Handels (Handel zwischen Mitgliedern der EU) und der Handelsbestimmungen nach der Osterweiterung (u. a. die Begünstigungen für die neuen Mitgliedstaaten), und auf die Entwicklung des chinesischen Außenhandels eingegangen.

Durch die Analyse der konkreten Veränderungen des Handels jeweils zwischen China und den alten 12 EU-Staaten und den neuen 27 EU-Staaten werden die Auswirkungen der EU-Erweiterung auf die Handelsbeziehung zwischen China und EU aufgezeigt. Die weitergehende Analyse dieser Auswirkungen soll den chinesischen Unternehmen bei der Einschätzung der Chancen und Herausforderungen ihres Handels mit den EU-Ländern helfen.

Durch die EU-Erweiterung wird die gesamte Einfuhrquote der EU erhöht und der Zoll der neuen Mitgliedstaaten reduziert. Es entstand ein riesiger, einheitlicher EU-Markt und die neuen EU-Mitgliedstaaten sind für die chinesischen Investoren die erste Wahl geworden. Anderseits werden die Investitionen der EU in China aufgrund der innereuropäischen Begünstigungen in die neuen Mitgliedstaaten umgeschichtet. Die chinesischen Ausfuhren sind auch immer schwieriger geworden, da die neuen EU-Länder eine ähnliche Produktstruktur wie China haben. Behandelt wurde auch das Thema des ansteigenden europäischen Protektionismus, welches die chinesischen Ausfuhren beeinträchtigt.

Basierend auf den vorhergehenden Analysen werden am Ende der Studie die Empfehlungen für die chinesischen Unternehmen ausgearbeitet, die bei der Auswahl der Ausfuhrprodukte, bei der Implementierung der „Go Global-Strategy“, beim Umgang mit der Anti-Dumping-Problematik und bei der optimalen Nutzung von APS eingesetzt werden könnten.

Anhang 2

LEBENSLAUF

VORNAME: Liang

NACHNAME: ZHAO

GESCHLECHT: Männlich

GEBURTSDATUM: 08.07.1982

FAMILIENSTAND: Ledig

STAATSBÜRGERSCHAFT: China

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FREMDSPRACHE: deutsch, english

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1994-1997 Mitte Schule der Universität Tsinghua(Beijing)
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STUDIUM:

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