Trade Disputes, Inter-Regional Free Trade agreements, and the Ukraine Crisis: The Geopolitical Implications for the EU-China Bilateral Trade Relations

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Abstract

This paper examines three critical issues concerning the EU-China bilateral trade relations. First, it analyzes the contentious dynamics of trade disputes between the EU and China over rare earths and solar panels. Secondly, it discusses geopolitical implications of inter-regional free trade agreements (FTAs) such as the Trans Pacific Partnership (TPP) and the Transatlantic Trade Investment Partnership (TTIP). Thirdly, it explores the impacts of the Ukraine crisis on the bilateral economic development. The paper argues that with China's growing market power, China has responded to the European Unions' anti-dumping and anti-subsidy measures in an equally assertive manner by filing retaliatory investigations into several imports from the EU. With the threat of reprisal such as blocking EU access to China's growing market, Beijing has successfully negotiated compromised solutions to the trade disputes. With regard to the geopolitical implications of TPP, TTIP and the Ukraine crisis, it notes that these events may provide a renewed momentum for China and Russia to forge stronger economic ties among the BRICS (Brazil, Russia, India, China and South Africa) and to rally other nations in Asia and Latin America to join alternative trade blocs.

Keywords

World Trade Organization (WTO); China-Europe Trade; Free Trade Agreement (FTA); Global Governance; Regionalism; Trans-Atlantic Trade and Investment Partnership (TTIP); Trans-Pacific Partnership (TTP)

Introduction

This paper examines the EU-China bilateral trade relations since 2010. The significance of EU–China economic cooperation cannot be overemphasized enough since its bilateral trade amounts to $1 billion per day. Today, the European Union (EU) and China depend on each other as the biggest source of their imports. As for trade balance, China exports more to the EU ($334 billion exports) than it imports ($212 billion imports from EU) (European Commission, July 2, 2014). Although the EU is China's biggest export destination, the EU accounts for only 14.1 percent of

China's total foreign trade as of 2012. Concerned with a large trade deficit with China as well as troubled by Europe's slow economic recovery from the Euro-zone crisis since 2009, EU has been keen on limiting China's export to Europe while seeking to pry open China's market for EU investors. While the EU and China began to negotiate an EU–China Investment Agreement in 2013, they were at the same time embroiled in serious trade disputes that at times seriously constrained the bilateral relations. For instance, the EU launched anti-dumping (AD) and anti-subsidy (AS) investigations into Chinese firms on numerous occasions. In 2013 alone, the EU and China had trade disputes over rare earths, solar panels, telecommunication, seamless steel tubes and pipes, wine, toluidine, automobiles, and rice products. Fortunately, most trade disputes, except rare earths, ended with compromises and concessions from both sides in 2014. Notwithstanding the signs of improving bilateral ties this year, two recent geopolitical developments in the international relations will have significant impacts on the EU–China bilateral relations. The first event of geo-political significance is the on-going negotiations for inter-regional free trade areas such as the Transatlantic Trade Investment Partnership (TTIP), the Trans Pacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP). The second event of international importance is the current Ukraine crisis and EU sanctions against Russia. Many political analysts caution that TPP and TTIP may engender competitive regionalism by pressuring China and other emerging economies to seek an alternative venue for trade expansion. As for the EU sanctions against Russia, many observers note that the sanctions may provide greater business opportunities for China.

Examining the EU–China bilateral trade relations, this paper focuses on the political implications of three issues: the recent trade disputes, inter-regional free trade deals, and the Ukraine crisis. Key contentions of this paper, concerning the implications of the three issues, are as follows. First, in the case of bilateral trade disputes, market power enables a country to use or to resist the World Trade Organization's (WTO) regulations to its advantage. The WTO has no direct enforcement mechanism but merely authorizes an appropriate sanction to be applied by the complainant. The ability to compel the violator to comply to WTO rules is hinged upon the complainant's market power. Conversely, the ability to resist WTO rulings deemed unfair is also dependent on the market power of the accused. In other words, market power is the ability of the country to retaliate by limiting the other party's access to its market. In the case of EU–China disputes over rare earths, China uses its market power to resist WTO decisions. With regard to the solar panel dispute, China used carrot and stick measures (market access or market denial) to induce the EU to make compromises. The second contention is that TPP and TTIP will likely bring out competitive regional trade blocs. The three inter-regional FTA negotiations (including TPP, TTIP and RCEP) boil down to the contest of rule-setting power. As China worries that TTIP will undermine China's ability to set trade rules in the global economy, Beijing is encouraging competitive regional trade blocs, counter to the EU and US-centered ones. The third contention concerns the impact of the Ukraine crisis on the EU–China bilateral relations. The Ukraine crisis is likely to create more trade opportunities for China and thus it will further strengthen China's market power. As the Ukraine crisis brings Russia closer to China and other BRICS nations, the EU's ability to compel China to enter into trade agreements more favourable to the EU seems to be rather limited.

The organization of this paper is as follows. First, with a case study of recent EU–China trade disputes over rare earths and solar panels, this paper discusses the significance of China's market power in international trade disputes. Secondly, it examines the implications of inter-regional FTAs such as the TTIP (Transatlantic Trade and Investment Partnership) and the Ukraine crisis for

the EU–China bilateral trade relations. In the context of Sino–US rivalry in Asia and EU–Russia rivalry in Europe, it discusses trade challenges and opportunities for the EU and China.

Trade Dispute I: Rare Earths

The EU, the USA, and Japan filed a complaint to the WTO concerning China's export restrictions on rare earth metals in 2010. It is argued that violating WTO rules, China purposely limits the export of rare earths mainly through export quotas. It should be noted that rare earth metals are highly sought minerals for modern technology. Rare earth materials contain unique properties that are essential to produce many consumer products such as "wind power turbines, catalysers (for car and oil cracking), energy-efficient bulbs, engines for electric and hybrid vehicles, flat screens and displays (LED, LCD, plasma), hard drives, car parts, camera lenses, glass applications, industrial batteries, medical equipment or water treatment" (European Commission, 13 March, 2012). Since China supplies 90% of rare earths to the world market, it is not surprising that China's export control has raised serious concerns among developed countries that are dependent on the export of high-tech goods. As EU Trade Commissioner Karel De Gucht put it,

> China's restrictions on rare earths and other products violate international trade rules and must be removed. These measures hurt our producers and consumers in the EU and across the world, including manufacturers of pioneering hi-tech and 'green' business applications" (European Commission, 13 March, 2012)

The WTO Appellate Body ruled that China violated the WTO regulations concerning export control and thus it asked China to drop its export quotas on rare earths. Despite the WTO ruling and the EU's claims about China's unfair trade practice, it should be noted that WTO trade rules on export control are fundamentally unfair for China. With regard to trade in natural resources, WTO has different rules for its members. More than 140 members enjoy almost "complete freedom to restrict exports" (Qin, 2012). Only some new WTO Members, such as China and Mongolia, have been required, as part of the terms of their accession to the WTO, to give up their rights to control the export of certain natural resources. In essence, WTO regulations concerning export control are biased against the late accession members (Karapinar, 2011).

Table 1. Rare earth reserves and supplies in the world (Source: Global Times, March 27, 2014)

Country	Total World Reserve (%)	Supply (%) to the world market
USA	13%	No supply
China	23% reserve	90%
India	3%	2%
Australia	5%	No supply
Russia	19%	No supply

As table 1 shows, the USA, Australia and Russia do not supply any rare earths although they have a combined total 37% of the world rare earths reserves. As China provides a disproportionally large amount of rare earths, 90% of the world total supply, it is understandable that China is concerned about environmental and economic implications of its fast depleting precious natural resource.

Since 2010, China imposed strict export quotas on its rare earths on the ground of concerns for environmentally sustainable development.

When China's market power was negligible, China had to accept the unfair accession requirements imposed by WTO in order to gain access to the world market. With China's growing market power, however, China's attitude toward WTO has changed over time from one of passive followers to an assertive challenger. Beijing appealed against the WTO ruling but WTO upheld its initial decision in 2014. China regretted the WTO rejection of China's appeal and announced that it will continue to adopt necessary measures to ensure China's sustainable development. The necessary measures are reported to include better administration of rare earth production through technological upgrades and the restructuring of the Chinese domestic rare earth industry as well as resource taxes on rare-earth sales rather than outright quota restrictions (Global Times, August 12, 2014). This means that China is not willing to blindly follow WTO rules at the expense of its own development. It also means that tensions between the EU and China over rare earths will continue in coming years. This not-so-pliant, challenging posture has also shown in other recent trade disputes between China and the EU.

Trade Dispute II: Solar Panels

In November 2012, the EU launched an anti-subsidy (AS) and anti-dumping (AD) investigation into Chinese solar products. As discussed below, the threat of EU's punitive tariffs (anti-dumping and countervailing tariffs) on Chinese solar panels provoked a series of retaliatory trade measures from Beijing. The prospect of losing EU's solar market is not something that Beijing would accept without a fight. China is the world largest solar panel supplier and the EU is the world's largest solar market. As of 2011, China exported $27.89 billion worth of solar products to the EU, accounting for 70 percent of China's total solar product exports and 7 percent of the total trade volume between China and EU (Beijing Review, 26 June, 2013). Globally, Chinese manufacturers exported a total of 22–23 GW of solar modules in 2013 that accounted for two thirds of the total global demand, 35 GW (Reuters, 9 August, 2013).

According to the WTO, anti-dumping (AD) and anti-subsidy (AS) duties are legitimate measures to reduce exports from a country that allegedly committed dumping practices[1]. Anti-dumping and anti-subsidy claims are, however, highly controversial because evidence data for dumping and subsidy practices can be easily manipulated (Stone, 2011). As Stone put it, "in practice anti-dumping actions have come to be a respectable way for WTO members to apply short-term trade protection" (Stone, 2011, p.89). Many scholars also point out that anti-dumping and anti-subsidy duties are convenient devices for short-term trade protectionism as well as a political tool to garner popular support. For instance, Vermulst and Gatta (2012) find that AS charges are politically palatable to politicians who seek to score easy political points in their domestic constituencies. The main reason is that AD and AS allegations usually invoke the idea that domestic economic losses are mainly due to aggressive and unfair foreign exporters, not due to the lack of domestic

[1] According to the Article VI of General Agreement on Tariffs and Trade (GATT), dumping occurs when a country exports products in another country at a lower price than in its own market " and as a direct result, it causes substantial "material injury to" the relevant industry in the importing country. (Lee, Park and Cui 2013) There has been considerable research into multifaceted aspects of AD and AS related actions (Breton 2001; Staiger et al 1994; Harpaz 2011; Vandenbusshe and Hylke 2013). As noted by many, government subsidy can lead to dumping practices. Hence, anti-dumping investigation is often accompanied by anti-subsidy investigation. Governments retaliate when the competitiveness is threatened by a subsidy that another country pays domestic producers. A *countervailing duty* is an additional tariff placed on an imported product that a nation believes is receiving an unfair subsidy.

firms' competitiveness. Sometimes countries strategically use AD and AS investigations "for the sake of punishing aggressive foreign exporters and sending off warning signs" (Tran, 2012). Relating to the political nature of AS and AD, another equally important fact is power disparity in the use of AS and AD. Many scholars argue that powerful countries find anti-dumping measures "more useful instruments than weak countries, because powerful countries are less subject to retaliation"(Stone, 2011). Not so surprisingly then, the EU and the USA are the most frequent users of anti-dumping laws while China has been and still is one of the most targeted country for antidumping and anti-subsidy investigation. Between 1995 and 2011, the total 4,010 antidumping investigations were initiated globally and 853 cases were laid against the People's Republic of China (PRC), accounting for 21% of the total number of global antidumping investigations (Lee, Park & Cui, 2013). But in recent years, emerging economies have shown their willingness to resort to WTO anti-dumping laws. Feinberg (2013) finds that between 2008 and 2010, the top three users of antidumping, which filed 43 percent of all global cases, were India, Brazil, and Argentina. Likewise, China's share of AS/AD filing is on the rise. China's responses to AD and AS measures have changed over time. Initially, China kept a low profile and did not retaliate nor sought to resort to the WTO Appellate body to resolve disputes. However, with China's growing market power, PRC's attitude toward trade disputes has become more assertive. Beijing now retaliates with AS and AD laws enshrined in WTO against countries that initiate AD and AS investigations into Chinese firms. For instance, from 2003 to September 2012, China had launched a total of 131 anti-dumping investigations and five anti-subsidy investigations (Beijing Review, 10 December, 2012).

Reflecting China's assertive attitude toward WTO (traditionally dominated by the USA and the EU), Beijing has recently used AS/AD measures to settle solar trade disputes with the EU. In response to EU's initial AS and AD investigations into Chinese solar panels, Beijing decided to launch an anti-subsidy investigation into solar grade polysilicon (the raw material used for making photovoltaic products) from the EU. China argued that large companies in Germany received government subsidy of up to 30 percent for investments in the polysilicon industry, while small and medium-size companies received government aid, up to 40–50 percent of their investments (Beijing Review, 10 December, 2012). In addition, China's Ministry of Commerce began an anti-dumping and anti-subsidy investigation into wines imported from the EU. Europe has a big (and fast growing) share of China's wine market. European wine accounted for 67.6 percent of China's total wine imports at the time of the trade dispute (Beijing Review, 26 June, 2013) As of 2012, China imported $1 billion worth of wine from the EU, mostly from France and Italy (Blanchard & Guarascio, 2014). It should be noted that France and Italy supported the anti-dumping tariffs on Chinese solar panels while Spain took a neutral position. Thus, China's AS charges against EU wine were regarded as retaliatory in political nature as it mainly targeted EU member countries that supported the AD tariffs on Chinese solar products.

In addition to AS charges against wine, Beijing also initiated anti-dumping investigation into toluidine imports from the EU. Toluidine is an organic chemical used in dyes, pharmaceuticals and pesticides. As in the case of wine, the EU has a large share of China's toluidine market, accounting for 16 percent of the total market share as of 2011. According to Chinese investigators, the average selling price of EU-produced toluidine in the EU was significantly lower than the price of EU products in China. Accordingly, China decided to impose 36.9 percent of the anti-dumping duty rates (Beijing Review, 18 July, 2013). Again, China's AS charge was regarded as retaliatory mainly against Belgium. European Commissioner for Trade, Karel De Gucht, who was known for his hardline stance toward China on the solar panel dispute, is a Belgian. Given that China's

toluidine imports comes mainly from Belgium (Beijing Review July 18, 2013), Chinese counter AS investigation was regarded as selectively targeting Belgium that favoured AD tariffs on China. The next item on China's AS investigation list was European steel tubes. Steel seamless tubes and pipes are widely used in manufacturing advanced thermal power generating units. Annually, over 90 percent of the world steel tubes are sold to China, the largest thermal power market, each year (Beijing Review, 28 May, 2013). The US, the EU, and Japan had over 94 percent share of China's market for such steel products as of 2012 (Beijing Review, 28 May, 2013). Given the EU's large share of the Chinese steel market, the threat of hefty AS duties on EU products, if realized, was going to strike a serious blow to the EU economy.

The latest AS investigation from China targeted European automobiles. Beijing hinted that it was going to look into EU automobiles to determine whether the EU violated ant-subsidy regulations enshrined in WTO agreements. The Chinese car market is critically important for Germany which has yielded annual sales of over 327,000 cars in China as of 2012. Some analysts argued that by flexing its market power, China tried to pressure Germany to block further negative trade measures against China from the EU commission (Global Post, 10 June, 2013).

In response to China's counter-investigations, the EU showed mixed responses. On one hand, the EU escalated the bilateral tension by putting more Chinese firms under AS investigation. In May 2013, the EU filed a complaint against Huawei Technologies and ZTE, China's two leading telecom companies, for alleged dumping practice and illegal government subsidies. In addition, the EU used non-tariff barriers such as safety measures against Chinese products. The EU announced that it would apply stricter safety measures to rice products imports from China. The inspection requiring a health certificate and analytical report would be "the strictest inspection process in the history of the EU" (Beijing Review, July 18, 2013). Given the EU is the second largest importer of Chinese food stuff, the decision would undoubtedly hamper China's exports.

On the other hand, a schism resulting from differing national interests within the EU hindered a united EU front against China. For instance, Germany and the United Kingdom opposed the anti-dumping tariffs on Chinese solar products (Beijing Review, 26 June, 2013), while France and Italy supported strict AD and AS measures. The EU eventually retreated from its initial hard-line stance mainly due to China's retaliatory trade measures against the EU and the differing trade interests within the EU.

After exchanging several rounds of AD and AS charges with the threat of hefty retaliatory duties, both sides calculated the gains and losses if they would follow up on initial law suits. Eventually, Brussels and Beijing sought to defuse the situation of a possible full-scale trade war. With secrete negotiations behind the curtains, both sides reached agreements. First, with regard to solar panels, the EU decided to impose an import quota (a total import cap of 7 GW of solar panels per year) and minimum price (56 euro cents from previous 50 euro cents per watt), effective from 2015 (Reuters, 9 August, 2013). Given that China had exported 12 GW of solar panels to the EU in 2012, the quota will almost halve China's previous export volume. Together with the minimum pricing, the import cap was generally seen as a compromise, departing from EU's initial hard-line stance. In the case of solar panel, it was reported that "partly due to pressure from the German government" the EU refrained from applying punitive high tariffs on the solar panels (Dalton, March 13, 2014).

After both sides reached an agreement on solar panel, more compromises followed as other AS investigations were dropped before they formally reached the WTO dispute panel. The timing for ending the trade disputes is noteworthy. Most disputes ended shortly before China's president, Xi's visit to the EU to discuss a comprehensive plan to deepen the EU–China bilateral trade relations. In March 2014, Beijing dropped the AS investigation into EU polysilicon and wine. Shortly afterwards, the European Commission decided not to pursue an AD investigation into Chinese telecommunication companies (Huawei and ZTE). Given the secrecy surrounding negotiations, the details of the compromises are not yet available. With regard to the telecommunication case, it is speculated that China would award billions of dollars in contracts to European mobile equipment producers and ensure their access to the Chinese market in return for EU's withdrawal of punitive tariffs on Chinese telecommunication companies. Given that China is the world's largest market for mobile data services and smart phones with its annual growth rate reaching over 50 per cent (Blanchard & Guarascio, 2014), the deal is indeed a lucrative business opportunity for European companies. In the case of the wine dispute, European producers would provide technical assistance to the Chinese wine industry in return for China's dropping of the AS investigation into EU wine (Blanchard & Guarascio, 2014).

As shown in the above trade disputes, China has used its market power to influence EU's trade policy. By threatening to limit the import of certain products (EU wine and toluidine), China showed that it could punish some EU countries that supported the anti-dumping measures against China. Beijing also warned that if the disputes were not to be resolved in a manner acceptable to China, it could retaliate further by launching more anti-subsidy investigations into a series of EU products (e.g., automobiles).

The EU–China trade disputes show that China's market power is significant enough to influence how trade rules are practiced in today's global economy. Reflecting China's market power, more and more developing and emerging economies turn to China as an alternative source of trade and investment. Traditional economic powers such as the EU and the USA now face increasing economic challenges from the China-led economic bloc of the BRICS nations. As it will be explained below, against this backdrop of the growing South-South cooperation and China's expanding trade ties with Asian nations, Latin America and Africa, it is argued that the US and the EU seek to forge the largest free trade area to counter the rising China and the BIRCS.

TTP and TIPP: The Geopolitical Implications

Currently, the EU and the USA are negotiating an inter-regional free trade agreement (FTA), TTIP (Transatlantic Trade and Investment Partnership), while the USA has recruited several Asian nations to enter into a TPP (Trans Pacific Partnership), an inter-regional free trade agreement connecting Asia and the Americas. Conspicuously, the two mega-FTAs exclude China.

Implications of the two mega-FTAs are manifold. First, it is argued that TPP and TIPP are the efforts of developed countries to create a WTO version 2. If concluded successfully, TPP and TTIP will replace WTO as new global trade rules due to the sheer size of international market shares that the two trade deals will cover in the future. In other words, TTIP and TPP, with a global market coverage, will automatically come to exercise "standard-setting power". Most importantly, the two FTAs will entail US and EU centric trade rules and thus play an instrumental role in rewriting global trade rules that work in favour of developed countries (van Ham, 2013). As van Ham put it,

> TTIP's standard-setting power would indeed be overwhelming, and even a major competitor like China would almost certainly comply with whatever trade rules and regulations the transatlantic West offered to the world. TTIP would be the best way to beat China (as well as Russia and the Gulf states) at their own economic game (van Ham, 2013).

In this sense, TPP and TTIP resemble the earlier process that brought the WTO into being. The GATT, the first international trade agreement established under the leadership of the USA in 1947, promoted cross-border trade by making a significant tariff reduction. As international trade grew, however, the US and the European Community (the predecessor to the EU) considered the informal and limited GATT regime too inadequate. The scope of tariff reduction under the GATT trade regime was limited to only the manufactured goods and did not cover services, foreign investment, and intellectual property rights. The US proposed new rules in those areas that later became the rules of WTO. Developing countries found the new regulations disadvantageous to their developmental needs and thus tried to block the reform. Their endeavour failed when the US and the EC jointly withdrew from the GATT regime in 1994 and established the WTO instead. The US and the EC made a condition that the continuation of trade privileges of any GATT member is contingent upon joining the WTO. Given that the US and the EC controlled an overwhelming share of world market, developing countries had no option but to accept the new rules by joining the WTO (Stone, 2011).

Since the inception of the WTO in 1994, there had been a number of WTO ministerial meetings to forge a consensus on a multilateral framework of international trade in many contested areas including services and intellectual property rights. Negotiations took place in Seattle (1999), Doha (2001) and Cancun (2008) but no significant progress was made. The main reason for the impasse is the conflicting interests between developed and developing nations. Developed countries seek to liberalize service sectors while developing countries are cautious toward opening up their less competitive industries. International exports of services (banking, insurance, telecommunication, transportation, entertainment, education, professional services) are dominated by the US and some EU countries (Germany, Britain, France). The US is the largest exporter of services in the world, with $4.1 trillion export of services in 2011 (The Economist, July 21, 2012). Given the dominance of the EU and USA in the service sector, it is not surprising to see that the USA and the EU actively seek to dismantle barriers to international trade in services, while developing countries try to resist the pressure for service liberalization.

The resistance from developing countries came from a coalition of developing economies led by China, Brazil and India[2]. The coalition blocked the efforts by the US and Europe to adopt a comprehensive agreement on liberalization of service among other issues. The impasse at WTO negotiation rounds has consequently led countries to sign bilateral FTAs as an alternative way to expand trade opportunities. Against this backdrop, the US and the EU seek to reassert its hegemony in the global economy by forging a mega-FTA such as TPP and TTIP (Park, 2014). As many analysts point out, China is concerned that TPP and TTIP may "shape new trade rules and dominate the governance of global trade at the expense of China and other emerging economies" (Liu, 2014).

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[2] The BRICS grouping (Brazil, Russia, India, China, and South Africa) is a new "pole" in the global economy. The BRICS group has already established its own Development Bank which will compete against the US-dominated IMF and World Bank. The combined nominal GDP of the BRICS group currently amounts to $15 trillion. According to Goldman Sachs report in 2006, the combined GDP of BRIC countries would surpass the GDP of the G6 countries by 2050. The main driver in the BRICS is China which accounts for 85 percent of intra-BRICS trade. (China Daily, March 27, 2013)

China is especially suspicious of the hidden political agenda of the TPP, the US-led mega trade deal in Asia. Mainstream media outlets in China such as Global Times and China Daily openly characterize the TPP as a US containment strategy toward China. This view is widely shared by many analysts and think-tanks in Asia. For instance, Samsung Economics Institute (SEI), a well-renowned Korean think tank, argued that TPP is aimed at containing rising China and that the USA seek to use TTP and TTIP in order to assert itself as the global rule setter in international trade (Samsung Economics Institute, May 15, 2013) SEI further notes that China perceives TTP and TTIP as an attempt by the USA and the EU to isolate China by forging mega trading blocs and consequently pressure China to open the market to their liking.

What is then the reaction of China and the BRICS, the emerging economic pole in the global economy? China has responded to TPP by encouraging its own intra-regional economic cooperation such as the Regional Comprehensive Economic Partnership (RCEP). RCEP aims to integrate five major sub-regional FTAs, that the Association of South East Asian Nations (ASEAN) singed with its Asian neighbours (China, Japan, South Korea, Australia, and India), into a mega regional economic framework (Park, 2014). The RCEP will be a comprehensive trade agreement, covering trade in goods, services, and investment (Singapore Ministry of Trade and Industry, 2012). Unlike TPP, RCEP takes into consideration different levels of development of participating countries and allows “appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed” (Singapore Ministry of Trade and Industry, 2012). As China Daily states, “the RCEP, rather than a blanket agreement, should be a phased-in arrangement that accommodates member countries at different levels of development” (China Daily, May 13, 2014). Thus, the flexible RCEP is arguably a more attractive option for developing countries. Additionally, “provisions for technical assistance and capacity building may be made available to the developing and least-developed countries” (Singapore Ministry of Trade and Industry, 2012). Like TTP, RCEP has an open accession clause that allows other external members to join after the conclusion of the RCEP negotiations.

Favouring a more flexible trade bloc, many political analysts and policy advisors call for a free trade area among BRICS. Some Chinese economists have argued that “BRICS members should create a free trade agreement to increase the power and voice of emerging economies in the world economy”(China Daily, March 27, 2013). For instance, Wang Junwen, chairman of the China Association of International Trade, called for such an agreement. Sun Zhenyu, chairman of the China Society for World Trade Organization Studies (CWTO), a think tank of the Ministry of Commerce in China, also said, “BRICS surely needs to strengthen cooperation, and better cooperation will bring about a greater role in global governance” (China Daily, March 27, 2013). In contrast to TPP and TTIP, RCEP and BRICS free trade area are considered as developing countries’ (China and ASEAN) alternative to the US and EU led deep and comprehensive liberalization scheme. Likewise, Russia portrays its Eurasian Economic Union (concluded in May 2014) as Russia’s counter-trade bloc to the EU and US-led regional FTA schemes. As rivalry between traditional economic powers and emerging economies increases, TPP and TTIP are unlikely to merge into a multilateral trade framework that covers the entire global economy. They will more likely trigger power rivalry in the international arena and engender competing regional and sub-regional trade blocs. Dr van Ham, senior research fellow at the Netherlands Clingendael Institute of International Relations, cautions that “TTIP may well turn into a self-fulfilling prophesy, inducing the Global South, Russia and Brazil to rally round the Chinese flag, just to thwart EU–US standard-setting ambitions. TTIP may, in the worst scenario, create a unified anti-Western BRIC-bloc that hardly exists at the moment” (van Ham, 2013).

Unfortunately for the EU and the USA, the Ukraine crisis seems to provide a renewed momentum for the BRICS to consolidate its ties. Equally important is a prospect that the EU sanctions against Russia would further strengthen China's market power by creating more business opportunities for China.

The Ukraine Crisis: Consolidating BRICS?

To a large degree, the Ukraine crisis has resulted from two conflicting external forces: 1) conflicting economic interests between Russia and the EU and 2) geopolitical rivalry between Russia and USA (via NATO) in the region. It should be also equally stressed that Ukraine has its citizenry equally divided into pro-Russian and pro-EU constituencies closely tied to Russian or EU businesses. Until the Crisis of 2013, Russia was Ukraine's biggest trade partner, export market and source of energy although the EU was the major source of its foreign investment, a major shareholder in Ukrainian banks, and its second biggest trade partner. While Russia seeks to bring Ukraine to the Russia-led Eurasian Economic Union (similar to the EU), the EU has been negotiating with Ukraine to sign a "deep and comprehensive" free-trade agreement, stopping short of EU membership. Not surprisingly, Russia's Eurasian Union project was incompatible with the EU's Eastern Partnership with Ukraine (China Daily, November 29, 2013).

The condition under which the conflicting political forces came to a head was prepared by the IMF. Although in dire financial need due to economic distress resulting from the global financial crisis, in 2013 the IMF refused to lend money to the Ukraine. As a condition of aid, the IMF wanted Ukraine to cut energy subsidies to reduce the country's budget deficit. President Viktor Yanukovych refused the IMF's lending conditionality because the energy price hike would undoubtedly anger many Ukrainians and thus jeopardize his bid in the 2015 presidential election (Bloomberg, April 10, 2013). After the Ukrainian refusal of IMF conditionality, the country's economy was in free fall. International rating agencies such as S&P and Moody downgraded Ukraine's credit rating and made it difficult for Ukraine to borrow money while forcing it to pay higher interests on its debt. In this context of extreme financial difficulties, Ukraine turned to Russia for aid. Russia agreed to lend money without austerity demanding clauses. In return, Russia wanted Ukraine to reconsider its EU-Ukraine Free Trade agreement and instead to join the Russia-led eastern trade bloc. In this context, Yanukovych decided not to enter into a free trade agreement with the EU. The cancellation of the FTA plan backfired as this mobilized a large number of anti-government protestors who supported closer ties with the EU. The pro-EU street demonstrators, with the help of ultra-Ukraine nationalists, brought down the Yanukovych administration by illegal means, even though Yanukovych promised to reverse his previous trade policies. A majority of the populace in eastern Ukraine and Crimea, however, did not trust the new regime in Kiev, the coalition of pro-EU forces and ultra-Ukraine nationalists. Willfully ignoring the voice of pro-Moscow and anti-Kiev Ukrainians, the EU hailed the illegal ousting of Yanukovych as a victory for democracy. The EU and American approaches have been extremely biased against Russia in the eventual break-up of Ukraine. Ignoring human rights violations and atrocities committed by the new Ukraine regime against its own citizens, the EU and the USA blame only Russia and try to put pressure on their allies to punish Russia with military and economic sanctions. The sanctions will, however, unlikely change Russia's stance toward Ukraine. The main reason is that the Ukraine crisis is rooted in internal conflicts involving the Russian speaking people in eastern Ukraine and Crimea who do not support the new regime in Kiev. By sanctioning Russia and killing the anti-government protesters in eastern Ukraine, the EU and the USA unlikely win over people in Crimea and eastern Ukraine who harbour deep resentment toward the new government and its allies, the EU and the USA.

The EU sanctions against Russia have provided an impetus to Russia to reach out to the BRICS nations. It should be noted that at the UN general assembly meeting, all members of the BRICS group did not support the EU and the USA-led condemnation of Russia over Ukraine. To counter the sanctions, Russia has moved away from European and American markets and instead turned to Asia and Latin America. So far this year, Russia has made numerous mega-trade deals with BRICS nations as well as some Latin American countries. Russia signed a mega gas deal (worth $270 billion) with China (Russia Today, March 31, 2014). Moscow banned all food imports from the EU, the US, and the countries (e.g. Canada) that impose sanctions on Russia over the Ukraine crisis. Instead, Russia decided to fill the agricultural shortage with imports from China, Brazil, Ecuador, and Turkey.

As for countries in Latin America, many nations that resent US domination in the region welcome trade opportunities with China and Russia in order to move away from their traditional dependency on the American and the EU markets. When President Xi visited Brazil, Argentina, Venezuela, and Cuba (all four countries critical of US foreign policy) this year, the five nations confirmed their commitment to tightening Sino–Latin American cooperation and subsequently established the China–CELAC Forum (CELAC stands for the Community of Latin American and Caribbean States) which will be held next year (China Daily, July 30, 2014). China is the biggest trading nation for Brazil, Chile, and Peru, and the second biggest for Mexico. It is predicted that by 2016 China will surpass the euro zone as Latin America's second-largest trading partner. (South China Morning Post, 17 March, 2014). As the economic cooperation among BRICS deepens and China's trade with Latin America and other Asian nations increase, China is in no rush to compromise with the EU on the terms of its market opening.

The implications of the Ukraine Crisis for the EU–China bilateral trade relations are largely positive for China while the opposite is the case for the EU. First of all, the EU will be put under heavy pressure to find a new market for its agricultural exports that were previously earmarked for the Russian market. Russia's ban on agricultural imports from the EU will cost "Europe more than €12 billion in lost exports, which represents around 10 percent of total EU agricultural sales outside the bloc"(Euobserver, August 11, 2014). Already, the EU sanctions backfired as Russia's counter-sanction measures began to hurt the EU economy. Economists predict a low economic growth for most European economies this year. Since the Ukraine crisis began in 2012, it is reported that German investor confidence fell to the lowest level (Bloomberg, August 12, 2014). China will be in a better position to exploit new business opportunities with Russia. With new expanded venues for exports, Beijing will less likely enter into any new trade and investment agreements with the EU, if they require too many concessions from China in the area of state sector, agriculture and services. The game changer might be the TPP and TTIP (South China Morning Post, 17 March, 2014). As Van Ham pointed out, for the EU, TTIP is "the only way the two sides (the EU and the USA) can continue to assert their market power and preserve their mutual economic interests worldwide'" (van Ham, 2013). If TTIP is concluded, China will come under pressure to accept the new terms of trade liberalization in the traditionally protected areas including services, agriculture, and non-tariff barriers.

Conclusion

This paper has examined three critical issues concerning the EU–China bilateral trade relations. First, it analyzed the contentious dynamics between the EU and China with regard to recent trade disputes over rare earths and solar panels. Secondly, it discussed geopolitical implications

of mega-FTAs such as TPP and TTIP. Thirdly, it explored the impacts of the Ukraine crisis on the bilateral economic development. The paper argued that with China's growing market power, China responded to EU's AD and AS measures in an equally assertive manner by filing retaliatory investigations into EU export products. With a threat of reprisal (i.e., blocking EU access to growing China's market), China has negotiated compromised solutions to most trade disputes except the rare earths case. With regard to the geo-political implications of TPP, TTIP and the Ukraine crisis, it noted that these events may provide a renewed momentum for China and Russia to forge stronger economic ties among the BRICS and to rally other nations in Asia and Latin America to join alternative trade blocs.

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