

**9th Symposium on  
“Sino-EU Relations and the Taiwan Question”**

Chongming, Shanghai, China

June 30—July 3, 2012

*A workshop jointly organised by German Institute for International and Security Affairs / Stiftung Wissenschaft und Politik (SWP), Berlin and Shanghai Institutes for International Studies (SIIS), Shanghai, with the friendly support of the Robert Bosch Foundation, Stuttgart.*

Discussion Paper

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**Recent EU-China Relations and Obama's “Pivot” Towards Asia**

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## Introduction

Over the last two years, one topic has increasingly dominated in EU-China relations. The European debt crisis, which has affected more and more countries in the euro zone, has overshadowed all other issues in the relationship. For the EU, where initiatives had previously gotten underway to strengthen China policy by insisting on more reciprocity in the relationship, especially in the economic field, the euro crisis complicated things not only vis-à-vis China, but vis-à-vis Asia (and other countries) more generally.

Consequently, the Taiwan issue played almost no role in Sino-European relations. The détente that has taken place between the mainland and Taiwan under Ma Ying-jeou has been welcomed by the EU with basically no reservations. In contrast to the US, it would also be hard to accuse the EU or any of its member states of interfering with the elections in Taiwan in January. However, it can be safely assumed that politicians across Europe were also relieved about the election result, which is expected to guarantee four more years of stable and peaceful relations across the strait.

With respect to the US “pivot” to Asia, the EU / Europe face two challenges, since the refocusing of US politics to the Asia Pacific region has implications not only for the trans-Atlantic relationship, but also for Europe’s own positioning in Asia. Almost two years after the entering of force of the Lisbon Treaty, the EU and its member states have to rethink their approach to the region. And the result of this re-thinking will, in turn, have an impact on EU-China relations.

## Developments of the European Union: The Lisbon Treaty and the Euro Debt Crises

Looking back at the last two years, implementation of the Lisbon Treaty and establishing the new External Action Service have slowly moved forward. The sovereign debt crises absorbed most of the EU’s and member states’ attention and capacity. Some new areas for cooperation have been introduced in the relationship with China, namely the EU-China Sustainable Urbanisation Partnership, the EU-China High Level Meeting on Energy and a People-to-People dialogue. And on several occasions it was stressed by the EU side, that China’s new five-year program offered great opportunities for cooperation, since it features similarities with the “Europe 2020” agenda.<sup>1</sup>

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<sup>1</sup> See the long report by Robert Ash, Robin Porter and Tim Summers: *China, the EU and China’s Twelfth Five-Year Programme*, Europe China Research and Advice Network, 2012, [http://www.chathamhouse.org/sites/default/files/public/Research/Asia/0312ecran\\_ashportersummers.pdf](http://www.chathamhouse.org/sites/default/files/public/Research/Asia/0312ecran_ashportersummers.pdf).

New friction was introduced into the partnership by the carbon emissions tax on flights to and from Europe (“EU Emissions Trading Scheme ETS”): China officially banned its airlines from paying the European tax in February 2012. On this issue, China does not stand alone, since the US, India and Russia also protested against the tax.

One of the few positive developments in EU-China relations in the years 2011/12 was the formal establishment of a People-to-People Dialogue “to promote friendship and better knowledge between our 1.8 billion citizens through educational, cultural and humanitarian activities involving the exchange of ideas and experiences.”<sup>2</sup> This dialogue mechanism is supposed to become the third pillar in the relationship (with the others being the high level dialogues on economy and trade and on strategic issues). It is too early to say, however, whether this new format will be able to meet expectations on both sides.

### *Deal for bail?*

As stated above, the European sovereign debt crisis has overshadowed the “strategic partnership” between the EU and China. This has become most manifest in the controversial debates on financial support for crisis-ridden member states and about Chinese investment in Europe. From the EU side, there have been several appeals to China for help in solving the crisis: Klaus Regling’s visit to China in October 2011 as a key figure of the European Stability Mechanism (ESM), French President Sarkozy’s phone conversation with Chinese President Hu Jintao in October 2011, and German Chancellor Angela Merkel’s remarks during her China visit in February 2012, to name a few occasions where the Euro debt crisis was brought up.

Shortly before the (postponed) EU-China summit, a Chinese paper speculated that the euro zone crisis would be one of the major topics for the summit meeting:

[...] Herman van Rompuy, president of the European Council, and Jose Manuel Barroso, president of the European Commission will certainly follow the steps of German Chancellor Angela Merkel in seeking to boost China’s involvement in Europe’s debt troubles. China has repeatedly shown its willingness to rescue debt stricken EU member states and the detailed lending conditions and methods will most probably be discussed by the leaders at the summit.<sup>3</sup>

There was a lot of speculation in China as well as Europe about the linkage between China’s possible support in the debt crises on the one hand and concessions on the long-standing issues of market economy status (MES) and the arms embargo on the other. In many media reports, such a link between financial help in exchange for political concessions was assumed or speculated about,

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<sup>2</sup> Herman van Rompuy: „Closer EU-China Cooperation“, *China Daily*, Feb. 15, 2012.

<sup>3</sup> Wei Shen: „Pragmatic view of relations“, *China Daily*, Feb. 14, 2012.

though, understandably, it was never explicitly mentioned by top politicians from both sides.

The presentation of the euro crisis in Chinese media including social media focused mainly on the economic asymmetry between China as a developing country and the rich European member states. Popular thinking in China about bailing-out Europe was encapsulated in an open letter published by *China Daily*: “To be frank, some of us don’t understand why the rich are holding out their hands to the poor and asking for money.”<sup>4</sup> Another focus was on the fact that the Europeans came running to China for help. For example, the *Global Times* reported in November 2011 that Hu Jintao at the G20 summit in France had pledged more financial support for other developing countries “[...] against the backdrop of [...] a begging letter to the Chinese government from the debt-ridden eurozone.”<sup>5</sup> The article comes to the conclusion that “Europe need Chinese funds for an immediate solution to a money distribution problem, and for this they *will need to bite their tongues for the coming months.*” [emphasis mine]<sup>6</sup> Another op-ed in the *GT* warned Europeans that its political attacks on China would rebound and that European countries should – in light of the debt crisis – “respect China’s bottom-line.”<sup>7</sup> European experts as well argued in favor of a more compromising stance of the EU vis-à-vis China on the two major contentious issues, namely granting China MES and lifting the arms embargo.<sup>8</sup>

Arguments against bailing out Europe were raised not only in China but also in other emerging economies/powers. For example, *China Daily* published an article by an Indian author stating that European social security systems were responsible for the debt crisis, and that BRICS and China should not help, since peoples in emerging economies should not remedy for mistakes made by European member states. Europe should admit its mistake to have pursued policies only in the interest of Europe.<sup>9</sup>

### *Money yes, investment no?*

Within the European Union, there have been less media reports or statements by politicians alluding to a deal on financial help for political concessions. One of the few exceptions was an article stating that “China is using the possibility of buying public debt as a tool of its public diplomacy.”<sup>10</sup> While Chinese help in the form of

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<sup>4</sup> Huang Xiangyang: „To the indebted nations of Europe“, *China Daily*, Feb. 23, 2012.

<sup>5</sup> Stuart Wiggin: „Crisis exposes EU hypocrisy on China aid“, *Global Times*, Nov. 13, 2011.

<sup>6</sup> Stuart Wiggin: „Crisis exposes EU hypocrisy on China aid“, *Global Times*, Nov. 13, 2011.

<sup>7</sup> „Europe can’t afford to pander to public feeling“, *Global Times*, Feb. 21, 2012.

<sup>8</sup> See Fu Jing: „Experts say Europe should compromise with China during upcoming summit“, *China Daily*, Feb. 9, 2012.

<sup>9</sup> See M.D. Nalapat: “Europe Must take its Medicine”, *China Daily*, Oct. 27, 2011.

<sup>10</sup> Alicia Sorroza: „Is the Eurozone crisis changing EU-China relations?“, ARI 154/2011, Nov. 22, 2011.

directly buying euro bonds or a contribution via the IMF is across the board assessed as positive, there is more of a controversy in Europe on whether *investment* from China in Europe should be welcome or not. The report of the European Council of Foreign Relations with the (un)telling title “The Scramble for Europe”<sup>11</sup> set the tone for this discourse. China’s direct investment rose - from a very low level - relatively fast over the years 2010 and 2011, especially in the Mediterranean countries.<sup>12</sup> One reason why this issue is so contentious within the European Union might be that there is no equivalent institution to the Committee on Foreign Investment in the United States (CFIUS). Data on Chinese investments in European member states are therefore rather sketchy and vary widely depending on what sources are used. The fact that it might be self-defeating to ask China for a financial bail-out, but to signal at the same time that direct investments from China are potentially seen as a threat in Europe seems to have evaded many participants in the debate.

The whole discussion about China bailing out debt-ridden euro countries and investments seems to be blown out of proportion. Exact figures of how much European debt was bought by China do not exist: China does not break down its currency reserves, and neither does the EU publish data on which country bought how much Euro bonds from which individual member states.

One of the more sober analyses of the issue comes to the following conclusion:

Since 2010 there have been rumors about large Chinese investments each time a senior Chinese official has visited Greece, Ireland, Portugal, Spain, or Italy, but the reality is that no large transactions have taken place and no deals have been closed. The total Chinese exposure to the euro area’s periphery financial assets has remained trivial, while the limited direct investments that have taken place have been strictly on a commercial basis as Chinese firms expand abroad. Given that Europe has relatively fewer national security concerns than the United States, it is expected that ongoing Chinese commercial investments in the European Union will accelerate in the future.<sup>13</sup>

If we look at official Chinese statements on and reactions to the euro crisis, they reflect different institutional interests within the government and leadership: While political leaders almost without exception pledged support for the EU and for stabilizing the euro, China’s central bank governor Zhou Xiaochuan urged Europeans to come up with more attractive financial products and only promised that “China will not cut the proportion of euro exposure”.<sup>14</sup>

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<sup>11</sup> [http://www.ecfr.eu/page/-/ECFR37\\_Scramble\\_For\\_Europe\\_AW\\_v4.pdf](http://www.ecfr.eu/page/-/ECFR37_Scramble_For_Europe_AW_v4.pdf)

<sup>12</sup> In November 2011, Chinese Commerce Minister Chen Deming made remarks about the euro crisis as providing an opportunity for Chinese investments in European infrastructure and assets and announced an investment delegation for 2012.

<sup>13</sup> Jacob Funk Kirkegaard: „Why the Euro Area Crisis Will Impact Little on Europe’s Relations with China“, *East Asia Forum Quarterly*, April 3, 2012.

<sup>14</sup> „China to keep investing in euro zone debt“, Reuters, Feb. 15, 2012.

As a matter of fact, China does have a vital interest in Europe's recovery from the crisis. The EU is still the largest market for Chinese products, taking up 20 % of China's exports (followed by the U.S. with an 18 % share).<sup>15</sup> China therefore has basically two stakes in a stable euro: first, it would help stabilize its biggest export market, and second, it would offer China an alternative in its currency reserves to the US-\$. And if China would lend money to the European countries through the IMF, this could also improve its voting shares in the longer run. Moreover, the IMF in February 2012 warned in a study that China's growth could be halved if the European debt crisis escalated. Therefore, China faces "[...] a dilemma – a desire to help Europe, or risk seeing the country's largest trading partner slide into recession, vs. the very real fear that buying European debt could simply be a bad investment."<sup>16</sup>

Meanwhile, Wen Jiabao during his visit in Poland announced a trade and investment initiative for countries in Eastern Europe.<sup>17</sup> Wen opened a China-Central European Economic Forum with representatives from sixteen East European states in Warsaw. These activities focusing on a group of EU member states (and some non-EU states) can be seen in connection to another trend which is still ongoing: The re-nationalization of relations between China and individual or groups of member states which have been seen as part of a "divide and conquer" strategy by many. Another study of the ECRF on the "special relationship"<sup>18</sup> that has been unfolding between China and Germany has highlighted this trend.

In sum, Sino-European relations have changed over the last few years, and not necessarily for the better: The European debt crisis makes Europe more inward-looking (again), and as long as no real and sustainable way out of the multiple crises has been found, the EU will also have a hard time to project any kind of positive and strong image to the outside world. Due to an urgent euro crisis summit in Brussels in October 2011, the EU had to cancel the annual summit with China (which was supposed to take place in Tianjin). The symbolism of this last minute postponement should not be underestimated, since it demonstrated the severity of the crises.

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<sup>15</sup> Alicia Sorroza: „Is the Eurozone crisis changing EU-China relations?“, ARI 154/2011, Nov. 22, 2011.

<sup>16</sup> Keith B. Richburg: „China casts a wary eye on Europe“, *The Washington Post*, March 1, 2012.

<sup>17</sup> Melissa Eddy: „China Wants More Trade With Central and Eastern Europe“, *The New York Times*, April 26, 2012.

<sup>18</sup> Jonas Parello-Plesner and Hans Kundnani: *China and Germany: Why the Emerging Special Relationship Matters for Europe*, May 2012 (= ECFR Policy Brief No. 55), [http://ecfr.eu/page/-/ECFR55\\_CHINA\\_GERMANY\\_BRIEF\\_AW.pdf](http://ecfr.eu/page/-/ECFR55_CHINA_GERMANY_BRIEF_AW.pdf).

## The US “Pivot” to Asia: Implications for the EU

There are two important challenges posed by the “pivot” to Asia or the “rebalancing” of the United States’ global policy: First, what does it mean for the transatlantic partnership (fear of abandonment)? And secondly, what are the implications for the EU’s role and image in Asia?

If there is concern in- and outside Europe about the EU’s growing marginalization due to the euro debt crisis, this trend has been amplified in geopolitical terms by the “pivot” to Asia announced by the Obama administration in 2011. While talk of a G2 had not been enough to shake up the Europeans, the “pivot” has triggered a debate because of its potential direct impact on the trans-Atlantic partnership and US engagement in Europe. A sense of abandonment by Europe was expressed in a British op-ed:

[...] while the United States’ “pivot” is welcomed by much of Asia, it is causing concern to the nations of Western Europe. Having relied upon the United States for security and economic growth since the latter half of the 20th century, the nations of the EU will soon find that they are no longer the focal point of American attention. This was already true in part due to the end of the Cold War, and the defeat of Communism. Yet it will become ever more so as the United States looks further East. In order to prepare for this shift in geopolitics, European countries must initiate a carefully calibrated response of their own.<sup>19</sup>

American commentators and think tankers have downplayed the substance of the “pivot”, since the US financial situation is still difficult and will require drastic cuts in the military budget. Moreover, the US has emphasized on several occasions that the “pivot” does not mean that Europe has become irrelevant as a partner for the US. At the Munich Security Conference in February 2012, Hillary Clinton and Leon Panetta underlined how important Europe remained in the American alliance system (“security partner of choice”) and on issues like Libya, Iran or Afghanistan. But they also expressed the expectation of the US that Europe will take on more responsibility, especially in the military realm, and that Europe should be a producer instead of a consumer of security.<sup>20</sup>

Moreover, the US expressed the expectation that the Europeans would become more involved in Asia alongside the United States. Hillary Clinton said as much in her speech at the Munich Security Conference in February 2012:

I am glad that Europe's engagement in the Asia Pacific is on the agenda here in Munich, because we need to reach out together to regions already playing a growing role in world affairs. Now, a great deal has been said about the importance of a rising Asia Pacific for the United States. But not nearly enough has been said about its importance for Europe. America and Europe need a robust dialogue about the

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<sup>19</sup> Sir Malcom Rifkind: „Europe Grapples With U.S. Pivot“, *The Diplomat*, Dec. 1, 2011.  
<sup>20</sup> See „NATO’s Sea of Trouble“, *The Economist*, March 31, 2012.

opportunities that lie ahead in the Pacific-Asia region. [...] Taken together, all of these elements point to a larger enduring truth: When Americans envision the future, we see Europeans as our essential partners. There is no greater sign of our confidence and commitment than just how much we hope and need to accomplish with you.<sup>21</sup>

The geo-strategic basis/underpinning of the pivot has been widely highlighted, as the following quote shows:

This shift of U.S. focus to Asia is not motivated by purely economic interests. It also involves strategic and security considerations, highlighted by ongoing tensions over unresolved territorial disputes in the oil- and gas-rich South China Sea, where China, Vietnam, the Philippines, Taiwan, Brunei and Malaysia maintain competing claims.<sup>22</sup>

And the recent remarks of US Secretary of Defense Leon Panetta at the Shangri-la Meeting in June 2012 made clear that the US is determined to strengthen its military presence in the region.<sup>23</sup>

While the “return” of the U.S. to the Asia-Pacific has manifested itself in a series of trips of Obama himself, Hillary Clinton and Leon Panetta in East Asian countries, the rapid signing of ASEAN’s Treaty of Amity and Cooperation (TAC), and US (renewed or new) high-ranking participation in regional meetings like the East Asian Summit (EAS) or regional events like the ASEAN Regional Forum (ARF), European political activities and engagement in regional events have come to a low point: In the first year in office, Lady Ashton has not shown up for any of the meetings, not even the Asia-Europe Meeting (Asem) summit.<sup>24</sup> While the EU has emphasized that it wants to play a bigger role in Asia, it hardly makes sense to knock at ASEAN’s door for being included in the East Asian Summit (EAS) if so little interest is displayed in other regional formats where the EU and/or member states do have a seat at the table.

Growing doubts concerning Europe’s role in Asia have been articulated during the last year. Asian countries in general have never considered the EU as a

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<sup>21</sup> “Remarks by Secretary of Defense Leon Panetta and Secretary of State Hillary Clinton at the 48th Munich Security Conference, Bayerischer Hof, Munich, Germany”, Feb. 4, 2012, <http://www.defense.gov/Transcripts/Transcript.aspx?TranscriptID=4972>.

<sup>22</sup> Xuan Loc Doan: „Will Europe Play a Role in the ‚Asian Century‘?“, *World Politics Review*, Nov. 16, 2011.

<sup>23</sup> „Panetta’s Speech at the Shangri-La Security Dialogue, June 2012“, <http://www.cfr.org/asia/panettas-speech-shangri-la-security-dialogue-june-2012/p28435>. Among other steps, he announced that the US navy would rebalance its forces between the Pacific and the Atlantic from 50/50 to 60/40. And he concluded: “Therefore, we are investing specifically in those kinds of capabilities -- such as an advanced fifth-generation fighter, an enhanced Virginia-class submarine, new electronic warfare and communications capabilities, and improved precision weapons -- that will provide our forces with freedom of maneuver in areas in which our access and freedom of action may be threatened.”

<sup>24</sup> See for example Frans-Paul van der Putten: „Europe in the Pacific century“, *East Asia Forum*, Nov. 22, 2011.



strategic partner in (hard) security terms. And with the financial crisis, Europe might also have considerably lost in terms of soft power:

[...] policymakers in Asia, and in ASEAN, in particular, have often looked to the EU as a model – or at least a reference point – for economic integration. However, given the EU’s current financial crisis, that may no longer be the case. The crisis has certainly made the EU much less attractive to Asian countries.

Until now, the EU has expected Asia to move closer towards Brussels’ worldview. It is becoming increasingly clear that the EU might have to move closer to Asia’s.<sup>25</sup>

One consequence of the “pivot” to Asia of the United States is that Europe and the EU themselves have to become more active in and vis-à-vis Asia.<sup>26</sup> The lack of attention for Asia on the side of the EU has been met with a lot of criticism, and Lady Ashton has promised to do better in the future. Actually, she did attend the EU-ASEAN ministerial meeting in Brunei in April 2012, and she will also take part in the next ASEAN Regional Forum (ARF) in July 2012, where she is expected to present a joint statement with Hillary Clinton on “Enhancing U.S.-E.U. Dialogue and Engagement on Asia-Pacific Issues”.<sup>27</sup> This suggests that the EU will move in a direction to align itself more with the United States in its involvement in Asia. Whether it will be moving into the role of a “junior partner” or try to play a complementary role to the U.S. by better coordination and a “division of labor” remains to be seen. Both options would most certainly have an impact on the EU’s relationship with China. A third – and not unlikely – scenario is that the EU concentrates even more than before on its immediate neighborhood, while the US shifts its attention to the Indo-Pacific.

Summing up, it is too early to say what concrete shape the US “pivot” will take and how the EU will deal with the dual challenge to the trans-Atlantic partnership and its engagement with Asia.

## Conclusion

Depending on the outcome of the European sovereign debt crisis, very different scenarios are possible which will have a bearing on the future of the trans-Atlantic

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<sup>25</sup> Xuan Loc Doan: „Will Europe Play a Role in the ‚Asian Century‘?“, *World Politics Review*, Nov. 16, 2011.

<sup>26</sup> See for example the op-ed published in the *Neue Züricher Zeitung* under the title “Europe sleeps when Asia wakes up”: Markus Spillmann: “Europa schläft, wenn Asien erwacht”, May 5, 2012, p.1.

<sup>27</sup> See Judy Dempsey: „Transatlantic Cooperation on Asia“, May 28, 2012, <http://carnegieeurope.eu/publications/?fa=48248>. [This ARF meeting has taken place and the “Joint EU-US Statement on the Asia Pacific region”, Phnom Penh, July 12, 2012 (A328/12) can be found at: [http://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/EN/foraff/131709.pdf](http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/131709.pdf)]

partnership, Europe's capacity to get more engaged with Asia and, last but not least, the relationship with China. The last two years have been very difficult for the European Union, and some analysts have argued that the EU is going through the biggest crisis since its founding. European politicians like to argue that crises have always made the EU stronger in the past and that the EU will emerge fiscally and politically more integrated from the present crisis. So China (and other Asian countries) should be careful not to prematurely write the EU off. Chinese scholars seem to be divided over the prospects of the EU to overcome the crisis, but most experts on the EU also express cautious optimism.<sup>28</sup>

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<sup>28</sup> See the brief interviews with several Chinese EU specialists: „Crisis prompts push for more powerful EU“, *Global Times*, Nov. 27, 2012.