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Discussion Paper
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The EU's New China Policy and the Future of Bilateral Ties

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Abstract: *This article forecasts the future of bilateral ties by examining the recent readjustments in the European Union's China policy. It highlights the EU's interest in a closer bilateral cooperation focusing on pragmatism and an integrated approach to China by EU member states. The future of bilateral ties will hinge on whether the two sides can seize the current opportunity to expand complementary areas in their economies while curbing competition.*

The recent tremendous global transformations following in the wake of the worldwide financial crisis, the serious challenges facing the developed world, and the rising influence of the emerging powers such as China and India, have sparked heated debates and profound soul searching among the European elites. They are rethinking and retooling their relations with China.

Although detailed China policy varies among the EU states, there is nevertheless some consensus, which has crystallized in a series of post-1995 China policy reports. This new consensus has arisen in the course of debates in influential think tanks, the media, and EU institutions as well as within the governments of the member states. They have redefined the EU's attitude to China in the following respects:

✧ Status as a developing country

Despite China's insistence on defining itself as such, the EU bloc no longer regards China as a developing country in the traditional sense. Andrew Mitchell, the UK Secretary of State for International Development, has said that it is unjustified to offer aid to the world's second largest economy. The UK has thus terminated its development aid to China and has asked the EU to extend this policy to all other emerging powers.¹ There had been similar calls from the German political parties. Heidemarie Wieczorek-Zeul, the German Federal Minister of Economic Cooperation and Development until 2009, responded by restricting assistance to such countries to environmental protection.²

✧ International role

In its first China policy report in 1995, the EU considered Beijing as just an ordinary regional power. Today, it treats the Middle Kingdom as an emerging power with global clout, without whose participation viable solutions to any global issue would be out of the question. In its China policy paper unveiled in January 2009, the British Foreign and Commonwealth Office deemed China's emergence

¹ Larry Elliott, "UK terminates development aid to China and Russia." *Guardian*. 16 June, 2010.

² Deutsche Welle, network, July 28, 2007.

as a global economic and political force as the most significant event in the modern era. The report says that synergy with Beijing is indispensable for the world to eliminate poverty, settle conflicts, and check global warming. It believes that trilateral cooperation between China, America and the EU will determine the direction of the world in the coming decade.³

✧ Western ideological influence

As China grows in economic prowess and political influence, European analysts have found that the West has failed to mould China in its own image by persuading the country to pursue political democratization along with economic liberalization and. In a 2009 study, the influential European Council on Foreign Relations (ECFR) asserts that contrary to European desires, “China’s foreign and domestic policy has evolved in a way that has paid little heed to European values, and today Beijing regularly contravenes or even undermines them.”⁴ While praising China’s economic achievements, the European media tend to accuse Beijing of political backsliding in, for example, jailing Nobel Peace Prize winner Liu Xiaobo, in its dispute with Google, and in executing a British citizen engaged in drug trafficking. Charles Grant, Director of Centre for European Reform, has categorized European China watchers as either optimists or pessimists. The optimists, currently holding the upper hand, believe that China will become increasingly Westernized as its economy advances, but the pessimists feel that China’s policies in recent years have vindicated their views, that China’s rise has led to greater political autocracy, economic apathy toward foreign investments, and diplomatic intransigence.⁵

✧ The impact of China’s rise on Europe

China’s rise, widely viewed positively in the mid-1990s, has been increasingly seen as a ‘threat’ in Europe since 2005: an emerging power, robbing Europeans of jobs, markets and resources. The EU governments now regard Beijing as a peer competitor, announcing in a 2006 policy document that China “has evolved into a formidable challenger to EU trade policy.”⁶ However, the ‘China opportunity’ theory has been gaining ground once again since the global financial meltdown, as cooperation with China is helping EU out of depression. A leading German think tank, the German Institute for International and Security Affairs (Stiftung Wissenschaft und Politik), released a research report in December 2010 analyzing China’s economic challenges to Europe. It identifies the rising Chinese economy

³ “The UK and China: A Framework for Engagement,” Foreign and Commonwealth Office of the UK, January 2009.

⁴ John Fox and Francois Godement, *A power Audit of EU-China Relations*, European Council on Foreign Relations, 17 April, 2009.

⁵ Charles Grant, “China’s Peaceful Rise Turns Prickly,” January 22, 2010.

⁶ “EU-China: Closer Partners, Growing Responsibilities,” Communication from the Commission to the Council and the European Parliament, October 24, 2006.

as a double-edged sword. China's voracious appetite for goods and services is providing its trading partners with a vast market and job opportunities, thus stimulating European growth; but, with its cheap labor and huge economy, it clearly enjoys an edge over Europe; and its ever-mounting demand for energy and raw materials is threatening Europe's security in material supplies. The report further asserts that environmental pressures brought about by China's development have caused ecological disaster beyond its borders. It also accuses China of pursuing mercantilism, and finds fault with China's overseas investment policies.⁷

Shifts in Policy

This revision of the EU's attitude to China has led to policy readjustments. Recognizing the necessity for partnership with China, EU institutions and member states are calling for new ways of dealing with the country.

In the EU's eyes, China has evolved from a regional to a global power. The EU now wants to transform its strategic partnership with Beijing into a powerful tool in the service of its interests. Some EU leaders were still somewhat skeptical about the value of a China partnership until recently, but today they have awakened to its strategic value as a rising power, highlighted by its role in dealing with the global financial crisis while Europe struggles with economic downturn and debt crises.

Indeed, 2010 could be called the 'Year of Emerging Powers' for Europe, since EU leaders convened many meetings devoted to formulating strategies toward them. At the 15-16 December meeting of the European Council, the supreme decision-making institution of the organization, leaders of the member states discussed a report on the EU's relations with major strategic partners, submitted by Catherine Ashton, the EU High Representative for Foreign Affairs and Security Policy. It was the first time since the global financial crisis that the EU had conducted an overall reexamination and redefinition of its major strategic partners in the light of the new situation.

The Ashton Report makes the following observations on the EU-China relationship:

✧ It identifies five goals — freer and fairer market access to China (improved conditions for inbound investment; IPR protection; transparency in public procurement); closer collaboration in response to global challenges and security threats; partnership in a low carbon economy; stronger rules-based global governance; and extension of democratic rule, rule of law and human rights.

✧ It has elevated China's status among the EU's strategic partners, now ranking it second only to the United States, and ahead of Russia, India, Brazil,

⁷ Hanns Günther Hilpert, *Chinas globale wirtschaftliche Herausforderung*, Stiftung Wissenschaft und Politik (SWP), 2010, Dec. 29.

Japan, Canada, Mexico and South Africa. It further proposes that the EU set up a trilateral dialogue mechanism with the United States and China.⁸

✧ It highlights the greater pragmatism in policy towards China by giving top priority to market access in its list of EU strategic interests. It has given some concrete content to the EU-China relationship by focusing on joint response to global challenges and global governance, attempting to dispel the doubts of some European analysts about the substantive significance of such a strategic partnership.

With its realization of the importance of collaborating with China, the EU has been rethinking its way of dealing with Beijing. In recent years, pressure has been growing for a change in China policy from the EU's decision-making institutions and EU member governments, with the sharpest criticism coming from the European Council on Foreign Relations (ECFR). It rejected the EU's former "unconditional engagement" China policy, claiming in a 2009 research report that the policy "has delivered few results for the EU, whether in the pursuit of its immediate interests or within the broader purpose of seeking Chinese convergence with European goals and values."⁹ Moreover, most European think tanks have been calling on EU member states to abandon the practice of each going their own way in handling China.¹⁰

Pragmatism has now been widely accepted as a guiding principle in managing ties with China. "Reciprocity" had been the catchword in the EU's China paper of 2006. This has since then evolved into "reciprocal engagement," a replacement for the former "unconditional engagement." From now on, if China wants to get something from Europe, it will have to offer some concessions in return. For example, China has to make genuine concessions on trade or investment barriers in exchange for recognition of its market economy status from the EU. China also has to trade a wider opening in its services sector for more EU technology transfers. China is expected to contribute more on international security issues of concern to the EU, such as nuclear proliferation and the Iran nuclear program, before it can expect EU to lift its arms embargo on China.¹¹ This reciprocity concept has now won widespread official acceptance within the EU.¹²

The EU has also been working to coordinate and integrate the China policy of its 27 member nations, to avoid Beijing being able to exploit their divisions. The Lisbon Treaty has provided the mechanism and the political motivation for this.

⁸ 引自袁雪、李景：“市场准入：欧盟对华核心利益之首”，《21世纪经济报道》，2010年12月20日。

⁹ John Fox and Francois Godement, *A Power Audit of EU-Chinese Relations*, European Council on Foreign Relations (ECFR), 17 April 2009.

¹⁰ See Jonathan Holslag, "The difficulties in Sino-European relations." *New Europe*, 12 July 2010.

¹¹ John Fox and Francois Godement, *A Power Audit of EU-Chinese Relations*, European Council on Foreign Relations (ECFR), 17 April, 2009.

¹² Catherine Ashton used this notion in her report December 2010 to the European Council.

Technically, the Lisbon Treaty, effective from December 1st, 2009, only modified the earlier Rome and Maastricht Treaties, yet it retained elements of institutional reform enshrined in the unratified Constitutional Treaty of 2004, despite the fact that this treaty has been rejected by referendums held in some member countries. Institutional reform is of particular significance for a coherent foreign policy for the EU.

In accordance with the Lisbon Treaty, the European Council has elected former Belgium Prime Minister Herman Van Rompuy as its first President, with tenure of two and a half years and eligible for another term by reelection. This replacement of the original half-year rotating presidency benefits EU policy continuity. In response to divisions between the 27 member states and the lack of coordination between supranational institutions like the European Commission and the European Council, the Lisbon Treaty concentrated powers over foreign affairs within the jurisdiction of the two supranational institutions in the hands of the EU High Representative for Foreign Affairs and Security Policy. Catherine Ashton, the incumbent office-holder, chairs the monthly foreign ministerial meeting of the EU Council and is concurrently the Vice President of the European Commission. As such, she is able to enhance communication with member states and enjoys the power to coordinate all foreign affairs issues of relevance to the Commission. To improve coordination, a European External Action Service was set up under the guidance of Ashton in December 2010, composed of officials from both EU institutions and foreign ministries of member states. At present, a proposal is under consideration to list EU-China relations as a fixed item on the agenda for the monthly foreign ministerial meeting of the EU Council. In fact, many Europeans consider coordinating China policy as the most demanding test for the new mechanism of the Lisbon Treaty.

The EU wants to impress China with its collective strength in ensuring the interests of its members. As well as giving full play to its new foreign policy mechanism, it is seeking to use the annual China-EU summit as an occasion to coordinate the China policy of its members. On the eve of the October 2010 summit, President Rompuy chaired a discussion on “The EU’s strategy in the fast-changing world” with the participation of the state leaders and foreign ministers of the 27 member nations. The meeting identified EU priorities at the EU-China and Asia-Europe Meeting (ASEM) summits. There are plans to set up a Summit Coordination Mechanism to better coordinate the positions of the member states.¹³ There are also attempts to integrate all existing dialogues between China and individual EU member states, and the EU’s delegation in China has surveyed the resources of the embassies of member states in China.

¹³ 引自袁雪、李景：“市场准入：欧盟对华核心利益之首”，《21世纪经济报道》，2010年12月20日。

The Road Ahead

Economic interests are bringing China and the EU closer together. New incentives and new opportunities have arisen for the swift and smooth development of bilateral interactions since the global financial crisis. The major European countries consider increased exports to and stronger economic collaboration with China as a vital element of their economic recovery. The UK Foreign and Commonwealth Office said that China will offer more opportunities for British enterprises than any other country in the coming decade. It listed “optimization of interests from China’s economic rise” as the first of the three pillars of its China policy in January 2009.¹⁴ Germany and France have adopted much the same attitude. Beset by their sovereign debt crises, Greece, Spain and Portugal are even more eager to enlist China’s help in escaping their economic doldrums. This is why bilateral relations have thawed and China is now being viewed as a key strategic partner.

The EU has been China’s largest trading partner and biggest export market for some years. Despite the current economic downturn and sovereign debt crises in Europe, the importance of the EU in China’s diplomatic strategy remains intact. China customs statistics confirm the EU’s continued status as the country’s largest trading partner in 2010, with bilateral trade at \$479.7 billion or 16.14% of China’s total foreign trade. Europe has also become one of China’s important overseas investment destinations since the global financial crisis.

The highly complementary nature of the two economies is driving the advances in mutual ties. Future progress hinges on whether the two sides can seize the current opportunity to enhance this complementarity and reduce competition. For this, China needs to address EU grievances over trade imbalances, complaints of unfair competition by subsidized Chinese enterprises, poor IPR protection in China, and lack of reciprocity in market access.

Professor Gustaaf Geeraerts, Director of the Brussels Institute of Contemporary China Studies (BICCS) suggests that in meeting challenges in bilateral trade and investment, the best preventative move for China is to foster its domestic market and open wider to the outside world because “a huge, open China market will provide vast opportunities for European exports and investments, thus easing European structural problems.”¹⁵ In 2009, China sent a number of trade promotion delegations to Europe to encourage more imports into China. The upcoming 12th Five-Year Plan aims to expand domestic demand through industrial restructuring, thereby creating further opportunities for trade expansion. During his state visit to France in November 2010, President Hu Jintao signed an agreement to work for a

¹⁴ “The UK and China: A Framework for Engagement,” Foreign and Commonwealth Office of the UK, January 2009.

¹⁵ “China-EU relations turn more realistic,” Beijing-based *International Herald Leader*, November 26, 2010.

doubling of annual bilateral trade with France in the next five years, increasing it from \$40 billion in 2010 to \$80 billion in 2015. During British Premier David Cameron's China visit at the end of 2010, a similar agreement was reached, aiming to double annual trade to \$100 billion by 2015.¹⁶

Expanding economic cooperation so as to stimulate the upgrading and restructuring of economic and trade relations will be the key to bilateral interests. The ten-year economic development program adopted by the EU in 2010 focuses on building a knowledge/innovation-oriented digital economy and enhancing competitiveness through greater energy efficiency for sustainable development. The bloc has always enjoyed a leading role in new energy resources and technologies for environmental protection. There are thus particularly rich opportunities for bilateral collaboration in areas such as energy resources, new materials, energy conservation, and environmental protection, electric automobiles, information technology and telecommunications, and high-end equipment manufacturing.

China also needs to further open up its service industry. The Chinese government has committed itself to more fully opening its finance and logistics industries to foreign investment, and is steadily introducing more foreign enterprises into its education, medicine, health care and sports sectors. During his German visit in January 2011, Vice Prime Minister Li Keqiang published an article welcoming more foreign investment in China's service sectors.¹⁷

While expanding bilateral interests, both sides ought to explore avenues for international cooperation in monitoring and resolving global crises. Against the backdrop of rapid globalization and deepening inter-dependency between nations, it has evolved into a consensus in the international community of the need to shape a new system for international cooperation to meet global challenges such as the financial crisis and climate change. Better coordination and cooperation between the two major powers of the EU and China will be important in pushing for post-financial crisis institutional reforms and strengthening global governance. Despite their tendency to introversion, both parties are hopeful of attaining better international collaboration. They will both need to be pragmatic and open to compromise. Mutual political trust will be indispensable for bilateral strategic cooperation. Therefore, the EU needs to discard its ideological bias against China. China, in turn, needs to improve its public diplomacy and expand its cultural exchange programs to open up more avenues for dialogue in civil society between the two sides. Only then can China and the EU become genuine strategic partners, overcoming existing impediments and transcending mere business connections.

¹⁶ David Cameron, "Building British Cooperation with China," *The Wall Street Journal*, November 9, 2010.

¹⁷ Li Keqiang, "China Will Be More Open to the World," *Süddeutsche Zeitung*, January 5, 2011.

The EU has adopted an array of drastic reform measures, including, among other things, across-the-board fiscal austerities, modified welfare regimes, a nascent financial stabilization mechanism, tightened Euro-zone financial disciplining and budgetary supervision, and the introduction of the ‘2020 Strategy’ for the EU’s economic rejuvenation. These measures seem to be improving economic prospects for the Euro-zone, but there are still difficulties ahead. The issuance of a Euro-zone bond, a permanent financial stabilization structure, the revision of the Lisbon Treaty, and an even tighter fiscal straitjacket seem likely. The media is full of “Europe in decline” stories. Less foreign aid, deep cuts in diplomatic and defense spending, and the economic catastrophe could clip the wings of the EU, but they cannot destroy it. The EU still ranks as the number one economic entity and leading exporter in the world. It is still on par with the United States in its influence on global finance and the global economy. The EU has also demonstrated considerable capacity for reform and readjustment. And it has become a pioneer of low-carbon high technology and the green economy. China can now lend the EU a helping hand in its economic recovery, its structural integration, and its assumption of a greater role on the world stage.

(translated by Ma Zongshi)