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Review of the China –EU Relations

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1. Review of the development stages of China-EU Relations

There are five development stages of the China-EU Relation since 1975 till now.

The first stage was the period between 1975 till 2003 characterized by the so-called “Economized” period (中欧关系经贸化时期). In 1975, China set up the formal relationship with EC. In this long period, China-EU relationship focused on economic issues. China regarded the EU/EC as the main source of advanced technology and foreign investment and as the main trade partner. China relied on and was dependent on EU/EC in economic and trade fields. China needed EU/EC more than EU/EC needed China. In this period, two events were very important for China, one was the “Reform and Opening up Policy” adopted by Deng Xiaoping in 1978, the other was China’s entry into the WTO in 2001. EU/EC has contributed greatly to China’s reform and opening up policy, as well as modernization in terms of technology, capital, trade, management, international standards and regulations. In this period, China adopted the so-called policy of “market exchange for technology”. That means that China opened its grand market to introduce the investment and technology from the EU/EC. The EU/EC contributed to China’s modernization as follows: Firstly to the opening up policy: The EU’s invested greatly in China according to China’s open-up policy. Secondly to the reform policy: China learned a lot from the EU especially on the macro-economic management of transition from a planned economic system to a market one. Thirdly to China’s internationalization: China introduced and learned a lot of the international standards and regulations from the EU, especially on the entry into the WTO. Generally speaking, in this period, the EU was China’s teacher of modernization and economic transition.

The second stage was between 2003 and 2005, which is a very short time, we call it the honeymoon of China and the EU relations, the so-called “Strategized” period (中欧关系战略化时期). The year 2003 was very important for both China and the EU. Both sides decided to establish the EU-China “Strategic Partnership” on 30 October 2003. It was the beginning of a more structured relationship between both sides. In 2003, EU and China disagreed with the United States over the US-led war in Iraq and Bush’s unilateral foreign policy. As a result, the EU and China decided to cooperate strategically to balance US power. Behind the so-called “Strategic partnership” stands a realistic balance of power and geopolitical perspectives of the EU and China. In this period, one most important event was that the main EU member states France and Germany proposed to lift the EU arms embargo on China, which had existed since 1989. In response, China made an

informal commitment to further diversify its holdings of foreign currency reserves – away from the dollar and towards the euro, in order to support the European common currency so as to balance US financial hegemony. In the autumn of 2003, EU policymakers were genuinely convinced that such a broad policy of engagement would build trust between the two partners and encourage China to develop along Western lines. In the same vein, Beijing had high expectations of the EU, believing that a stronger and united Europe could work with China to establish a new multipolar world order and counter the “hegemonic” status of the US. In China’s Policy Paper on the EU adopted in 2003, “multipolar world” was the keyword.

The third stage was between 2005 and 2008, the so-called “De-Strategized” period (中欧关系去战略化时期). In this period, three important events happened, one was EU’s enlargement in 2004. EU’s priority of the policy was shifted from China towards the Central and Eastern European Countries. The second one was EU’s decision to shelve the proposal to lift the arms embargo on China. During the second term of Bush administration, the EU had repaired their relationship with the US. Under US’s pressure and some members’ opposition, the EU decided to shelve the proposal to lift the EU arms embargo on China. EU’s decision has seriously damaged the China-EU strategic partnership. In the meantime, while Sino-European economic relations were growing in depth and width, however, serious misperceptions and differences on issues such as trade, technology transfers and human rights started to emerge. Europeans began to accuse Beijing of unfair trade practices, artificially maintaining a weak currency, and imposing political hurdles, while the Chinese criticized the EU for not granting Market Economy Status to Beijing in the WTO framework. The third and worst event happened in 2008. In that year, China hosted the Olympic Games. Because of the human rights concerns and Tibet question, the main leaders including Angela Merkel, Gordon Brown, Silvio Berlusconi and Donald Tusk, did not attend the opening ceremony. With the annual EU-China summit scheduled for November 2008 then postponed at the request of the Chinese, the Sino-European Strategic partnership reached its lowest point.

The fourth stage was between 2009 and 2013, the so-called “Re-Economized” period (中欧关系再经贸化时期). During this period, China and the EU shared common interests. The onset of the Eurozone crisis provided new impetus as well as new priorities for the bilateral partnership. In contrast to widespread skepticism vis-a-vis the euro (mainly stemming from Anglo-American banks and hedge funds), Chinese leaders have consistently been more optimistic and reassured that they would continue to buy Eurozone bonds and support the common currency. This was driven by the need to find new but safe investments for China’s flowing currency reserves, diversify risk away from the dollar, and sustain the economy of a region which had become China’s most important export market.

On the one hand, China's support for the euro was motivated by economic considerations with China's interdependency with the EU's economy, on the other hand, China's support for the euro was due to the desire for a stronger and more united EU to counterbalance American hegemony and, in this case, challenge the dominance of the dollar. Since summer 2011, China has accelerated the diversification of its holdings of foreign reserves to such an extent that, today, euro-denominated assets represent around 30% of China's total foreign currency reserves.¹ Some Eurozone governments and EU institutions have courted and welcomed Chinese engagement, setting in motion an active monetary diplomacy. China pledged to purchase of Portuguese, Irish and Greek bailout bonds auctioned by the EFSF/ESM €440 billion rescue fund.² In the meantime, China was interested in FDI in Europe, especially in the infrastructure and high technology companies. Overall, however, China's monetary and FDI activism has made the Sino-European strategic partnership stronger by indentifying and pursuing a core common interest: the survival of the Eurozone and its common currency. Today, the two partners are highly interdependent. At the 16th China-EU Summit hosted by Beijing on Nov. 21, 2013, China and the EU announced the launch of negotiations of the China-EU Investment Agreement. Both sides jointly adopted the China-EU 2020 Strategic Agenda for Cooperation, a comprehensive document setting out China's and the EU's shared aims to promote cooperation in the areas of peace and security, prosperity, sustainable development and people-to-people exchanges.³ During this period, China- EU relations refocused on the economic issues. Both sides regarded each other as important economic partners again.

The fifth period is 2014-now, the so-called the "Re-Strategized" period (中欧关系再战略化时期). The year 2014 is very important for China-EU relations. President Xi Jinping visited the EU Headquarters from 31st March to 1st April 2014, which was the first visit by the Chinese President since the establishment of the formal China-EC relation in 1975. The first visit by the Chinese President to the European Union Headquarters was a historic landmark in China-EU relations. During Xi's visit, on March 31st, China and EU issued the "Joint Statement Deepening the China-EU Comprehensive Strategic Partnership for mutual benefit". On April 2nd, China issued its second policy paper on the EU clarifying the China-EU relationship and its role in the world. The first of China's EU Policy Paper was released in 2003, 11 years ago. The joint statement and the

¹ Nicola Casarini: "the EU-China Partnership: 10 years on", European Union Institute for Security, October, .2013, p.2. <http://www.iss.europa.eu>.

² Nicola Casarini: "the EU-China Partnership: 10 years on", European Union Institute for Security, October, .2013, p.3 <http://www.iss.europa.eu>.

³ Ministry of Foreign Affairs of People's Republic of China: "China-EU 2020 Strategic Agenda for Cooperation released at the 16th China-EU Summit", 2013-11-23, p.1. <http://www.fmprc.gov.cn>.

second China EU Policy Paper mean that China and the EU regard their relationship as a strategic partnership again.

2. Analysis and understanding the China-EU Strategic Partnership in the second China's policy on the EU

2.1 Key words in China's Second EU Policy Paper.

In China's first policy paper on the EU, the keywords were "The EU is an important power in the world", "multi-polarity" and "lift the arms embargo". China regarded the EU as the important power to counterbalance the US's hegemony to pursue the multi-polarity. But in the second China's policy on the EU, China regards the EU as the super-partner rather than superpower. In the new policy paper, China raised three keywords as follows:

- Three pillars: annual high-level strategic dialogue, annual high-level economic and trade dialogue and bi-annual high-level people-to-people dialogue.⁴
- Three "two": China and Europe are two major powers, two major markets and two major civilizations of the world.⁵
- Four partnerships: China-EU partnership for peace, growth, reform, civilization.⁶

Differences between the two policy papers:

- In the old paper, where the perception of the geopolitical and realist politics is dominant, China regarded the EU as the balance power against the US.
- In the new paper, where the perception of the Global Governance dominates, China regards the EU as a super-partner in co-governance of the world.

⁴ Ministry of Foreign Affairs of People's Republic of China: "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation", April 2, 2014, p.1. <http://www.fmprc.gov.cn>.

⁵ Ministry of Foreign Affairs of People's Republic of China: "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation", April 2, 2014, p.2. <http://www.fmprc.gov.cn>.

⁶ Ministry of Foreign Affairs of People's Republic of China: "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation", April 2, 2014, p.3. <http://www.fmprc.gov.cn>.

2.2 *Background and opportunities to deepen the cooperation between China and the EU in the future.*

New Strategies of China since the new leadership, Oct. 2012:

- China's Dream: endeavor to realize the great Chinese dream of national renewal.
- Two Centennial Goals: 2020, double the GDP of 2010; 2050, medium developed country.
- New Four Modernizations: new-type of industrialization, informatization, urbanization, agricultural modernization. (The old four modernizations were modernization of industry, agriculture, science and technology, and defence, which were issued in 1980s).
- A new course for China to comprehensively deepen reform and further expand the scope of its opening up, charted in Oct. 2013, especially China (Shanghai) Pilot Free Trade Zone, approved in Aug. 2013.
- Foreign policies: New-type major power relations; "one belt and one road" grand neighborhood strategy (Silk Road Economic Belt and the 21th century maritime Silk Road).

The three foci of the EU's policy in the "*Europe 2020 Strategy*":

- Smart growth: developing an economic based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

The focus of "*China-EU 2020 Strategic Agenda for Cooperation*".

The Agenda was adopted in 2013 proposing 93 initiatives on peace and security, prosperity, sustainable development and cultural exchanges, but the economic key initiatives are still priority and focused on the following:

- Investment (launch of negotiations of the China-EU Investment Agreement).
- Innovation (launch of the China-EU Dialogue on Innovation Cooperation).
- Urbanization (the China-EU Urbanization Partnership Forum, the China-EU Urbanization Exhibition).
- Energy (China-EU Energy Dialogue).

2.3 *The priority of the China-EU Strategic Partnership in coming years will be put on as follows:*

Mutual investment will become the priority. China is likely to initiate the "Market Exchange for Market" policy, which means China would open deeply its grand

market to the EU, and the EU should open its market to China in exchange. Mutual investment will become the priority of the China-EU economic relation rather than the trade issue; however, the trade issue is still important. In order to meet this demand, the most important event was the decision on open negotiations on a BIT (bilateral investment treaty) in 2013. After opening negotiations on a free trade agreement with Japan and the TTIP with the US, launching negotiations with China is another important EU initiative to liberalize economic relations with major trade and investment partners. It is the first mandate given to the European Commission to negotiate a standalone investment agreement following the entry into force of the Lisbon Treaty. China also pays more attention to the negotiation of BIT with the EU, because China has initiated its new round of the deepened reform and more open-up policy in 2013. Here the “negative list” will become the keyword. Its goal is to change the government management mechanism and market system to adapt to the international regulations and standards. In the meantime, under the pressure of the TPP and TTIP, BIT with the EU will become the opportunity for China to adopt a “go global” policy and attract more FDI from the EU.

The strategy of mutual investment:

- Target: Chinese outward foreign direct investments (FDIs) in Europe are aimed at exploring a new market, improving the efficiency of operations across borders, and buying strategic assets. China encourages the EU’s investment in China aiming at introducing high technology and advanced management of the EU.
- Focus: investment from China will focus on infrastructure.
- Strategic assets: companies with high-technology and know-how or well-established brands, financial services and financial institutions. China encourages the EU’s investment in the areas of urbanization, green economy, innovation and equipment manufacturing.
- Tactics: China’s tactics will be “market exchange for market” and “market exchange for technology”. That means open mutual markets and introduce advanced technology from the EU by further opening up the Chinese market.

2.4 The main obstacles of China’s investment in the EU:

- Lack of knowledge of local conditions including labor costs, as well as laws, and social and environmental standards.
- A certain element of hostility and resistance to the Chinese entrepreneur.
- How to deal with the EU level standards and the member states level standards (two-level standard).

- China's investment policy will be in conflict with the local governments' policy of "attracting job-creating investment".

3. The chance and role for cooperation between China and CEE countries in the framework of China-EU strategic partnership

3.1 *The Role of the CEECs in the China foreign policies:*

- CEECs are an important pilot and test of China's "go global" and EU investment strategy as the bridgehead of the EU.
- CEECs are an important part of "the Silk Road Economic Belt" Strategy because of their geographical location linking Europe and Asia and the amount of their infrastructure demands.
- CEECs are an important component of the China-EU Strategic Partnership, because most of them are formal member states of the EU and some are candidates. China-CEECs cooperation will become a new engine for deepening China-EU strategic partnership.

3.2 *The advantages of the China-CEECs cooperation:*

- China and CEECs cherish their traditional friendship and share mutual trust, which is a solid ground for China-CEECs cooperation.
- China and CEECs share the experience of transition from planned economy system to market economy. So both sides can understand each other.
- CEECs have an advantageous investment environment with similar but maybe a lower level of EU regulations and standards, high-educated but lower-cost labor, developed industry and agricultural bases, stable political system, large domestic market and an access to the EU market.
- China and CEECs share the "re-discovering each other" thinking. In the past China and CEECs set up close relationship and supported each other. However, after the end of the Cold War, China and some CEECs have drifted apart and paid more attention to relations with the developed countries, the EU and US. Recently, both sides start to recognize the importance and values of each other again. The common interests and common perceptions become a new engine for deepening the China-CEECs cooperation.

3.3 Obstacles of deepening China-CEECs investment cooperation:

- Chinese companies should know the EU and CEE countries' two-level standards and regulations, while they are difficult to understand and abide by.
- There are some misunderstandings between China and CEECs about their political, economic system and investment conditions. In fact they don't know each other very well. CEECs may regard the Chinese government as strong and powerful and able to control everything, but in fact the companies, no matter whether state-owned or private, have their own investment decisions and management regulations. It is difficult for Chinese companies to understand the so-called democratic political system, frequent change of the government and its negative effects on the investment environment.

3.4 The priorities of China-CEECs Cooperation and its contribution to the China-EU Strategic Partnership as the new engine:

- Exploring the Grand Euro-Asian market: We should promote mutual investment between China and CEECs, especially SMEs investment and jointly exploring the markets of third countries. Developing and exploring the Grand Euro-Asian Market is one purpose of China-EU strategic partnership in China's second policy paper on the EU. China and CEECs are transition countries from planned to market economy and emerging economies with a similar economic structure, same development stage and understanding each other well. It is a good background and chance to encourage Chinese and CEEC businesses to use the convenient geographic location and favorable investment conditions of China and CEECs for mutual investment and joint investment to explore third markets, especially in Europe and Asia. The cooperation will contribute to the grand Euro-Asian market.
- Mutual connectivity: Transport connectivity between China and the EU is another purpose of the China-EU Strategic Partnership in China's second policy paper on the EU. The "YU –Xin-Europe Railroad" (渝新欧铁路) which links China and Germany has been finished. The CEECs' geographic location makes them an important linkage of the Euro-Asian transport corridor. China has its advantage in the infrastructure building technology and capability, while the CEECs have large amount of the infrastructure demand. The EU has funds to assist the CEECs' infrastructure through the EU Fund. The cooperation between China, CEECs and the EU could be a win-win and benefit to three sides.

- ➔ Different level cooperation mechanism: On the one hand, we should develop the “16+1” mechanism, on the other hand, we should set up the coordination mechanism between “16+1” mechanism and China-EU High-Level Dialogue Framework. In the meantime, we should develop the sub-regional cooperation in CEEC, because there are several parts and sub-regional cooperation in CEECs, for example the Visegrad Group, Balkan region, with different development stages and interests. China should develop the cooperation mechanism with sub-regional groups to complement the “16+1” mechanism.

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