

## **When the rising dragon sees fading stars: China's view of the European Union**

**Eva Schilling**

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### **Abstract**

As the European Union grapples with the sovereign debt crisis, other actors are observing its search for solutions. China, one of the EU's most important strategic partners, is watching developments in the eurozone and the EU with great interest.

This essay gives an overview of China's perceptions of the EU and the protection of Chinese investments in Europe since the outbreak of the European sovereign debt crisis, especially since the more concrete talks in late 2011 on possible financial support from China.

Although the top leadership of the communist party of China (CPC) changed in its recent – once-in-a-decade – handover, the perceptions described in this paper are likely to remain the same, just as the main tenets of China's foreign policy are unlikely to change in the near future.

The essay argues that while the EU's image has suffered greatly from the sovereign debt crisis and the way it has been handled, there is room to improve China's view of Europe and for the EU to maintain a relatively strong negotiation position towards China.

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# When the rising dragon sees fading stars: China's view of the European Union

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## Introduction

When Mark Leonard wrote his acclaimed book "What does China think?"<sup>1</sup> in an attempt to explain Chinese political debates to his readers, the West acknowledged that very little is known about the policy discussions being conducted in contemporary China. The question of how the European sovereign debt crisis influences China's perception of the EU, for example, is of great relevance in the current crisis-ridden environment. The EU and China, both strong actors on the global scene, have enjoyed a flourishing partnership in recent decades.<sup>2</sup> There have nevertheless been several issues that have detracted from the harmony of the relationship. Issues that have been seen by China as problematic in the past are the criticism exercised by the EU of China's human rights record,<sup>3</sup> the perceived non-recognition of China's impressive development up to now,<sup>4</sup> the EU arms embargo towards China<sup>5</sup> and the refusal of the EU to accord China the status of market economy,<sup>6</sup> as well as the feeling that the EU wants to 'westernise China'.<sup>7</sup>

At the same time, China has increasingly recognised the EU as a global power, even if only a limited one, and as a possible model for its own development. In the eyes of leading Chinese academics the EU's power is based on its economic strength and on the strength of the euro.<sup>8</sup> The European Union is the top export destination for Chinese goods. China is the EU's second trading partner and there is a mutual interest in deepening the EU-China trade relationship. Yet, high-level discussions aimed at concluding a comprehensive Partnership

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<sup>1</sup> M. Leonard (2008), *What does China think?*, London: Fourth Estate.

<sup>2</sup> M. Stumbaum (2009), *The European Union and China*, Baden-Baden: Nomos Verlagsgesellschaft, p. 64.

<sup>3</sup> N. Casarini (2006), "The evolution of the EU-China relationship: from constructive engagement to strategic partnership", Occasional Paper No. 64, Institute for Security Studies, Paris, p. 31.

<sup>4</sup> J. Men (2011), "The Chinese Perceptions of the EU, but whose Perceptions?", *EU-China Observer*, Issue 6, p. 9. And: interviews with Chinese citizens (numerous and from different social and educational backgrounds), Beijing, February-August 2008.

<sup>5</sup> Zhongguowang (2012), "China erwartet Ende des Waffenembargos und Anerkennung als Marktwirtschaft", Zhongguowang (China.org) ([http://german.china.org.cn/international/2012-07/13/content\\_25903317.htm](http://german.china.org.cn/international/2012-07/13/content_25903317.htm)).

<sup>6</sup> C. Ding (2009), "The Influence of the Financial Crisis on China-Europe Relations", *EU-China Observer*, Issue 5, p. 8.

<sup>7</sup> L. Zhu (2008), "Chinese perceptions of the EU and the China-European relationship", in David Shambaugh, Eberhard Sandschneider and Zhou Hong (eds), *China-Europe Relations: perceptions, policies and prospects*, New York: Routledge, p. 157.

<sup>8</sup> Z. Feng (2006), "Issues Related to the EU's Foreign Policy", *Contemporary International Relations*, Vol. 16, No. 4, p.26, cited in David Shambaugh (2008), "China eyes Europe in the world", in David Shambaugh, Eberhard Sandschneider and Zhou Hong (eds), *China-Europe Relations: perceptions, policies and prospects*, New York: Routledge, p. 131.

And: Zhu, op. cit., p. 149.

and Cooperation Agreement have dragged on for more than five years and still reveal a hiatus in positions on many important chapters, such as the enforcement of intellectual property rights, inconsistencies in regulatory practices and the maintenance of non-tariff barriers.

Finally, and not unimportantly, one third of China's foreign exchange reserves are held in euro. Several questions arise from this in the light of the current situation of the EU and especially the eurozone: is the EU perceived as losing its power and attractiveness? How exactly does China see the EU now that the euro is severely weakened and its economy is suffering as a result? How should Europe feel about these perceptions and about the increasing number of Chinese investments on its territory? And, importantly, how should the EU relate to China and assess its leadership change?

### China's perceptions of Europe

In order to examine the changing perceptions of the EU that have developed in China in the course of the European sovereign debt crisis, a clarification of what we mean by 'China' is necessary. The essay aims to gauge the views of China in both elite circles and the 'normal' population. This is difficult, however, because elites are not always open and accessible and the population cannot always express its opinion openly, if it has one, of the EU.

To gain insight into elite perceptions of the EU in crisis government sources, scholarly sources and media sources are used. These are treated as being of equal value as they all somewhat reflect the official Chinese government stance due to direct and indirect government censorship, which affects the public media, think tanks and governmental university research centres alike.<sup>9</sup> Furthermore, public opinion as expressed by 'netizens' (cybercitizens, or people actively involved in the online community) is taken into consideration where useful because the internet has become the platform for the expression of Chinese public opinion. The economic and financial crisis has triggered an outpouring of public opinion on the internet, as did the Olympic Games in 2008.<sup>10</sup> While some western observers argue that netizen opinions are influenced by the Chinese government and the state-controlled media<sup>11</sup> and the Chinese internet is arguably not as free as it is in the west,<sup>12</sup> it is nevertheless important to take note of the opinions of the Chinese people because "public opinion has become an important factor in shaping the government's policy-making".<sup>13</sup>

As far as China's possible involvement in the EU's crisis is concerned, the Chinese government would not want to lose its 'output legitimacy' (justified by end results) by spending the nation's reserves in the wrong way. Experts on EU-China relations support this view by stating that "Beijing is also worried that any contribution to a European bailout will run into opposition from an increasingly well-informed and critical populace."<sup>14</sup>

<sup>9</sup> Men, op. cit., pp. 7-9.

<sup>10</sup> Men, Ibid.

<sup>11</sup> Y. Sun (2011), "Chinese Public Opinion: Shaping China's Foreign Policy, or Shaped by It?", Brookings Institution, (<http://www.brookings.edu/research/opinions/2011/12/13-china-public-opinion-sun>).

<sup>12</sup> K. Altmeyer (2012), "Bürgerrechte in China im digitalen Zeitalter - Analysen und Kommentare", Heinrich Böll Stiftung, ([http://www.boell.de/downloads/2012-07-buergerrechte\\_china\\_digitales\\_zeitalter.pdf](http://www.boell.de/downloads/2012-07-buergerrechte_china_digitales_zeitalter.pdf), p. 1).

<sup>13</sup> C. Zhang (2011), "Media, Public Opinion, and China's Foreign Policy", Carnegie Endowment (<http://carnegieendowment.org/2011/01/08/media-public-opinion-and-china-s-foreign-policy/60cj>).

<sup>14</sup> S. Islam (2011), "Europe and China: Rivals or Strategic Partners? Policy briefing", understandingchina.eu (<http://www.understandingchina.eu/chinaideascommunity/latestresearchonChina/tabid/887/Default.aspx?PostID=2717&CurrentPage=0&filter=4>, p. 3).

Because the crisis is ongoing and still a topic of debate, academic literature on it is scarcer than retrievable accounts of Chinese perceptions of Europe before the crisis. Also, this literature is rarely translated into English and difficult to obtain without access to Chinese university online libraries. However, the topic is quite openly discussed in the Chinese media. In some cases European or other non-Chinese sources are used if they cite Chinese stakeholders; due to the current intense interest in China they have recently interviewed Chinese government officials or experts in economics.

This paper follows China-expert Geeraerts' approach to understanding China's perception of the EU by tracing it back to China's own dual identity, which paradoxically consists of what he calls both "self-superiority and self-inferiority",<sup>15</sup> based on its long history as a powerful empire and its more 'recent' and wounding experiences with western nations, such as the Opium Wars and, partly, colonisation.<sup>16</sup>

### How have China's perceptions of Europe changed?

A number of observations on the European sovereign debt crisis made by the Chinese elite challenge perceptions held before the crisis. New perceptions range from i) worries about growing disunity within the EU to ii) questioning Europe's status as a possible pole in an emerging multipolar world to iii) the perception that Europe can no longer serve as a model for Chinese development; that it has to change its stance towards China, take note of Chinese calls to reform the European welfare and political systems and accept conditions imposed by China. Furthermore, iv) Europe's value as an investment opportunity is examined by the Chinese elite and v) Chinese public opinion reflects the above-mentioned elite perceptions while adding domestic concerns and entrenched nationalistic views to the discussion. Finally, some Chinese observers also perceive vi) a strong sense of Sino-European interdependence.

#### *Concerns over growing disunity within the EU*

One of the current observations is the widely held perception of disunity in the EU's handling of the crisis. The former Head of the Chinese Delegation to the EU, Ding Yuanhong (丁原洪) notes that in the course of the crisis leaders in the EU blamed each other for making mistakes instead of trying to search for solutions together responsibly. He also observes that Germany and France have increasing problems with domestic issues and consequently the Franco-German driving force of European integration is more focused on how integration should continue to be realised. Ding furthermore takes note of demands in some EU member states to re-establish national currencies and break up the eurozone.<sup>17</sup>

Tang Shuangning (唐双宁), CEO of the China Everbright Bank and former high official at the banking regulation commission of China, compares the global financial crisis to the European one and observes that the joint efforts deployed by the international community to resolve the 2008-financial crisis stand in sharp contrast to the many differing opinions about how to resolve the European sovereign debt crisis.<sup>18</sup>

<sup>15</sup> G. Geeraerts (2007), "In the Eyes of the Dragon; Chinese Perceptions of the EU as a Global Actor", *Brussels Institute of Contemporary China Studies Asia Papers*, Vol. 1, No. 4, p. 6.

<sup>16</sup> Geeraerts, op. cit.

<sup>17</sup> 丁原洪, '深陷困境的 欧盟', *和平与发展*, 2010, 58 书页. [Ding Yuanhong (2010), "The European Union in Dilemma", *Peace and Development Journal*, No. 4, p. 58.]

<sup>18</sup> 唐双宁, '从金融危机到欧债危机: 我们怎么办?', *宏观经济*, 2011 年, 15 书页. [Tang Shuangning (2011), "From Financial Crisis to European Sovereign Debt Crisis: What shall we do?", *Economic Affairs Journal*, p. 15.]

Some Chinese stakeholders appeal to the EU to work more closely together to overcome this disunity. They even go so far as to ask some member states to hand over more sovereignty.<sup>19</sup> A request that might seem odd, given China's firm views on sovereignty and non-interference with the internal affairs of other countries.

The disunity of the EU is also seen as an obstacle to meeting China's conditions to help bail out EU countries and, ultimately, to receiving any help at all. As Journalist in Chief of the liberal *Southern Weekly* Cao Xin (曹辛) remarks, there is little chance the EU will agree to the conditions that China has tabled because doing so would require unanimity among the EU member states; a requirement that Cao sees as unlikely to be met.<sup>20</sup>

### *A globally weakened EU*

Some Chinese scholars also establish a clear link between the EU's in-fighting and its importance in international affairs in general. For example, scholar Shi Chenxia (石晨霞) emphasises that the current discord within the EU over how to solve the crisis also means that the EU speaks with less of a single voice in global affairs and prevents it from playing an important role in the global arena.<sup>21</sup> In Chinese eyes, the EU is thus perceived as less able to assume the mantle of global power.

Since the 1980s, Europe was seen to be one of the poles in an emerging multipolar world<sup>22</sup> and, more importantly, as a counterbalance to the two Cold War superpowers. It was even a widely held belief among China's elite that the EU and China shared common views on how the international system should be restructured and that both of them actually aimed at a multipolarisation of the world system.<sup>23</sup>

The quality of the EU as an actual pole was already being questioned in the mid-2000s, however, and important scholars such as Feng Zhongping (冯中平), Director of the Institute of European Studies at the China Institutes of Contemporary International Relations considered that the EU was seen as a pole mainly because of its economic power and the strong euro. But from the mid-2000s on the EU was coming to be seen as more of an "incomplete or unbalanced pole".<sup>24</sup> This analysis hints at the importance of the current eurozone crisis in shaping Chinese perceptions of the EU.

Shi Chenxia states that before the crisis the euro was a worthy competitor against the US dollar, but, in order to maintain their position as a monetary hegemon, the US has dealt more efficiently with its crisis than the eurozone has managed to do so; it is doubtful whether the eurozone is strong enough to meet the current challenges.<sup>25</sup> Shi argues that, even though there are various pessimistic views among Chinese academics on the impact of the crisis on the euro, all observers acknowledge that the euro has suffered and that it will face great

<sup>19</sup> M. Uken (2011), "Chinesische Investmentbankerin: "Schaffen Sie eine Fiskalunion! ", *Zeit Online* (<http://www.zeit.de/wirtschaft/2011-11/china-euro-italien>, p. 2).

<sup>20</sup> 曹辛, 我们怎么能不帮你, 倒霉的欧罗巴-G20峰会前瞻, 南方周末, 2011年, <http://www.infzm.com/content/64477>. [Cao Xin (2011), "How can we not help you? Fortuneless Europe - looking towards the G20 summit", *Southern Weekly online* (<http://www.infzm.com/content/64477>).

<sup>21</sup> 石晨霞, '论金融危机对欧洲一体化及欧盟国际地位的影响', *湖北行政学院学报*, 2期2011年第, 95 书页. [Shi Chenxia (2011), "Discussing the impact of the financial crisis on European integration and on the international position of the EU", *Journal of Hubei Administrative Studies Institute*, Issue 2, p. 95].

<sup>22</sup> Stumbaum, op. cit., p. 75.

<sup>23</sup> Zhu, op. cit., pp. 154-156.

<sup>24</sup> Feng, op. cit.

<sup>25</sup> Shi, op. cit., p. 92.

pressures for some time to come. According to Shi, some observers also see the crisis as the possible end of the euro.<sup>26</sup>

In a similar vein, the former Head of the Chinese Delegation to the EU, Ding Yuanhong, states that the woeful state of the euro will not only destroy market-confidence in the single currency but the worldwide reputation of the euro will be harmed as well.<sup>27</sup>

In sum, the importance that the Chinese attribute to the euro as an element justifying the pole-status of Europe and the perception that the euro's global image will decline have considerable consequences for the 'pole-quality' of the EU and for its image as a counterweight to the hegemonic USA.

### *'European model' discredited*

Before the crisis it was thought that Europe could be a good partner to foster China's 'opening up' and development by bringing about Foreign Direct Investment and high-technology transfers.<sup>28</sup> Some Chinese scholars even coined the term "European model"<sup>29</sup> because they thought China could learn from Europe in different fields such as politics, economics, social system(s) and cultural issues.<sup>30</sup> However, a perception that has now surfaced and that seems to have found resonance is that due to the crisis the 'European model' itself has become discredited. At the centre of Chinese criticism one can find democracy as well as the European welfare system(s).

Tang Shuangning, China Everbright Bank CEO and former high official at the banking regulation commission of China, sees the European sovereign debt crisis as the result of two paradoxical phenomena: first, government spending that exceeds a country's own financial power to finance expensive systems of welfare and what he calls "radical democratisation".<sup>31</sup> Second is the fact of having a monetary union without a common fiscal policy.<sup>32</sup>

Ding Yuanhong also sees Europe's social welfare systems as being ultimately untenable. He argues that the crisis shows that the EU cannot afford social welfare systems that rely too heavily on borrowing to finance them. He gives two underlying reasons for this: first, social welfare systems have made European products more expensive and thus uncompetitive, and second, the efficiency of production is not optimised because some countries have kept employees in jobs that are not needed, for reasons of social concern.<sup>33</sup> He concludes that the EU has to adapt to changes in the world, such as new competitors, and that social systems will have to be reformed.<sup>34</sup>

The current Chairman of the Sovereign Wealth Fund of China and former Deputy Minister of Finance of China Jin Liqun (金立群) even states that "the labour laws [in the EU member

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<sup>26</sup> Ibid.

<sup>27</sup> Y. Ding, op. cit., p. 57.

<sup>28</sup> Casarini, op. cit., p. 33.

<sup>29</sup> Zhu, op. cit.

<sup>30</sup> Ibid., p. 151.

<sup>31</sup> Tang, op. cit., p. 15.

<sup>32</sup> Ibid.

<sup>33</sup> Y. Ding, op. cit., p. 57.

<sup>34</sup> Ibid., p. 58.

states] induce sloth and indolence, rather than hard work.”<sup>35</sup> For Jin, unless the social welfare system of the EU is reformed, investment in the EU would appear to be a bad choice.<sup>36</sup>

Yi Xianrong (易宪容), economist at the Institute of Finance and Banking at the Chinese Academy of Social Sciences sees the reasons for the crisis as residing in the slow processes of discussion brought about by the democratic system of the EU.

### *Conditionality*

A new form of conditionality has emerged alongside the idea of China bailing out the EU. The conditions that can be found are multiple, but some can be taken more seriously than others as they have been set out by China’s highest governmental leaders.

For example, China’s former Premier Wen Jiabao (温家宝) claimed that the EU should recognise China as a market economy in exchange for help.<sup>37</sup> Other concessions mentioned by the Chinese on one or the other occasion are: “Less heat over human rights;(…); greater access to Chinese companies for trade and investment purposes; and greater voting rights at the International Monetary Fund (IMF)”,<sup>38</sup> as well as less criticism of China’s monetary policy.<sup>39</sup>

Market Economy Status (MES) is seen from different angles by different Chinese scholars. Yang Yao points to the symbolic value of the recognition of China’s achievements over the past 30 years that would go hand in hand with China being granted MES.<sup>40</sup>

Not granting MES to China is perceived as a protectionist move by the EU because anti-dumping cases under WTO law would be more difficult to file against China if it had MES.<sup>41</sup> <sup>42</sup> The fact that the EU does not grant MES to China, despite the latter’s support in the eurozone crisis, is interpreted in China “as proof of its [the EU’s] unease and distrust at China’s growing economic power”.<sup>43</sup>

Conditions demanding less criticism of human rights – as well as less criticism of China’s monetary policy – hint at a perception of growing political self-importance due to the EU’s sovereign debt crisis and China’s helping role in it. China has never been keen on taking criticism for its domestic behaviour; but the linking of China’s help to an explicit demand for less criticism is a new element in the changed relationship.

Some scholars put things less starkly but generally adopt this view. For example the Director of the Keck Center for International and Strategic Studies, Pei Minxin (裴敏欣), states that if China helps the EU “the EU must set aside some of its long-standing suspicions about China.”<sup>44</sup> This shows that China is increasingly insisting on its own norms and their validity.

<sup>35</sup>L. Jin (2011), cited in Aljazeera “Jin Liqun: Europe induces ‘sloth, indolence’”, *Aljazeera.net* (<http://www.aljazeera.com/programmes/talktojazeera/2011/11/2011114434664695.html>).

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

<sup>38</sup> A. Lobov (2011), “Opinion: Why China shouldn’t bail out Europe”, *Asiamoney*, Vol. 22, Issue 9, p. 2.

<sup>39</sup> Spiegel Online), “China diktiert Bedingungen für Finanzhilfe”, *Spiegel Online*, 28.10.2011, (<http://www.spiegel.de/wirtschaft/soziales/0,1518,794503,00.html>).

<sup>40</sup> Yang, op. cit.

<sup>41</sup> M. Pei (2011), “Can China Rescue Europe?”, Project Syndicate (<http://www.project-syndicate.org/commentary/can-china-rescue-europe->).

<sup>42</sup> Cao, op. cit.

<sup>43</sup> Islam, op. cit., p. 3.

<sup>44</sup> Pei, op. cit.



This growing assertiveness and criticism is defended by some Chinese scholars. For example, the Director of the China Center for Economic Research at the Beijing University Yang Yao (姚洋) states: "(...) having long been a student of the West, China has equal reason to ask why the teacher has gone so wrong."<sup>45</sup> He furthermore explains that, apart from pursuing materialistic interests through conditionality and criticism, "(t)he Chinese also want respect".<sup>46</sup>

Such statements do not only point to a perceived power shift but also hint at China's dual identity, as explained by Geeraerts, and at the fact that for China itself the "self-superiority" end of the identity spectrum is gaining ground.

Interestingly, so far the new leadership duo of Li Keqiang (李克强) and Xi Jinping (习近平) has demonstrated that Europe and its crisis are important concerns for them, while commenting on the crisis in a rather cautious and sometimes even positive manner and without voicing direct conditionality.

For example, when asked for his opinion on the European sovereign debt crisis, Xi Jinping stated that

"... the EU has a high degree of political consensus on overcoming difficulties and crisis and preserving and advancing the outcomes of European integration. China does not think one should 'talk down' or 'short' Europe, because China believes that the difficulties facing Europe are temporary, and the EU and the governments and people across Europe have the ability, the wisdom and the means to solve the sovereign debt problem and achieve economic recovery and growth."<sup>47</sup>

Li Keqiang diplomatically stated: "We hope to see a more open and cooperative Europe,"<sup>48</sup> and: "We hope to see a more inclusive and accommodating Europe."<sup>49</sup> In this context he also expressed the desire that Europe start to accept China's own way of thinking and developing:

"If China and Europe can both achieve success by development models suited to their respective conditions, we will make the world more harmonious and prosperous."<sup>50</sup>

Such remarks are astonishingly positive and accommodating compared to the conditions described above. The reason for this might be that the new Chinese leadership wants to start its term with as few problems as possible by establishing a spirit of good Sino-European cooperation. It might also have been a tactic to ensure that no diplomatic blunders hinder the new power transition. In that case, Europe may just have to wait until Li and Xi have made sure that they have strong enough positions within their new government to develop their own standpoints towards Europe and stop making low-profile remarks only. This is very likely, because, as observers point out: "...compared with the Hu-Wen team, the next cohort is likely to be more confident as China has now acquired more importance in the

<sup>45</sup>Y. Yang (2011), "Europe on a Chinese Shoestring", Project Syndicate (<http://www.project-syndicate.org/commentary/europe-on-a-chinese-shoestring>).

<sup>46</sup> Ibid.

<sup>47</sup> J. Xi (2012), cited in Ministry of Foreign Affairs of the People's Republic of China (FMPRC), "Vice President Xi Jinping gives written interviews to the Irish times", FMPRC (<http://www.fmprc.gov.cn/eng/zxxx/t910350.htm>).

<sup>48</sup> K. Li (2012), "China has high hopes for European ties", *Financial Times* (<http://www.ft.com/cms/s/0/f6911db2-92aa-11e1-b6e2-00144feab49a.html#axzz2BH9urmpy>).

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

international arena.”<sup>51</sup> Overall, it can be expected that Xi and Li will keep insisting on the issues that were already important under the Hu-Wen leadership: abolishing the EU arms embargo, MES recognition and acceptance of China’s own way of doing things, including its own interpretations of values such as state sovereignty and human rights.<sup>52</sup>

### *Investment opportunities?*

Besides perceiving the EU as a target for (political) conditionality, some in China simply perceive the EU’s weakened economy and the situation of financial austerity as a good opportunity to make strategic investments.

For example, liberal journalist Cao Xin sees the production industry in Germany and France and small and medium enterprises in Italy as worthy investment opportunities for China.<sup>53</sup> Similarly, Chen Daofu (陈道富), Editor of China’s *Economic Daily*, takes the view that China should strategically maximise its profits by waiting for the total investment risks to become apparent and then use these risks as bargaining chips to ultimately obtain access to investments concerning technology and important resources.<sup>54</sup> Pei Minxin also perceives the crisis as an opportunity for the Chinese to “find rich pickings”,<sup>55</sup> and Lu Feng (卢锋), Professor and Vice Dean at the National School of Development at Beijing University observes that investments that are now being made possible, for example in Greece’s Piraeus port, would have been politically unthinkable some years ago.<sup>56</sup> As Europe grows weaker it can no longer hold up all its old barriers; Chinese investors, on the other hand, can bargain harder and maximise their profit.

Another perception of a possibly strategic profit maximisation is that helping out the EU in the crisis should be conducted via the IMF in order to add weight to the agreement.

Chen Daofu believes that China should push the IMF to increase its investments in the eurozone and that it should negotiate a more influential place for itself within the IMF in this context.<sup>57</sup>

In contrast, Shi Chenxia is critical of the EU’s heavy reliance on the IMF to bail out Greece. Shi sees this as undermining the credibility and trustworthiness of the eurozone, as it has asked “third-world countries, which are not even able to cope with their own problems”<sup>58</sup> for help.<sup>59</sup>

However, possible investments – especially in government bonds or the European rescue mechanisms – are also seen as problematic by some observers: one concern lies in the perception that the EU has not done enough to guarantee the security of future investments

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<sup>51</sup> Z. Wang and A. Vangeli (2012), “China’s leadership succession: new faces and new rules of the game”, European Union Institute for Security Studies (<http://www.iss.europa.eu/publications/detail/article/chinas-leadership-succession-new-faces-and-new-rules-of-the-game/>).

<sup>52</sup> Ibid.

<sup>53</sup> Cao, op. cit.

<sup>54</sup> 陈道富, ‘欧债危机继续发酵 中国需审慎定位救助角色’, *Journal of Finance and Economy*, 2011年, 第10期, 21 书页. [Chen Daofu (2011), “As the European Debt Crisis continues to grow, China has to carefully consider its position in a salvation role”, *Journal of Finance and Economy*, Issue 10, p. 21.]

<sup>55</sup> Pei, op. cit.

<sup>56</sup> F. Lu (2010), cited in A. Becker, “Europe’s crisis is China’s opportunity”, *Asia Times Online* ([http://www.atimes.com/atimes/China\\_Business/LG02Cb01.html](http://www.atimes.com/atimes/China_Business/LG02Cb01.html)).

<sup>57</sup> Chen, op. cit.

<sup>58</sup> Shi, op. cit.

<sup>59</sup> Ibid.

in the EFSF and top Chinese economists, such as Liu Olin (刘奥林) or Li Daokui (李稻葵) perceive the EU as not giving enough security guarantees for investors to help strengthen the new European security facilities.<sup>60</sup> The EFSF simply does not seem to deliver a good opportunity to realise economic interests through an investment, as for example, Liu Olin explains by stating that: “The extent to which deposits from investors are secured is crucial. Is it 20% or 100%? That makes an enormous difference. Otherwise, in the end nobody will be willing to invest.”<sup>61</sup>

### *Public opinion – elite perceptions and domestic concerns*

Adding to the elite discussion on China’s position in the European crisis, the comments published below are taken from some public media articles by Chinese netizens and voice a high degree of discontent with the idea that China should help the eurozone to cope with its crisis.<sup>62 63</sup>

The reasons for this discontent are numerous; some are explicitly directed towards Europe, others are more concerned with domestic problems.

One frequently raised argument is that China should invest its money domestically instead of giving it to European countries where the population is considered to be much better off than in China anyway. Criticism of China’s own regime can also be read between the lines in comments that lament the fact that Chinese citizens have no way of influencing their country’s reserves policy; and that the money should be invested in urgent domestic reforms to tackle problems of corruption, healthcare, education and housing systems. Others would like to see tax cuts and investments in the reform of state monopolies.<sup>64</sup> Other net commentators do not want to see China finance Europe because of lingering historical resentments. They state that the EU has always acted purely in its own interests and that China should now do the same.<sup>65</sup>

<sup>60</sup> M. Uken, op. cit., pp. 1-2.

And: Spiegel Online (2011), “China diktiert Bedingungen für Finanzhilfe”, *Spiegel Online* (<http://www.spiegel.de/wirtschaft/soziales/0,1518,794503,00.html>).

<sup>61</sup> Liu Olin, cited in: Uken, op. cit., p. 2 (translated by author from German to English).

<sup>62</sup> Such postings by netizens are mostly carried out under pseudonyms and not traceable to any author. Therefore, this section summarises the main arguments and indicates as their source the website of the article beneath which the postings can be found. It has to be noted that the arguments presented can be found quite frequently but that no guarantee of their complete representativeness can be given as only a choice of relevant website-articles has been analysed, due to time constraints.

<sup>63</sup> L. Alderman and D. Barboza (2011), “Europe Tries to Lure Chinese Cash to Back Rescue of Euro”, *The New York Times online reprints* (<http://www.nytimes.com/2011/10/29/world/asia/europe-seeks-chinese-investment-in-euro-rescue.html?pagewanted=all>).

<sup>64</sup> (1) Various netizens’ comments, commenting on: 曹辛, 我们怎么能不帮你, 倒霉的欧罗巴 – G20 峰会前瞻, 南方周末, 2011 年 (<http://www.infzm.com/content/64477>). [Cao Xin (2011), “How can we not help you? Fortuneless Europe – looking towards the G20 summit”, *Southern Weekly online* (<http://www.infzm.com/content/64477>).

And: 郑宋鲁, 中国应该如何援助欧洲?, 联合早报网, 2011 年, retrieved 27-04-2012, [http://www.zaobao.com/forum/pages4/forum\\_lx111111d.shtml](http://www.zaobao.com/forum/pages4/forum_lx111111d.shtml). [Zheng Songlu (2011), “How should China help Europe?”, *Zaobao.com* ([http://www.zaobao.com/forum/pages4/forum\\_lx111111d.shtml](http://www.zaobao.com/forum/pages4/forum_lx111111d.shtml)).

And: (2) Various netizens’ comments, commenting on: 曹辛, 我们干嘛还要和欧盟玩, 南方周末, 2011 年, retrieved 28.02.2012, <http://www.infzm.com/content/64858>. [Cao Xin (2011), “Whatever we do, we still have to play with the EU”, *Southern Weekly online* (<http://www.infzm.com/content/64858>).

<sup>65</sup> (1) Various netizens’ comments, op. cit.

The view that China should use this opportunity strategically is also widely represented. Help given to the EU should not engender a loss or little revenue for China, but if good investment opportunities turn up, some netizens argue, they should be seized. Others go further and support the idea of obtaining MES or the lifting of the arms embargo towards China.<sup>66</sup> Some netizens also express the fear that the investments could be lost if China gets dragged into Europe's crisis. Pragmatically, some commentators argue that a private household would never invest in a bankrupt company so China should not invest in bankrupt countries.<sup>67</sup>

### *Sino-European interdependence*

Despite the reservations expressed above, what is also recognised in China is a strong Sino-European interdependence.

Cao Xin refers to an element of Chinese dependence on Europe. He states that one third of China's foreign exchange reserves are held in euro and that the EU is China's biggest foreign trade partner; two facts that make it difficult for China not to care about the European sovereign debt crisis.<sup>68</sup> This argument states that instead of seeing relations between China and the EU as a power balance, Cao foresees a joint decline should the EU's situation worsen.

Chen Xin (陈新), Director of the economics department of the Institute of European Studies in the Chinese Academy of Social Sciences, also holds the view that instead of a power shift between China and the EU one should speak about a growing interdependence of the two.<sup>69</sup>

But while Chen also acknowledges this interdependence, he highlights the fact that in the past China was more dependent on the EU whereas nowadays, even without the crisis, China is becoming more important for the EU as an export market.<sup>70</sup>

### **Should Europe fear China?**

The above-mentioned shifts in perceptions, relations and resulting actions have triggered certain fears of a 'scramble for Europe'<sup>71</sup> with China pursuing a strategy of 'reverse colonialism',<sup>72</sup> buying up strategic assets in Europe and establishing greater political presence there through its help during the European sovereign debt crisis. Even if China does feel more confident of its power and sees the European model as being fairly discredited, panic about a 'Chinese invasion' is not warranted.

First of all, the European fear of a colonialising China might be more a case of looking at China through European eyes. From a European perspective, it is almost natural to suppose that a rising China would have colonialist ambitions, as in its own phase of development Europe used its power to colonialise other countries, among which, ironically, was China.

It can be argued however, that the Chinese are in fact far more pragmatic than what is often supposed. China's direct investments in Europe can be seen as a new way for them to

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<sup>66</sup> Ibid.

<sup>67</sup> Ibid.

<sup>68</sup> Cao, op. cit.

<sup>69</sup> Interview with Dr. Chen Xin (陈新), Bruges, 20.03.2012.

<sup>70</sup> Ibid.

<sup>71</sup> F. Godement, J. Parello-Plesner and A. Richard (2011), "The Scramble for Europe", *European Council on Foreign Relations*, No. 27, p. 1.

<sup>72</sup> V. Ni (2011), "Concerns Grow over China's Presence in Europe", *understandingchina.eu* (<http://www.understandingchina.eu/Chinaideascommunity/KnowledgePartnercontributions/tabid/887/PostID/2687/Default.aspx>).

stabilise their growth. In order to sustain growth it is necessary to move from a basic production industry to a high-tech industry, and in order to obtain knowledge and gain access to successful brand names, the Chinese tend to invest in assets that can deliver these to them.<sup>73</sup> Direct investment in Europe can “also allow Beijing to advance the interests of Chinese companies as they go global”.<sup>74</sup>

One reason for the Chinese to invest in European bonds is that they want to diversify their foreign exchange reserves. The greatest share of these reserves is held in US dollars so an increase of the share of euro would help China to diversify its reserves, thus creating a less one-sided risk.<sup>75</sup> Risk-aversion also explains the growing interest of the Chinese to not only buy government bonds but to carry out direct investment in foreign countries.<sup>76</sup>

As stated above, the Chinese interpreted the adoption of the euro as the EU taking on the status of the pole in the multipolar world they envisaged. If they help Europe out in its current crisis this can be seen as China pursuing its aim of keeping Europe as a pole in a multipolar world and of strengthening the euro’s role against the US dollar as current lead currency. A strong Euro(pe) would thus further their goal of shifting the current power balance on the international stage.

Some observers argue that China’s primary goal is to sustain its own development and that, in order to do this it needs “continuity, stability and harmony”.<sup>77</sup> The statement of current EU Counsellor to the Chinese Ministry of Foreign Affairs, Hua Chunying, concerning Europe and its crisis is telling in this context: “Europe, for a long period in history used to be the pillar and source of stability and we hope it will continue to be so.”<sup>78</sup>

Professor for social sciences at the Europa Zentrum Roland Benedikter and Stanford University professor for security issues Jae-Seung Lee point out that the European crisis comes at a bad time for China, which, for its own development, needs smooth economic developments at the global level. According to the two authors, China is not so much seeking to increase its political clout but rather to gain time for its own development.<sup>79</sup>

When considering some of the political conditions that have been raised in the Chinese discussion on the European sovereign debt crisis, rather than wanting to impose its own interpretation of human rights, China seeks the acknowledgement of the West that it can legitimately pursue its own (Chinese) way of development without having to take on European values it does not share. Benedikter and Lee describe China’s political and cultural psyche as “non-aggressive”<sup>80</sup> and “reposing in itself”.<sup>81</sup> China’s aim is thus not to impose its own ideas and values but to gain acceptance for the values according to which it proceeds

<sup>73</sup> M. Rimmele (2012), “Chinas Weltmarken von morgen (3), Sany- made in Germany”, *tagesschau.de* (<http://tagesschau.de/wirtschaft/chinaserie106.html>).

<sup>74</sup> L. Alderman (2010), “Looking for Investments, China Turns to Europe”, *The New York Times online reprints* (<http://www.nytimes.com/2010/11/02/business/global/02euro.html>).

<sup>75</sup> Ni, op. cit.

<sup>76</sup> A. Wheatley (2011), “China investment wave unlikely to swamp the EU”, *Reuters* (<http://uk.reuters.com/article/2011/12/28/uk-china-investment-idUKLNE7BR0112011228>).

<sup>77</sup> R. Benedikter and J.-S. Lee (2012), “China fürchtet die Selbstaufgabe des Westens”, *Welt Online* (<http://www.welt.de/debatte/kommentare/article13829594/China-fuerchtet-die-Selbstaufgabe-des-Westens.html>).

<sup>78</sup> C. Hua (2011), cited in V. Pop, “Chinese official: Eurozone collapse would be a ‘disaster’”, *EU observer* (<http://euobserver.com/884/114437>).

<sup>79</sup> Benedikter and Lee, op. cit.

<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

itself, on its own territory. If one looks at the conditions that China sets in return for financial support it is clear that they mostly revolve around acceptance and recognition. This stands in clear contrast to the types of conditionality that other powers exercise, where the aim is to literally impose their own values on other countries. In a way, China only wants to achieve having nothing imposed on it by Europe.

Therefore, even if China perceives Europe as weakened and criticises the political flaws in the EU system, its primary interest is not to become a neo-colonial power on the European continent. Such arguments have to be taken into consideration when examining the Chinese perception of the EU as they put the debate going on in China, and in Europe, back into perspective.

### What now? Some recommendations

On 15 November 2012, China underwent an important leadership transition with the fifth generation of top civil servants being sworn in. Whereas the most important figures in the communist party of China (CPC) have changed, existing perceptions are likely to remain the same as China's state-interest-centred foreign policy will not undergo dramatic changes in the near future. The name of the game will continue to be peaceful development, diversification of reserves held in foreign currencies and rebalancing trilateral relations with the US and the EU. Moreover, think tanks and university research institutes will continue to influence the EU policy of the new generation of Chinese leaders. As the former perceive China in a relatively strengthened position vis-à-vis the EU, this might be reflected in the EU policy of the new generation.

It is therefore important for the EU to know how it can most effectively deal with the new Chinese leadership. An important issue to keep in mind is that domestic stability is one of the prime aims of the CPC because the party can derive legitimacy from it. Before the 18<sup>th</sup> party congress, scandals and power deals have disturbed the image of a calm and organised power changeover,<sup>82</sup> which has led to a relatively unstable domestic situation. This has two main consequences for the EU: on the one hand, in times of relative instability all 'foreign problems' are welcome distractions of domestic public attention away from internal problems. An example of this is the current dispute with Japan revolving around the Senkaku (in Chinese: Diaoyu) islands in the East China Sea and the recent anti-Japan demonstrations in several Chinese cities,<sup>83</sup> which certainly do not come at an inopportune time for the CPC. If in this phase the EU would seem too critical of the new regime, the EU's crisis might be a welcome distraction to discredit the EU in the eyes of the Chinese public. A first recommendation for the EU would thus be to carefully observe the ongoing power transition but to refrain from excessive comment and premature criticism.

On the other hand, next to a smooth power transition another prerequisite for stability is further economic growth.<sup>84</sup> The EU is the biggest importer of Chinese goods, so China's export-led growth depends on strong purchasing power in the EU. The eurozone crisis thus does not come at a good time for China's already unstable transition phase and slow-down in growth rates. European leaders could thus use this dependence of China on a prospering EU to attract more willingness to help from their Chinese counterparts. This seems to be happening already, in part, with Chinese former Premier Wen Jiabao announcing further

<sup>82</sup> Guy de Jonquières (2012), "China's Challenges", ECIPE Policy Brief No. 01/2012, p. 4.

<sup>83</sup> Spiegel Online (2012), "Chinesische Militärschiffe provozieren Japan", *Spiegel Online* (<http://www.spiegel.de/politik/ausland/senkaku-inseln-china-schickt-schiffe-in-japanische-gewaesser-a-855738.html>).

<sup>84</sup> A. Mertha (2012), "Domestic Institutional Challenges Facing China's Leadership on the Eve of the 18<sup>th</sup> Party Congress", *Asia Policy*, No. 14, p. 5.

help at the recent China-EU business summit and stepping up IMF contributions at the Los Cabos G20 meeting.<sup>85</sup> European leaders should try to engage the new generation of Chinese leaders as soon as possible in behind-the-scenes talks on how China can help solve the European sovereign debt crisis and the Chinese interest in this should be accentuated here.

Furthermore, as China moves away from a leadership of one single powerful person (or two in duo leadership) towards a “more collective form of leadership”<sup>86</sup> it will become increasingly important for the EU to know who the new persons in charge are in the Standing Committee of the Politburo (PSC). There has been a division of labour in the PSC since 2007<sup>87</sup> and each of the possible candidates for positions in the PSC has their own field of expertise. The EU therefore has to be familiar with the profiles of the new PSC members to know whom to address on which matter. Simply focusing on the new general secretary of the party, the president or the premier will be an increasingly unsatisfactory tactic in the future.

Additionally, the new generation of PSC members will consist of adherents of two different factions. On the one hand, there is the ‘elitist coalition’;<sup>88</sup> members of which have veteran communist family backgrounds and come from within the party establishment and, on the other hand, there is the ‘populist coalition’<sup>89</sup> whose members come from geographical areas and families that are less privileged.<sup>90</sup> These factions compete for power and the social groups in Chinese society that they represent. Whereas the elitists focus on the interests of entrepreneurship in the country, the populists are more concerned with poorer groups such as farmers and urban citizens, or ‘non-citizens’ such as illegal migrant-workers. It is known that the top leaders Xi Jinping and Li Keqiang come from different factions, Xi being elitist and Li from the populist faction.<sup>91</sup> The EU has to know which PSC member is in which faction and will thus be more or less likely to cooperate on certain policy fields. Just as opposition forces can pressurise democratic governments in certain directions, a single-party system should be easier to influence and deal with if there are several factions within it.

A third recommendation concerns the Chinese position in multilateral organisations. Economically, they are already one of the most important countries in the world. Yet, they hold disproportionately little voting power in the IMF and regret that the leadership of the IMF and the World Bank seem to be decided in a repeat game between the USA and Europe.<sup>92</sup> If the Chinese, like other emerging countries, try to improve their position in the IMF by helping Europe via the IMF, this should be welcomed by the more established western nations even if the Chinese gain more rights in the institution as a result. If western nations constantly try to keep other countries and systems in lower positions than they would merit, the result will be frustration with the inflexibility of the post-World War II bodies. The aim to establish a common BRICS Development Bank pronounced at the BRICS

<sup>85</sup>D. Vincenti (2012), “EU, China leaders agree to disagree”, *Euractiv* ([http://www.euractiv.com/global-europe/eu-china-leader-agree-disagree-news-514940?utm\\_source=EurActiv%20Newsletter&utm\\_campaign=f5ee2d2da8-newsletter\\_weekly\\_update&utm\\_medium=email](http://www.euractiv.com/global-europe/eu-china-leader-agree-disagree-news-514940?utm_source=EurActiv%20Newsletter&utm_campaign=f5ee2d2da8-newsletter_weekly_update&utm_medium=email)).

<sup>86</sup>C. Li (2012), “Leadership Transition in the CPC: Promising Progress and Potential Problems”, *China: An International Journal*, Vol. 10, No. 2, p. 30.

<sup>87</sup>C. Li (2012), “The Battle for China’s Top Nine Leadership Posts”, *The Washington Quarterly*, Vol. 31, No. 1, p. 131.

<sup>88</sup>Li, *op.cit.*, pp. 136-137.

<sup>89</sup>Ibid.

<sup>90</sup>Ibid.

<sup>91</sup>Ibid., p. 137.

<sup>92</sup>C. Kenny (2012), “IMF to the U.S. and Europe: Help Not Wanted”, *Bloomberg Businessweek* (<http://www.businessweek.com/articles/2012-06-14/imf-to-the-u-dot-s-dot-and-europe-help-not-wanted>).

New Delhi summit this year<sup>93</sup> is an early sign of such frustration and could result in the establishment of independent institutions for the non-western world – in which the USA and Europe would have no say at all. For this reason, the EU should work with China and not against it, and support it vis-à-vis its own reluctant member states and the USA when striving for an enhanced position. Of course, to do this, space for the emerging countries would have to be created within the IMF. As has been suggested, the European Stability Mechanism (ESM) could serve “as the legal instrument to merge [eurozone] member state quotas in the IMF into a single euro-area quota”.<sup>94</sup> By doing so, eurozone countries would be represented in the IMF together and places that are now held by individual eurozone countries could be given to emerging countries.<sup>95</sup>

Fourthly, with its new exclusive competence in the negotiation of foreign investment treaties, the EU should focus its attention on negotiating a treaty that grants European companies more market access than is currently the case. Although Beijing’s leadership transition might slow this process down, to start it now might help speed the process up once the new leaders are installed. On both the Chinese and the EU side, high-level support exists for “launching negotiations of an EU-China Investment Agreement as soon as possible”.<sup>96</sup> While DG Trade is at present working on the negotiating directive necessary to obtain the mandate and is also informed that similar processes are taking place on the Chinese side,<sup>97</sup> the fact that this is one of the first agreements of this kind negotiated at EU level, and that it could replace the bilateral investment treaties (BITs) that 26 EU member states have concluded with China, creates the risk that it could take some time before a mandate is given to the European Commission. It would be best to accelerate this process on the European side, in order to be prepared for the start of the negotiations and to appear as strong and united as possible. China will not cede more access to European companies easily, but with its economy depending more and more on the returns on foreign direct investment, the EU has strong counter-arguments to negotiate a favourable deal. The EU should try not to weaken its position by allowing too much in-fighting about technical details of the new EU-wide foreign investment treaties.

Finally, as stated above, before the crisis China did attribute a ‘model’ role to the EU for its own development. Although the crisis has discredited the European model in its political and social policy aspects, the EU should use the openness with which the term was originally coined by Chinese scholars and become (or remain) a model, at least in some areas. Whereas the financing of social systems and European integration without further political integration are perceived in China as no longer working, Europe still has a lot to offer and these aspects should be highlighted when speaking with China. While it is necessary to address the crisis, the EU should not forget that there are many fields in which the Chinese might still be keen to learn lessons.

<sup>93</sup> S. Rao (2012), “BRICS: future aid superpowers?”, *Reuters* (<http://blogs.reuters.com/globalinvesting/tag/brics/>).

<sup>94</sup> D. Gros (2012), “The Case for IMF Quota Reform”, Council on Foreign Relations (<http://www.cfr.org/imf/case-imf-quota-reform/p29248>).

<sup>95</sup> *Ibid.*

<sup>96</sup> Council of the European Union (2012), “Joint Press Communiqué – 15<sup>th</sup> EU-China Summit – Towards a stronger EU-China Comprehensive Strategic Partnership”, Council of the European Union Press Release, Brussels, 20 September, PRESSE388 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/132507.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/132507.pdf)).

<sup>97</sup> Interview with the European Commission, DG Trade, Brussels, 23.10.2012.



One area where the EU has valuable experience to offer is that of consumer protection standardisation. China might have an interest in learning from Europe here, as recurring food scandals put party legitimacy in question.<sup>98</sup>

Another area where China is still eager to learn from the EU is ecological and sustainable urbanisation. Here, cooperation is already successful as the recently signed China-EU Urbanisation Partnership Joint Declaration reveals.<sup>99</sup> There are signs that China wants to go further in this field, for example by fostering housing energy-efficiency standards, a process for which China is dependent on European eco-efficiency technologies.<sup>100</sup>

Apart from these two fields, more generally, China is also seeking to boost its innovation base and develop its economy into one that does not only imitate high technology from the West but one that invents such products itself.<sup>101</sup> Here, China could find it interesting to look into the education and research systems established in member states of the EU that are capable of developing creative and innovative researchers and knowledge-based industries.

A final point of orientation that Europe could offer China concerns peaceful integration and cooperation with neighbouring countries. In the territorial disputes China currently finds itself embroiled in with its neighbours, the EU could serve as a reminder that peaceful cooperation can lead to greater prosperity than (military) confrontation.

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<sup>98</sup> L. Burkitt (2012), "Mercury Rising: Food Scandal Disappears from Internet", *The Wall Street Journal* (<http://blogs.wsj.com/chinarealtime/2012/06/18/mercury-rising-food-scandal-disappears-from-internet/>).

<sup>99</sup> K. Li and J.M. Barroso (2012), "Joint Declaration on The EU-China Partnership on Urbanisation", European Commission, 3 May ([http://ec.europa.eu/energy/international/bilateral\\_cooperation/china/doc/20120503\\_eu\\_china\\_joint\\_declaration\\_urbanisation\\_en.pdf](http://ec.europa.eu/energy/international/bilateral_cooperation/china/doc/20120503_eu_china_joint_declaration_urbanisation_en.pdf)).

<sup>100</sup> Xinhua News Agency (2012), "China to learn from EU on building eco-cities: Chinese minister", *People's Daily Online* (<http://english.peopledaily.com.cn/90883/7956102.html>).

<sup>101</sup> R.L. Kuhn (2012), "China can produce. Can China create?", *China Daily Europe* ([http://europe.chinadaily.com.cn/epaper/2012-09/28/content\\_15790163.htm](http://europe.chinadaily.com.cn/epaper/2012-09/28/content_15790163.htm)).



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