

# A Power Audit of EU-China Relations

John Fox & François Godement  
POLICY REPORT



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**John Fox & François Godement**

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# Executive summary

Europe's approach to China is stuck in the past. China is now a global power: decisions taken in Beijing are central to virtually all the EU's pressing global concerns, whether climate change, nuclear proliferation, or rebuilding economic stability. China's tightly controlled economic and industrial policies strongly affect the EU's economic wellbeing. China's policies in Africa are transforming parts of a neighbouring continent whose development is important to Europe. Yet the EU continues to treat China as the emerging power it used to be, rather than the global force it has become.

## Europe's unconditional engagement

The EU's China strategy is based on an anachronistic belief that China, under the influence of European engagement, will liberalise its economy, improve the rule of law and democratise its politics. The underlying idea is that engagement with China is positive in itself and should not be conditional on any specific Chinese behaviour. This strategy has produced a web of bilateral agreements, joint communiqués, memoranda of understanding, summits, ministerial visits and sector-specific dialogues, all designed to draw China towards EU-friendly policies. As one senior EU diplomat puts it: "We need China to want what we want".<sup>1</sup> Yet, as this report shows, 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. The EU's heroic ambition to act as a catalyst for change in China completely ignores the country's economic and political strength and disregards its determination to resist foreign influence. Furthermore, the EU frequently changes its objectives and

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<sup>1</sup> ECFR interview with senior European official, 11 June 2008.

seldom follows through on them. The already modest leverage that EU Member States have over China, collectively and individually, is weakened further by the disunity in their individual approaches.

The result is an EU policy towards China that can be described as “**unconditional engagement**”: a policy that gives China access to all the economic and other benefits of cooperation with Europe while asking for little in return. Most EU Member States are aware that this strategy, enshrined in a trade and cooperation agreement concluded back in 1985, is showing its age. They acknowledge its existence, largely ignore it in practice, and pursue their own, often conflicting national approaches towards China. Some challenge China on trade, others on politics, some on both, and some on neither.

The results speak for themselves. The EU allows China to throw many more obstacles in the way of European companies that want to enter the Chinese market than Chinese companies face in the EU – one reason why the EU’s trade deficit with China has swollen to a staggering €169 billion, even as the EU has replaced the US as China’s largest trading partner. Efforts to get Beijing to live up to its responsibility as a key stakeholder in the global economy by agreeing to more international coordination have been largely unsuccessful. The G20 summit in London in early April 2009 demonstrated Beijing’s ability to avoid shouldering any real responsibility; its relatively modest contribution of \$40 billion to the IMF was effectively payment of a “tax” to avoid being perceived as a global deal-breaker.

On global issues, China has proved willing to undermine western efforts on pressing problems such as the repressive regime in Burma or the African tragedies in Zimbabwe and Sudan. China does occasionally modify its position in ways that suit the west – such as its belated support for a UN peacekeeping force in Darfur, the end of weapon sales to Zimbabwe, or its naval patrolling off the Somali coast. But more often than not, these changes are a consequence of direct Chinese interest rather than a desire to please the west. The global economic crisis is putting pressure on China to take measures to support international financial stability. But it is also offering the cash-rich country an opportunity to improve its relative position even further, while remaining a limited contributor to international rescue plans.

## Europe divided – the power audit

China has learned to exploit the divisions among EU Member States. It treats its relationship with the EU as a game of chess, with 27 opponents crowding the other side of the board and squabbling about which piece to move. As irritating as Beijing finds this at times, there is no question about who is in a position to play the better game. As a neo-authoritarian Chinese academic, Pan Wei, puts it, “the EU is weak, politically divided and militarily non-influential. Economically, it’s a giant, but we no longer fear it because we know that the EU needs China more than China needs the EU.”<sup>2</sup> China knows its strength and no longer bothers to hide it. Its new readiness to treat the EU with something akin to diplomatic contempt became apparent last December with the short-term cancellation of the EU-China summit in Lyon, a harsh reaction to French president Nicolas Sarkozy’s plans to meet the Dalai Lama.

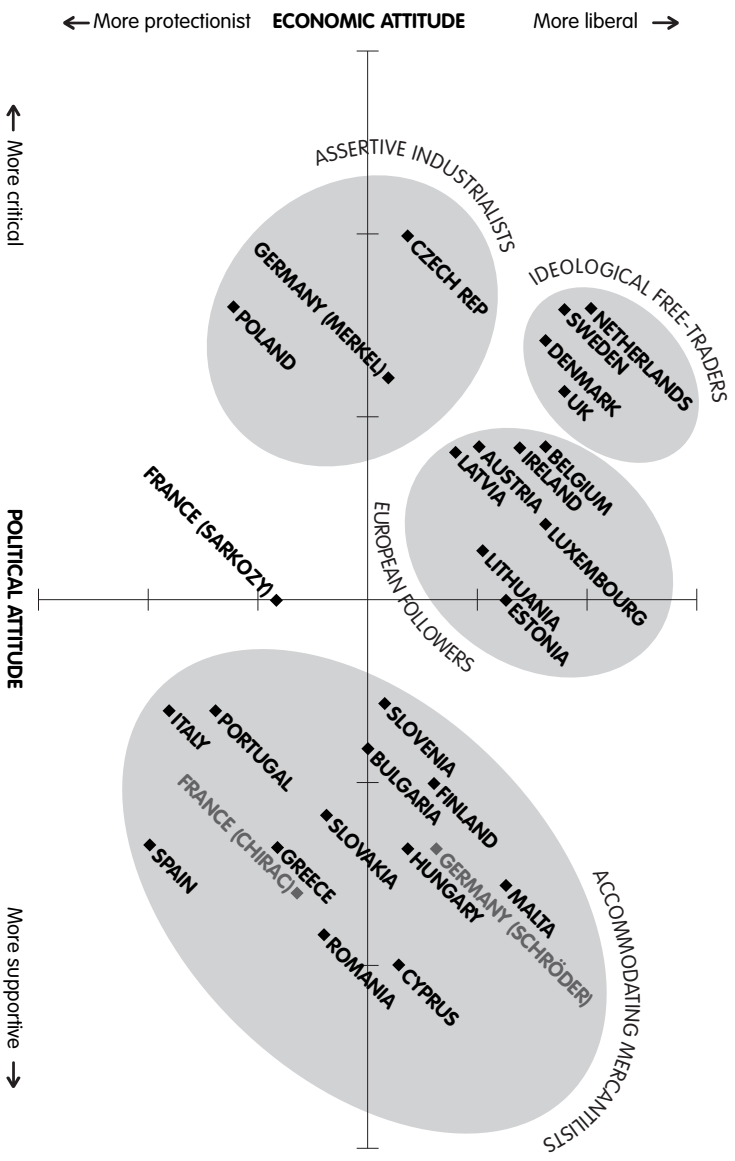
A “power audit” we have conducted shows that the 27 EU Member States are split over two main issues: how to manage China’s impact on the European economy and how to engage China politically. We assigned scores to Member States’ individual policies and actions towards China,<sup>3</sup> and the chart overleaf translates this evaluation on to a horizontal axis for politics and a vertical axis for economics.

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<sup>2</sup> ECFR interview, Beijing, 6 June 2008.

<sup>3</sup> The main policies/actions scored were: position on Taiwan, position on Tibet/willingness to meet the Dalai Lama, prominence of human rights issues, willingness to raise global issues with China (Iran, Sudan etc), voting on anti-dumping issues, position on trade deficit, attitude towards Chinese investment in Europe, and more broadly the nature of political statements on China. Member States were scored to the right or left for actions that were respectively more supportive or critical of China, and to the top or bottom for actions that were more free-trade or protectionist.

# EU Member State attitudes towards China



This analysis allowed us to categorise the Member States into the four groups shown on the chart: **Assertive Industrialists, Ideological Free-Traders, Accommodating Mercantilists** and **European Followers**.

These four groups are of course approximations. A change of government in a Member State can have enough impact on policy towards China to move a country from one group to another practically overnight – as we saw in Germany when Angela Merkel replaced Gerhard Schröder as chancellor in 2005. And as the graph shows, France under President Sarkozy does not fit easily into any category, partly because France’s strategy towards China is still in flux.

But establishing these groupings is useful nonetheless. It helps to understand the conflicts that weaken the EU in its dealings with China, and thus map the path towards a new strategy that could benefit all four groups.

#### *Assertive Industrialists*

The small group of Assertive Industrialists is made up of the Czech Republic, Germany and Poland. These are the only EU Member States willing to stand up to China vigorously on both political and economic issues. The balanced stance of this group could put it at the heart of a stronger EU approach towards Beijing (although Germany, the Member State with the strongest trade relationship with China, has doubts about the usefulness of an integrated European approach). The Assertive Industrialists do not agree that market forces should shape the nature of the EU-China relationship. They stand ready to pressure China with sector-specific demands, to support protective “anti-dumping” measures against unfairly subsidised Chinese goods, or to threaten other trade actions.

### *Ideological Free-Traders*

The Ideological Free-Traders – Denmark, the Netherlands, Sweden and the UK – are mostly ready to pressure China on politics and mostly opposed to restricting its trade. Their aversion to any form of trade management makes it very difficult for the EU to develop an intelligent and coherent response to China’s carefully crafted, highly centralised, often aggressive trade policy. For these countries, free-trade ideology is an expression of economic interest: their economies and labour markets – oriented towards high technology and services, particularly finance – benefit, or expect to benefit, from Chinese growth rather than being threatened by cheap Chinese imports.

### *Accommodating Mercantilists*

The Accommodating Mercantilists are the largest group, comprising Bulgaria, Cyprus, Finland, Greece, Hungary, Italy, Malta, Portugal, Romania, Slovakia, Slovenia and Spain. The assumption these countries share is that good political relations with China will lead to commercial benefit. These Member States feel that economic considerations must dominate the relationship with China; they see anti-dumping measures as a useful tool and oppose awarding China market economy status.<sup>4</sup> They compensate for their readiness to resort to protectionist measures by shunning confrontation with China on political questions. As with the Ideological Free-Traders on trade, the Accommodating Mercantilists’ refusal to bring pressure to bear on Beijing on political issues weakens a key component of the EU’s China policy: these countries have often kept the EU from developing a more assertive stance on issues like Tibet or human rights. At the extremes, some effectively act as proxies for China in the EU. Under President Chirac, France fell squarely into this group; under President Sarkozy, the country’s propensity for sudden swings between political support for China and criticism of China over human rights, Taiwan or Tibet make it an unpredictable partner, both for China as well as for other Member States.

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<sup>4</sup> Under article 15 of the protocol for China’s accession to the World Trade Organisation, signed in 2001, WTO members can use price comparisons with third countries to assess anti-dumping duties on imports from China. Granting China market economy status would remove the right to use such comparisons, which will expire by 2016 in any case. Individual Chinese firms or sectors can also be granted market status.

### *European Followers*

The fourth group, the European Followers, is made up of those Member States who prefer to defer to the EU when managing their relationship with China. As such, Austria, Belgium, Estonia, Ireland, Latvia, Lithuania and Luxembourg are the most “European-spirited” of the four groups, but they are followers rather than leaders. Many of the European Followers do not consider their relationship with China to be central to their foreign policy. They rely on EU support to protect them from Chinese pressure on issues like Taiwan or Tibet. While their readiness to support EU policy is positive, their reluctance to participate more actively in the debate feeds the perception that China is not a key EU priority.

With such divisions among Member States, it is hardly surprising that China perceives the EU as disunited. France, Germany and the UK carry particular responsibility for this situation. Time and again, each of these three has lobbied to become China’s European partner of choice – even though Beijing only grants preferred status for a limited duration, offering its favours to the highest or most pliant bidder. Even during the recent clashes with China over meetings with the Dalai Lama, British, French and German leaders refused each other support, in effect seeking to capitalise on each other’s misfortune.

Any attempt to strengthen the European position must start with an acknowledgment that no Member State is big enough to sway China on its own. Whenever China has shifted its position as a result of European pressure, as it has on nuclear proliferation or to a lesser extent on Darfur, it has reacted to a coordinated effort, strongly backed by the EU as a whole as well as the most influential Member States. Collectively as well as individually, EU Member States will fail to get more from China unless they find ways to overcome their divisions and leverage their combined weight into a strengthened bargaining position.

## China's skilled pragmatism

Europeans tend to treat China as a malleable polity to be shaped by European engagement. But the reality is that China is a skilful and pragmatic power that knows how to manage the EU. Its foreign policy is shaped primarily by domestic priorities – such as the need to sustain economic growth and to bolster political legitimacy in the absence of an electoral process. However, Beijing's global trade, its finance and technology flows, and its drive for energy and raw materials have made it a crucial actor from Africa to Latin America. In recent years, China's foreign policy has been complicated by the need to manage the consequences of its own success, which have come in the shape of new demands to help secure global stability.

So China has become too rich and too powerful to continue operating under the radar, and the recent implosion of western financial capitalism, with its ensuing loss of western prestige, looks set to strengthen the assertive tendencies in Chinese foreign policy even further. Yet despite Beijing's new central role in shaping the global agenda, China's policy towards the EU remains essentially economic in nature. China wants wide access to EU markets and investment, it seeks technology transfers, and it wants the EU and other partners to take the lion's share of the costs of the fight against climate change. Importantly, though, it also wants the EU to refrain from rocking the boat on Taiwan and Tibet.

*“China is a skilful and pragmatic power that knows how to manage the EU”*

To secure these goals, China has developed three basic tactics in its approach to the EU. First, it takes advantage of the mismatch between its own centrally controlled systems and the EU's open market and government to exploit opportunities in Europe while protecting its own economy with industrial policies, restricted access and opaque procedures. Second, China channels EU pressure on specific issues by accepting formal dialogues and then turning them into inconclusive talking shops. Third, China exploits the divisions between Member States. The cancellation of its annual summit with the EU last December, ostensibly to punish President Sarkozy for meeting the Dalai Lama, was a characteristic attempt to sow unrest within the EU.



## Global political issues

China is now a factor in every global political issue that matters to Europeans. Yet despite soothing European claims that China would be encouraged to become a “responsible stakeholder”, more often than not, attempts to bring Chinese behaviour into line with European and western priorities have failed.

Western fears that China and Russia would form a new authoritarian axis of powerful countries hostile to democracy were allayed by China’s lukewarm reaction to Russia’s recognition of Abkhazia and South Ossetia following the Russia-Georgia war last August. China clearly has more important priorities than its relationship with Moscow, such as opposing regional secession as a matter of principle.

Nevertheless, it is clear that China’s rise and Moscow’s new assertiveness pose a major challenge to the normative shift that took place in the 1990s towards human rights, democracy and international intervention. EU countries have been feeling the consequences of China’s new diplomacy in institutions like the UN, where it has become much harder for the EU to muster coalitions on issues such as human rights.

The EU, acting through the E3 troika of Britain, France and Germany, has managed to get China to back its efforts to halt **Iran**’s uranium enrichment programme – but at the cost of having China shield Iran from tougher measures. The backing of China, a veto-wielding state, for the European position in the UN security council has been essential, and EU efforts to bring China on board were a diplomatic success. But because of a lack of any real leverage over China on the issue, other than pointing to the threat of a US or Israeli attack on Iranian nuclear sites, the EU has been unable to persuade China to back tougher sanctions. With Iran, as with several other countries under international sanctions, China has actually reinforced its economic influence.

No issue illustrates the clash between Chinese and European foreign policy better than **Africa**. While the EU remains the primary foreign presence across most of the continent, its influence is decreasing relative to China’s. Chinese trade with Africa is expanding at about 33% a year against 6% for the EU. China sees the continent primarily as a key supplier of energy and mineral resources, and as an increasingly important market. But its aims in Africa are also political, as it seeks to secure support in the UN from African countries on Taiwan, Tibet and human rights. China opposes EU efforts to halt

human rights abuses in Africa on the principle that European governments should not be able to dictate what happens in African states. EU pressure on China to support UN security council resolutions critical of the Sudanese government over Darfur in 2005 and 2006 had little effect; only after local threats to its investments and public pressure in the run-up to the 2008 Beijing Olympics did China start to lean on Khartoum to accept foreign peacekeepers. And EU efforts to get China to help isolate the Mugabe regime in Zimbabwe had no impact whatsoever, except, arguably, on the issue of arms sales.

The EU has put much effort into its dialogue with China on **climate change**, and has results to show. Climate change has been established as a key topic in the relationship, and the EU has helped transform China's domestic policy in this area. China now recognises the threat of climate change and has made reducing the carbon and energy intensity of its economy a priority. The challenge now is for both the EU and China to combine the transition to low-carbon economies with measures designed to protect growth in the face of the global economic crisis. There have been setbacks: China has rejected EU requests to commit to an ambitious global stabilisation target or to binding domestic commitments as part of the negotiations for a post-Kyoto settlement. China's primary goal is to ensure that the EU's engagement on climate change supports rather than hinders its economic development. It wants Member States to provide the investment and technologies it needs for its continued development, and it wants EU funding to help those Chinese regions that will be hardest hit by climate change.

On the related issue of **energy**, China's goal has been to forge partnerships with European energy giants that can deliver access to energy, technologies and two-way investment. China remains reluctant to cooperate more broadly, particularly when it comes to the question of its access to energy resources abroad. The EU's leverage here has been limited and has shown results only when European governments or companies have proved willing to invest, such as the numerous joint ventures across China. The EU's priority is to get China to improve its energy efficiency and to become more open about its measures to safeguard energy security.

## Economic imbalances

Nowhere is the failure of the EU's policy of unconditional engagement with China more obvious than in the trade relationship. In 2007, total EU-China trade reached €300 billion, making the EU China's largest trading partner. But by 2008, the EU's trade surplus of the 1980s with China had turned into a deficit of €169 billion; close to the US's figure of \$266 billion (€199 billion). The global economic crisis has failed so far to reverse this trend. This is not the consequence solely of the strength of Chinese businesses; European firms in China continue to face a myriad of non-tariff barriers and arbitrary decisions at a local level.

European and American negotiators have been guilty of wishful thinking in their dealings with Beijing. They hoped that China's accession to the WTO in 2001 would act as a catalyst for market reform and a strengthening of rule of law. But China seems to have seen membership as the conclusion of its reform process rather than the beginning. Government intervention in the economy has increased rather than decreased, particularly with the implementation of sector-specific five-year plans. In China, the old EU ploy of using legalistic trade agreements as a lever for economic and political change has failed. European trade officials are learning the hard way that Chinese industrial policies are simply too powerful to be much affected by anything they can say or do.

*“Nowhere is the failure of the EU's policy of unconditional engagement with China more obvious than in the trade relationship”*

The EU has suffered no major economic imbalance from the huge deficit in its trade with China, as the EU has run a far smaller *global* trade deficit than, for example, the US. But the 2008 global crisis is fast changing this trend. As it affects some Member States more than others, the deficit with China fuels internal divisions within the EU, making it difficult for trade negotiators to agree common positions in their talks with the Chinese. Even Germany's deficit with China is steadily growing, as Chinese exports move up the value chain. And the EU's deficit with China is compensated neither by EU access to China's property and service sector, nor by Chinese investment flows into European public bonds or private capital markets.

The worldwide recession may boost China's economic weight even further. China's trade surplus will not disappear any time soon: Chinese exports to the EU have not fallen as much as imports from the EU, and other direct Asian exporters are suffering more. China's enormous financial reserves have turned it into a key lender to the world's financial system, and Beijing increasingly sees the need to diversify its holdings away from the US. The economic crisis has highlighted the low level of Chinese investment in the European bond market and European debt instruments. As some European leaders are coming to realise, this could create a major opportunity for China and the EU to carry their investment into each other's economies and financial systems to a new level. But even if mutual investments were not to grow, the politically unsustainable rise of the trade deficit would demand further market opening on China's side.

## The move to reciprocal engagement

Unconditional engagement with China 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. Even the biggest Member States are finding that their attempts to secure their interests through national policies founder in the face of a stronger and better organised Chinese negotiator. The UK, despite its militant advocacy of open European markets for Chinese goods, has failed to persuade China to open up much of its financial service sector or to increase its commitment to global institutions like the IMF. France has seen its trade deficit with China explode despite its commercial diplomacy, and now fears being frozen out by China as a result of its recent stance on human rights and Tibet. Italy and Spain's support for anti-dumping actions has not improved China's trade practices or provided anything more than short-term respite for these countries' textile and manufacturing industries. Germany's strong trade relationship with China has been less detrimental to its economic interests, but the Chinese have ignored Chancellor Merkel's insistence on more respect for human rights.

Yet the fact that the EU – often in tandem with the US – has achieved small but real changes in Chinese policy shows that China can shift its position when faced with a united EU approach on targeted issues. The EU should therefore drop its attempt to remake China through unconditional engagement and turn to a strategy that offers a realistic chance of achieving its most pressing goals.

**12** Unconditional engagement should make way for “**reciprocal engagement**”,

a new interest-based approach with two principles and two criteria. The principles: European offers to China should be focused on a reduced number of policy areas, and the EU should use incentives and leverage to ensure that China will reciprocate. The criteria: relevance to the EU, and a realistic expectation that a collective European effort will shift Chinese policy.

*Reduction and reciprocity, relevance and realism*

For the four “R”s of reciprocal engagement to work, the Ideological Free-Traders must accept that their fundamentalist refusal to use market access as a political tool makes it nearly impossible to counter Chinese policies designed to exploit Europe. The Accommodating Mercantilists should acknowledge that their support for industrial national champions will bear little fruit if the result is to weaken the EU in the face of formidable Japanese and American competition, while their refusal to stand up to China on politics exposes the EU to a future of increasing global irrelevance. The Assertive Industrialists must accept the need for a coherent EU strategy. And the European Followers should understand that it undermines the EU’s China policy as a whole when so many Member States act as if the relationship with China is not important enough for them to bother with it.

“Reciprocal engagement” is not code for an aggressive strategy to contain China. The EU has no choice but to engage China as a global partner and to accept its historic rise. Rather, the EU must make it in China’s best interests to deliver what Europeans are asking for. Reciprocal engagement means firming up the EU approach and driving a harder bargain in negotiations with China, with the aim of coming to mutually beneficial deals that result in greater openness on both sides. For the new strategy to be effective, the EU should streamline its channels of communication with China, improve the ways Member States coordinate their China policies and make European institutions work more effectively. It should also increase its expertise on China by funding training for European officials and managers in Chinese language, politics and economics. It should press Beijing to grant EU officials increased access to the Chinese government machinery, and explain that it might reduce access to Chinese officials in Europe if this is not forthcoming. Access to Chinese institutions across the country should be improved by opening sub-delegation offices in major cities.

### *Rebalancing the economic relationship*

The global economic crisis has made the central task of rebalancing the economic relationship between China and the EU even more urgent. The priority should be to remove barriers to European investment in China while encouraging Chinese investment in the EU. For this, both sides should accept the need to amend, where needed, their legislation and regulatory practice regarding the ownership of firms, investment, intellectual property rights (IPR) and technology transfer. We recommend that the EU:

- offer a deal to grant China market economy status under WTO rules in exchange for the removal of specific non-tariff trade and investment barriers (such as requirements for local content in manufacturing), improvement of IPR protection, and better legal protection for European firms and managers.
- commit to facilitating Chinese investment in essential sectors in the EU, such as transport infrastructure, energy distribution and telecoms, in exchange for China opening up its infrastructure projects to foreign firms and removing ownership restrictions on Chinese firms.
- continue to pursue a mutual opening of public procurement and ensure that such an opening becomes effective once an agreement has been reached.

Technology transfers are another area where suspicion and insufficient legislation have hampered what should be mutually beneficial investments. In particular, the EU has struggled to come up with an answer to China's often successful attempts to force European companies to transfer technologies and knowhow. The EU should:

- expand its support for European R&D programmes, such as Galileo or Hermes, into a broader technology development strategy. As part of this new policy, the EU should secure partial ownership of the rights to key technologies and patents it helps develop, so as to improve control of technology transfers to China and to fend off the pressure Chinese government partners exert on European companies. Such a technology protection mechanism would allow the EU to be more relaxed about Chinese investment in leading European companies (although the defence sector will remain an important exception).

In exchange, China should be asked to open up those economic sectors where it currently restricts foreign investment.

- establish an IPR/patent support fund that would help small and medium-sized enterprises finance IPR registration and protection in China.

### *Climate and energy*

Fighting climate change is another EU priority where improving cooperation with China is paramount. In the face of the global economic crisis, the EU's objective must be to keep China from locking itself into short-term economic policies that require high-carbon infrastructure and industrial protectionism. This change will call for a series of deals on technology, economic incentives and energy security. We suggest that:

- the EU offer China a technology transfer package of key energy-efficient and renewable technologies, including EU funding and knowhow transfer. In return, China should commit to a global stabilisation goal and to specific domestic targets on emissions in post-2012 negotiations. China should also commit to accelerated development of clean coal technologies and continue to explore carbon capture and storage technology. The EU and China should prioritise the development of “low-carbon zones” in China as a precursor to a country-wide EU-China low-carbon trade and investment framework.
- the EU and China make identical statements rejecting the use of energy sanctions, such as the deliberate interruption of energy supplies. Blacklisting the use of energy as a political weapon in international relations would reinforce the shared interest of China and Europe as large energy consumers.
- the EU and China open up their energy distribution systems to each other's firms. China should clear ownership limitations on Chinese energy firms and joint ventures, and should increase information-sharing and transparency, including through the International Energy Agency.

### *Iran and proliferation*

The EU wants China to back its attempts to persuade Iran to refrain from developing nuclear weapons. To convince China to be more active on Iran, we recommend that the EU:

- aim for a deal on lifting the European embargo on arms sales to China, which has been in place since the Tiananmen Square massacre of 1989. In exchange, China should endorse and ensure the passing of stronger sanctions against Iran and other potential nuclear proliferators. It should also commit to specific improvements in the implementation of its export controls.
- offer support for Chinese membership of counter-proliferation regimes (MTCR, Australia Group, Wassenaar Arrangement) in exchange for Chinese backing for a strengthening of the Nuclear Non-Proliferation Treaty at the 2010 review convention, and for reinforcement of the International Atomic Energy Agency through strengthening the additional protocol.
- offer cooperation, including military ground support, for Chinese surface maritime operations off Somalia and areas where Chinese economic and human interests are directly threatened. In exchange, China should cooperate in reducing conventional arms exports and tackling proliferation on the high seas, and should support the Proliferation Security Initiative.

### *Africa and global governance*

The EU dialogue with China on Africa, global governance and development has been sluggish. To encourage China to bring its economic and political practices across Africa and elsewhere more into line with international norms, the EU should use a combination of enticements and firmness. This should include:

- EU support for Chinese investments, including in international financial institutions, in exchange for China joining international lender coordination mechanisms, including the Paris club. The EU should act within international financial organisations to prevent debtor countries from accepting Chinese loans when China flouts international financial aid norms.



- EU security cooperation with African governments to protect Chinese activities and investments against security threats. This commitment should be traded for greater Chinese support for peacekeeping operations in Africa, both through troop contributions and Chinese support for UN-authorized operations in Sudan, Chad and elsewhere.
- EU offers to use developmental aid budgets to back Chinese projects and investments where they contribute to EU development goals. In exchange, China should be asked to commit to specific development measures in the country or region concerned.

Where positive offers do not work, the EU should support local NGOs, unions and media groups that challenge questionable Chinese behaviour, and should be prepared to publicly criticise China itself. The EU should also continue to urge China to increase its contributions to global institutions.

### *Human rights*

The proposals listed above deliberately omit many important issues traditionally raised in EU-China summits, such as China's human rights situation. While the EU has little leverage regarding the human and civic rights of Chinese citizens, we do not believe that the EU should remain silent on the issue. But the EU desperately needs to bolster the credibility of its approach. There is a growing consensus that an strategy based only on discreet official channels and informal dialogues behind closed doors does not deliver significant results. We suggest therefore that under reciprocal engagement, the EU should unite around four priority areas regarding human rights in China: **restrict the use of the death penalty, end imprisonment without judicial review, protect religious freedom, and work towards reconciliation in Tibet.** It should also: revitalise an EU human rights dialogue with China, based on these four priorities; strengthen rather than weaken its public position on human rights in China; ensure that EU leaders do not deny each other support in order to curry favour with Beijing when China applies pressure; and issue a statement that EU leaders and parliamentary authorities will not tolerate any restriction on their right to meet political and religious figures, including the Dalai Lama.

## *A better organised EU*

The rise of China should be a strong incentive for ratification of the Lisbon Treaty and towards a more unified and better organised Europe. But even if the Lisbon Treaty does not come into force soon, the EU must agree on a more forceful China strategy.

First, **the European Council should launch a major review of EU policy towards China**, with the aim of establishing a small list of joint policy priorities that could be drawn from the suggestions mentioned above. This should be followed by regular European Council discussions on China policy. Second, **Member States should “Europeanise” their national cooperation programmes and key dialogues with China**: coordination between national governments has been no substitute for a single, focused dialogue or programme with China. Third, the EU should **establish a permanent “open troika” system** for engaging China on priority topics. The troika – which comprises the current and next presidencies and the Commission – should also be opened to those Member States that would demonstrably contribute on the issue; producing a study of a relevant topic or funding for a project could serve as entry requirements. This open troika format should extend to representation at EU-China summits.

There are broader strategic reasons for the EU to rethink its relationship with China. The inauguration of Barack Obama as US president has signalled the start of a new chapter in US-China relations – one marked by American knowledge that it needs Chinese money to dig itself out of its deep economic hole, and by Chinese awareness that its treasure invested in the US could be imperilled if the US does not recover its economic footing. To avoid being sidelined by the dialogue between the world’s old and new powers, the EU will have to offer more than a cacophonous chorus of competing voices. Reciprocal engagement, backed by better policy tools, can go a long way to help meet that challenge.

# Chapter 1: Europe's unconditional engagement

China has become a global power. Its economic growth in the last decades is without parallel in the modern world. An energetic, even aggressive policy on industry and trade, combined with a collective preference for saving rather than spending, has allowed hundreds of millions of Chinese to lift themselves out of poverty and placed huge funds at the government's disposal. The global economic crisis has hit China hard, but it has also made it clear that the health of the world economy now depends as much on decisions taken in Beijing as on any taken in Europe. Getting China to increase its contribution to global financial stability, including funds available to the IMF, is an international priority. On the biggest global issues, ranging from climate change to economic regulation or nuclear proliferation, Beijing is now essential to any solution.

The news of China's rise has escaped no informed European. But while some are fascinated, many feel more fearful than hopeful about the long-term consequences. EU leaders share many of these misgivings, and are watching China closely. The huge number of official European delegations travelling to China every year – there were 450 in 2007 – attests to this enormous interest. Yet European policy remains oblivious to the reality of what China has become: the world's first currency reserve holder, its second economic power and military spender, the EU's second largest trade partner. All of this has been achieved with a largely unconvertible currency which insulates China from many of the financial consequences of its global integration.

Yet the EU treats China as if it were still an emerging power. An agreement concluded in 1985 – ironically designed in part to help Europe address the trade surplus with China – remains the legal basis for the relationship, and the attitude it enshrines still shapes the EU's approach. A web of European-inspired dialogues and agreements is supposed to entangle China in rules and commitments, protecting the EU from bad Chinese behaviour and

transforming Chinese policy along European lines. Even with no conditions attached, EU engagement with China – so goes the optimistic assumption – will “Europeanise” China’s behaviour at home and abroad.<sup>5</sup> But this attitude overestimates the transformational power of the EU while underestimating China’s ability to use engagement with Europe to its own ends. The EU’s official policy towards China is woefully out of sync with the reality of the relationship.

## The EU: ignoring reality

Examples of Europe’s failure to mould China in its own image are legion. EU hopes that China would continue opening up its economy following its accession to the World Trade Organisation (WTO) in 2001 have been disappointed– the Chinese government has treated WTO membership as the end of the reform process rather than a beginning. Beijing has tightened central control of Chinese firms and reinforced informal barriers to foreign entry into the Chinese market. Political liberalisation seems to have stalled, or even reversed: China has tightened restrictions against NGOs, stepped up pressure on dissidents, and stopped or rolled back local electoral reforms. At the UN, Beijing has built an increasingly solid coalition of general assembly votes, often mobilised in opposition to EU values such as the defence of human rights.<sup>6</sup> And China has made clear that while it sees climate change as a major problem, it will not compromise its economic growth to fight it.

It wasn’t so long ago that China kept its head down internationally on every topic except Taiwan. Now it takes centre stage on all big global issues, while the EU’s leverage has weakened to the point where China feels it can largely ignore it. Yet EU policymakers cling to the dream that China’s growth will bring with it the rise of a class of businesspeople and officials keen to engage with Europe and increasingly in tune with its values. EU-inspired engagement, treaties and dialogues will, they hope, push China towards better social policies, more property rights, improved environmental protection and political liberalisation.

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<sup>5</sup> A recent report to the European parliament reiterates the belief that “change through trade is a way to contribute to China’s transformation into an open and democratic society”, while noting at the same time that Europe’s deepened economic and trade relations with China have not been accompanied by any significant progress in human rights (Report to the European Parliament on Trade and Economic Relations, 27 January 2009).

<sup>6</sup> See Richard Gowan and Franziska Brantner, “A Global Force for Human Rights? An Audit of European Power at the UN”, ECFR report, September 2008.

Building on this approach, the EU aims to persuade the Chinese leadership that it is in its own interest to do what Europeans ask, whether on market opening, the rule of law or climate change. One European official describes this approach as “asking China to help the EU to help China”.<sup>7</sup> One important consequence of this approach has been a steady increase in the number of objectives the EU formulates for its China policy; these are often changed as new topics acquire urgency. These objectives are seldom followed through. The EU has never carried out a proper evaluation of the success of its individual policies.

## The Member States: ignoring strategy

The lack of focus in forming China policy at EU level is compounded by growing divisions between the Member States. Although Member States do have differing philosophies about how to deal with China’s rise, a bigger reason for this disunity is the belief prevalent in many national governments that they have more to gain from a national China policy than from an integrated EU approach. In most cases, however, the concessions each of the 27 can extract from China on any major issue are usually so small as to be virtually meaningless. Most EU governments know that the current approach of engaging China unconditionally at EU level while pursuing competing national strategies cannot work. But they do not believe in their ability to do better, either collectively or individually. The failure of the EU’s approach towards China starts therefore with a failure of imagination.

The differences between the 27 Member States are the biggest obstacle to an improved EU China policy; no progress is possible unless the EU finds a way to deal with them. But prescribing a remedy requires a diagnosis. We have therefore conducted a “power audit” of each Member State’s policies towards China, examining how each country deals with the most substantive or contentious issues in the relationship. Our data show that Member States divide over two main issues: China’s economic impact on Europe, and China’s political and human rights record.

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<sup>7</sup> ECFR interview with senior EU official, Brussels, May 22, 2008.

Our analysis draws on two sources: extensive interviews with Chinese and European officials and experts, and a survey commissioned for each Member State about its relationship with China. We have also examined how Member States perceive each other and how they see EU institutions.

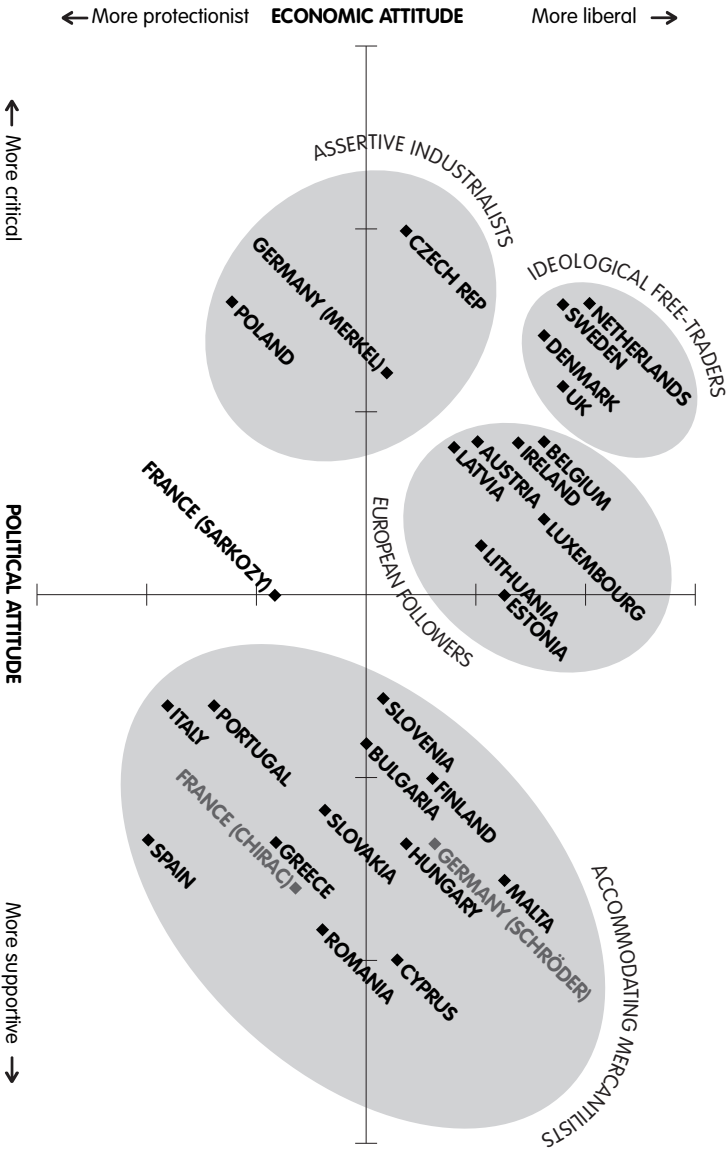
The chart opposite translates the answers on to a horizontal axis for political issues and a vertical axis for economic issues.<sup>8</sup> Based on the picture that emerged, we classified the 27 Member States into four broad groups: **Assertive Industrialists, Ideological Free-Traders, Accommodating Mercantilists, and European Followers.**

These categorisations are neither absolute nor immutable; personality and political affiliation both matter. In some countries, notably France, Germany, and to a lesser degree the UK, new leaders have reoriented or attempted to reorient their approach towards China. Other countries have little official contact with China, as they lack the tools to implement any given policy (detailed descriptions of the particular issues which inform the relationship between each Member State and China can be found in the annex). The four groups are neither perfectly divided nor perfectly homogenous. But distinguishing between them helps understand how Member States work against each other and undermine the EU.

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<sup>8</sup> The main policies/actions scored were: position on Taiwan, position on Tibet/willingness to meet the Dalai Lama, prominence of human rights issues, willingness to raise global issues with China (Iran, Sudan etc), voting on anti-dumping issues, position on trade deficit, attitude towards Chinese investment in Europe, and more broadly the nature of political statements on China. Member States were scored to the right or left for actions that were respectively more supportive or critical of China, and to the top or bottom for actions that were more free-trade or protectionist.

# EU Member State attitudes towards China



### *Assertive Industrialists*

The small group of Assertive Industrialists – Germany, the Czech Republic and Poland – are uniquely placed to take on China, and could therefore form the core of a more coherent and realist EU policy. These three countries are ready to criticise China’s politics and to defend industrial interests or protect jobs at home from Chinese competition. They do not hesitate to act when they believe that rules are tilted in China’s favour. They will present China with specific demands for a given sector and support anti-dumping actions or other trade measures when they see them as justified.

The Czech Republic and Poland have only a few firms and sectors able to compete in the Chinese market, and their imports from China are rising rapidly.<sup>9</sup> This means they are less tempted than others to ask the Chinese for favours for their national companies, and are less exposed to Chinese pressure. Politically, Czech and Polish attitudes towards China are shaped by the powerful legacy of communist rule and their popular anti-communist movements. The Czech Republic is often identified by China as the EU member state most hostile towards it – yet it rarely suffers Chinese “punishment”.

*“The “Assertive Industrialists” –  
Germany, the Czech Republic and  
Poland – could form the core of a  
more coherent and realist EU policy  
towards China”*

Germany is the biggest member of this group; the size of its economic relationship with China alone makes it a special case. The China debate in Germany is more developed than in any other European country: political parties, foundations and the media are all active alongside academics. The value of Germany’s exports to China in 2007 – €29.9 billion – was more than three times that of France, almost five times that of Italy, and nearly six times that of the UK. China’s need for German machine tools and other equipment tends to insulate Germany from long-term political reprisals for its criticism. Politically, while former Chancellor Schröder competed with President Chirac for good relations with Beijing, Angela Merkel has brought in a new focus



on human rights. Merkel is viewed with suspicion by China because of her upbringing in the GDR, and she has run into difficulties with German big business. Yet the German position is complicated by internal disputes. The Social Democrat Frank-Walter Steinmeier, Merkel's minister of foreign affairs in the coalition government and her likely rival for the post of chancellor in the 2009 elections, hews to a line closer to that of his erstwhile mentor Schröder.

### *Ideological Free-Traders*

The Ideological Free-Traders – Denmark, the Netherlands, Sweden and the UK – are the Member States most consistently in favour of letting Chinese imports flow freely into the EU. They are usually ready to criticise China on political issues, but their aversion to any form of trade restriction weakens a key component of European leverage on China. Their position is not pure idealism: their economies and labour markets – oriented towards high technology and services, particularly finance – benefit, or hope to benefit, from Chinese growth and are less threatened by cheap Chinese imports than those of other Member States. The Ideological Free-Traders are true to their credo when they criticise China on its market barriers, but they often reserve their fiercest ire for those EU Member States – particularly in southern Europe – who deploy import quotas and anti-dumping measures, who oppose awarding China market economy status, or who dare even to mention protective measures.

The Ideological Free-Traders will readily raise human rights issues, and they are mostly willing to meet the Dalai Lama, albeit in a non-official capacity. They press China on global issues such as governance, climate change or conditionality of aid to the developing world. Vocal domestic human rights lobbies drive much of this.

The UK holds a special position within this group, as it clearly prioritises its bilateral relationship with China over European channels. Its traditional focus on human rights has recently been overtaken by commercial interests and issues such as climate change. It also changed in 2008 a long-standing formal position on Tibet, finally recognising full Chinese sovereignty over the territory.

All four countries have high levels of political and economic engagement with China, and governments, businesses and media that place a high priority on the China relationship. They tend to maintain large diplomatic presences in Beijing as well as in other big cities such as Shanghai, Hong Kong and Guangzhou.

### *Accommodating Mercantilists*

The Accommodating Mercantilists – Bulgaria, Cyprus, Finland, Greece, Hungary, Italy, Malta, Portugal, Romania, Slovakia, Slovenia and Spain – tend to see politics as subordinate to economic goals, and they believe good political relations will lead to commercial benefit. To protect their economies, these countries will lobby for anti-dumping measures, and they oppose the EU awarding China market economy status; to avoid triggering Chinese retaliation, they generally accommodate China on political issues. Indeed, they actively pursue a good political relationship with China to make it easier for their companies to get access to the Chinese market. They mostly refuse to meet the Dalai Lama, vocally support China’s position on Taiwan, and block or water down EU criticism of China’s human rights record (and fail to raise the issues themselves in meetings with China). At one extreme, they can effectively act as proxies for China in the EU. One Chinese expert on European affairs described Romania as an “all-season partner that will support China whatever happens”.<sup>10</sup>

The Mercantilists tend to be particularly vulnerable to the economic consequences of China’s rise. They either have job markets that are strongly exposed to displacement by Chinese competition, or firms that need large-scale Chinese government contracts, making them especially dependent on official goodwill. One diplomat from a large EU Member State said his country “could not afford to be politically critical of China” because its trade was too dependent on these government decisions.<sup>11</sup> In southern Europe especially, traditional manufacturing sectors with large numbers of employees – such as textiles, shoes, consumer electronics and car parts – are directly under threat from China. Spain, for example, has consistently followed a policy of

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<sup>10</sup> ECFR interview with Feng Zhongping, European studies analyst at Chinese Institutes of Contemporary International Relations, Beijing, 6 June 2008.

<sup>11</sup> ECFR interview, Beijing, 5 June 2008.

good diplomatic relations with China. Yet this has not prevented a relentless growth in its trade deficit with the country.

France is a special case: under President Jacques Chirac it was one of the most significant of the Mercantilists, but President Nicolas Sarkozy has adopted a new approach, taking publicly critical positions on Tibet and attempting to use the issue of his attendance at the Olympics to influence China's behaviour. As a consequence, France, which has more Chinese residents than any other EU Member State, has been singled out for Chinese criticism and diplomatic retaliation – witness China's cancellation of the annual EU-China summit last December – and it is now a swing state in the EU's relationship with China. China understands this, and President Hu chose specifically to meet with President Sarkozy during the recent G20 summit in London, neglecting other European leaders.

### *European Followers*

The European Followers are those Member States who on most China issues rely completely on the EU position: Austria, Belgium, Estonia, Ireland, Latvia, Lithuania and Luxembourg. Some of these countries are simply too small to run a separate political relationship with China and therefore delegate as much as possible to the EU. They do not have major trade and investment relationships with China, though service providers such as Luxembourg, Ireland and Belgium should be well set up to benefit from the Chinese economy.

The European Followers depend on the EU to protect them from Chinese pressure on issues like Taiwan or Tibet. One EU official noted that “small EU Member States are always asking the Commission for the line to take when China bullies them”.<sup>12</sup> This of course makes these countries the “best” Europeans of the four groups. But they do not in themselves constitute a force in defining European policy. As with the Mercantilists, many of the European Followers do not consider their relationship with China to be a political priority. In most of these countries, public and official interest in China tends to be low. And the benign neglect that the European Followers show towards the EU's China policy reinforces the perception that China is not a strategic priority for the EU as a whole.

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<sup>12</sup> ECFR interview with senior EU official, Brussels, 20 May 2008.

## The failure of bilateralism

The differences between Member States, while serious, are nowhere near as significant as the differences between any one of them and China. Member States nonetheless freely and frequently undermine each other and any serious attempt at a common EU approach. The free-traders hang the mercantilists, particularly the southern Europeans, out to dry on anti-dumping and protectionism – issues which may be problematic, but that are not half as harmful as China’s practice of nurturing industrial champions and fostering economic nationalism, which prevents fair competition in many areas. In return, the Mercantilists scuttle EU requests on human rights, or weaken the EU’s leverage over Taiwan, in an attempt to ingratiate themselves with China’s leaders. The Industrialists, while less destructive in their approach, show too little concern for European policies. And the Followers too often fail to translate their support for a joint policy into firm action.

*“The differences between Member States, while serious, are nowhere near as significant as the differences between any one of them and China”*

The biggest responsibility for the failure to develop a coherent and effective EU approach lies with France, Germany and the UK. Each of these countries competes to become China’s partner of choice in Europe. They openly disparage the European Commission’s trade position on China, arguing variously that it is too liberal or too protectionist, and discount it altogether on political issues. This me-first strategy is blind to the reality of the overall relationship. None of the three countries can hope to displace the other two in China’s affections for more than a few years or even months; the net effect of their policy is to undermine each other, and EU policy more generally. The dispute between these three states in the first half of the decade over whether the EU should lift its arms embargo on China was described by a senior European official in Beijing as “the classic counter-example of what you should not do – it should be taught in diplomatic schools”<sup>13</sup> (see box, right).

## European sclerosis in action: the arms embargo

By late 2004, intensive Chinese lobbying had convinced most Member States to support lifting the EU arms embargo that was imposed on China after the 1989 Tiananmen Square massacre. But the UK and a number of other Member States cooled on an immediate lift of the embargo following strong US opposition and China's adoption, in March 2005, of the "anti-secession law", which renewed the case for use of force against Taiwan. This brought the pre-existing splits within the EU into the open. The UK and Sweden had been pressing the EU to agree on improvements to the code of conduct regulating EU arms exports and to identify what China could give the EU in return for lifting the embargo (principally ratification of the International Covenant on Civil and Political Rights). Others, notably France, were pushing hard to lift the embargo. After months of embarrassing confusion and argument, the EU postponed the decision, damaging its credibility with both China and the US. It seems no closer to resolving the dispute today.

A striking example of the failure of bilateral approaches to China can be found in France's short-sighted assumption that good political relations will lead to major business deals. Not only has France's trade deficit with China massively increased over time, but its recent criticism of China over Tibet has been met with a particularly aggressive response. The Chinese government often treats its critics better than its traditional "friends", in effect taking hostage those who have committed themselves in advance. But the UK's militant advocacy of free trade, which ignores the complaints of other Member States, and its insistence that China should participate more in global governance and boost its tiny share in the IMF, have proved no more successful than the French approach. Nor has the UK's historic decision last year to finally recognise China's full sovereignty over Tibet<sup>14</sup> been reciprocated with any positive move from China. Germany's own strategy – to separate politics from trade, as an influential policy paper advised in 2007<sup>15</sup> –

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<sup>14</sup> The relevant statement by David Miliband, British foreign secretary, can be found at: <http://www.fco.gov.uk/en/newsroom/latest-news/?view=PressS&id=8299838>

<sup>15</sup> "Asia as a strategic challenge and opportunity for Germany and Europe", strategy paper, CDU/CSU Parliamentary Group, 23 October 2007.

has also proven difficult. In effect, Germany has concentrated on its bilateral trade interests, while the divisions within the EU have rendered Chancellor Merkel's attempt at a political stance inoperable.

Distrust and mutual recriminations within the EU are the order of the day: while one senior EU official contends that "bilateral strategic dialogues are mostly empty",<sup>16</sup> the large Member States charge that "EU dialogues are of lower standard than the national ones".<sup>17</sup> So, for example, the UK and France have established ambitious climate change dialogues with China, while the EU dialogue struggles to gain traction with Chinese policymakers. In fact, there are now six EU or Member State dialogues on climate change with China. The UK runs its own financial dialogue with Vice-Premier Wang Qishan, covering areas that should be Commission competences. France has been inspired by this example to ask for an economic dialogue of its own, and Germany is considering making a similar request. There are important exceptions, such as EU-wide measures against China dumping illegally subsidised goods and the E3 partnership on Iran's nuclear programme. But China's extraordinary postponement of the yearly EU-China summit in Lyon in December 2008, only days before the meeting was supposed to take place, made the failure of the EU's China policy apparent to all. And during Prime Minister Wen Jiabao's recent visit to Europe, political issues disappeared from the official agenda – which amounts to a significant European retreat.

## The vicious circle of the EU's China policy

The EU's China policy is trapped in a diplomatic vicious circle. European divisions reflect a lack of faith among Member States that the EU can act as an effective guarantor of their national interests. The EU has responded to the lack of direction from its Member States by clinging to a policy framework that dates from an era when China was the world's largest developing country. This encourages governments to pursue their relationship with China independently from Brussels, leaving the EU to deal with few matters of substance and to fight battles over largely symbolic issues. Arguments about language on Taiwan, Tibet, human rights or the arms embargo – which have little to no impact on the ground – are fought at the expense of progress on vital issues such as market access, African governance or climate change.

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<sup>16</sup> ECFR interview with a Belgian expert on EU-China relations, Brussels, 19 May 2008.

<sup>17</sup> ECFR interview with a large Member State diplomat, Beijing, 3 June 2008.

One such example is the current discussion over a partnership and cooperation agreement, which would replace the 1985 trade and cooperation agreement as the legal basis of the EU-China relationship. The EU is pushing for a text that would commit China to a set of shared values. But China has little interest in those parts of the agreement that go beyond trade and cooperation. Again, the EU, true to its philosophy of unconditional engagement, is wooing China on symbolic matters that achieve little, but for which Beijing is likely to ask painful concessions.

Overcoming its own divisions is the only way in which the EU can hope to rebuild leverage both at a European and a national level. Europeans need to think about how to raise their game, achieve unity where it matters, and focus their demands on those areas where a change of Chinese policy is essential.

### Too much jaw-jaw

The EU maintains 24 “sectoral dialogues” with China. Approximately 20 European Commissioners visit the country each year; in 2007, 80 MEPs and no fewer than 450 European delegations made the trip. By all accounts, these hundreds of dialogues and visits are poorly coordinated. National ministers from Member States travel to China in such great numbers that the EU delegation cannot even keep count of them. To make matters worse, few Member States coordinate or share information about Chinese government visits to European capitals. The EU as such undertakes few coordinated *démarches* in Beijing, except in the guise of formal requests through the rotating presidency. More often than not, these concern human rights. For Chinese officials, according to a European diplomat, the EU often appears as “another junior diplomat delivering to the ministry of foreign affairs a formal complaint about human rights”<sup>18</sup> on behalf of the rotating presidency.

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<sup>18</sup> ECFR interview with senior European diplomat, Beijing, 6 June 2008.

# Chapter 2:

## China's skilful pragmatism

Europeans tend to treat China as a malleable polity to be shaped by European engagement. But China has become a skilful and pragmatic power, adept at managing the EU. Its foreign policy is shaped primarily by domestic priorities, such as the need to sustain economic growth and to bolster political legitimacy in the absence of an electoral process. It is also keen to avoid generating foreign backlash against its rise. However, Beijing's global trade, its finance and technology flows, and its drive for energy and raw materials have made it a crucial actor around the world, from Africa to Latin America. In recent years, China's foreign policy has been complicated by the need to manage the consequences of the country's own success, particularly in the form of demands to help secure global stability.

So China has become too rich and too powerful to continue operating under the radar, and the implosion of western financial capitalism, with the ensuing loss of western prestige, looks set to strengthen newly assertive tendencies in Chinese foreign policy even further. Yet despite its new central role in shaping the global agenda, China's policy towards the EU remains essentially driven by economic goals. China wants wide access to EU markets and investment, it seeks technology transfers, and it wants the EU and other partners to bear the lion's share of the costs of the fight against climate change. It also wants the EU to desist from criticism on Taiwan and Tibet. In the words of Shi Yinhong, a leading Chinese international relations expert, "China's demands of the EU are feasible, limited and realistic".<sup>19</sup> Yet the question remains whether China has offered the EU anything in return for these "demands".



## How China sees Europe

When China released its first policy paper on the EU in 2003 – the year, not coincidentally, in which the European Convention adopted the doomed constitutional treaty – the mood in China towards Europe was positive. China’s official media spoke of a “honeymoon”, and opinion polls found that ordinary Chinese were well disposed towards the EU.<sup>20</sup> The policy paper was seen as a milestone in the Europe–China relationship, as it seemed to mark a shift in the country’s approach from traditional state-to-state relations up to the European level.

But today, feelings in China have soured and the EU’s political significance has markedly decreased in Chinese eyes. The EU’s failure to agree on a coherent foreign policy and the ongoing disputes among Member States have given currency to the Chinese analysis that an erratic EU is on a slide to irrelevance. “Brussels is losing importance: we must go back to the capitals, who make the decisions, speak to Member States, even on trade”, says the influential analyst Feng Zhongping.<sup>21</sup>

The moment when China might have seen the EU as a serious political partner, even a counterbalance to the US, is over, at least for now. Beijing is approaching the EU not as a partner to be wooed, but as an economic space to be used for its own development.

## China’s three tactics in Europe

While Europeans hope to win over China through the use of unconditional engagement, Beijing has carefully crafted a strategy to manage the EU, using three sets of tactics.

First, China takes advantage of the mismatch between its own centralised authority and the EU’s rules-based system of government: it makes full use of the openness of EU markets while using the fuzziness of its own administrative channels to restrict access to its own markets. There are no

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<sup>20</sup> “Chinese perceptions of the EU and the China–Europe relationship”, Zhu Liqun, in *China–Europe Relations: Perceptions, Policies and Projects*, ed David Shambaugh, Eberhard Sandschneider and Zhou Hong, Routledge 2008. Zhu’s survey was undertaken in 2005.

<sup>21</sup> ECFR interview, Beijing, 6 June 2008.

clear boundaries between central, regional and local authority in China; Chinese citizens and foreign firms alike find it difficult to secure their legal rights at local level, and are often faced with arbitrary decisions from local or regional authorities. Yet the central government retains considerable authority, particularly concerning relations with foreigners, and major firms, as well as those owned by the state, tend to obey government decisions. As one EU diplomat says, the party-government structure “can control anything it wants, but not everything; the party is good at choosing what to control”.<sup>22</sup>

The terms of China’s WTO entry sharpen the imbalance, as they allow China to shield strategic and emerging sectors of its industry from competition; these restrictions serve to protect global Chinese firms such as CNPC, the giant oil company, or Huawei, the worldwide telecoms firm which originated with the military. By comparison, China perceives that the EU has little room to manoeuvre. Anti-dumping measures, China’s main complaint, concern just 2-3% of Chinese sales to the EU, as Member States rarely rally around a common position.

Second, China channels EU pressure on specific issues, such as human rights, by accepting formal dialogues about them – which the EU hails as a great victory – and then turning them into inconclusive talking shops. China reassures the EU by using soothing language about the virtues of multilateralism. But for Beijing, these meetings are an end in themselves. Human rights dialogues deflect the European urge to adopt critical public resolutions; the high-level trade dialogue, which China has so far restricted to an annual meeting, helps to contain European pressure for trade restrictions triggered by the growing trade deficit. The EU’s foreign policy traditions lead it to rely on these dialogues and point to them as signs of progress, even when they lead nowhere.

*“China channels EU pressure on specific issues, such as human rights, by accepting formal dialogues about them and then turning them into inconclusive talking shops”*

In some cases, dialogues actually strengthen China's influence in Europe rather than the other way around. For example, western-style "win-win" rhetoric about the benefits of mutual engagement has become a standard feature of China's advocacy to keep western markets open and reject anti-dumping measures. Chinese leaders deflect European or American calls to become more responsible not by questioning the call for responsibility as such, but by attacking western definitions of the concept or by pointing to double standards. Third, China exploits and on occasion fosters the divisions between EU Member States. While even close allies of the EU exploit its divisions – as the US did in the run-up to the Iraq war – China can do so with unusual ruthlessness, targeting individual Member States with punitive measures when national interests are at stake or short-term goals require it. China has a long history of pressuring the European Followers on Taiwan, and of soliciting support from the Ideological Free-Traders on the issue of market economy status over the concerns of the Accommodating Mercantilists and the Assertive Industrialists.

The most spectacular example is the recent treatment meted out to France. After President Sarkozy's refusal to commit to attending the Beijing Olympics and the debacle of the Paris Olympic torch relay, travel agencies in Beijing were instructed not to sell tours to France, resulting in a 70% drop in visa applications in May 2008. The Chinese government also facilitated a boycott of the Carrefour supermarket chain in China, and Premier Wen Jiabao shunned Paris during his recent goodwill tour of Europe. As for Germany, two years ago, following Angela Merkel's meeting in September 2007 with the Dalai Lama in her office in Berlin, China suspended all political contacts.

Understanding that its cancellation of the annual EU-China summit in Lyon last December might backfire by finally providing a spur to Europeans into displaying more unity towards China, the Chinese have recently sent several high-power purchasing missions to Europe as a gesture of goodwill. But this unprecedented move signals no break with China's carrot-and-stick strategy: the Chinese investors on these missions have openly sought to reward those European countries that maintain "good" political relations with China. In reality, the missions are yet another Chinese ploy to fuel EU disunity by encouraging the belief among European leaders that China-friendly behaviour will lead to economic benefits.<sup>23</sup>

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<sup>23</sup> Fascinatingly, on the eve of the G20 summit in London, China attempted to patch up relations with France – out of concern that it would otherwise be seen as interested in nothing but an exclusive relationship with the United States.

## China's experts – several steps ahead

The problems Europeans face in dealing with such tactics are compounded by their position of inferior knowledge and access. China's party-state apparatus and its think tanks know the EU and each of its Member States well – putting China in a position to exploit differences between Member States or tensions within EU institutions. China is on the doorstep and sometimes even inside the hallways of Brussels. It can call on presidents' and prime ministers' offices, enjoy unrestricted access to non-military industries, and get sympathetic Member States to tip it off or even to act on its behalf in EU decision-making circles. By contrast, the EU has little insight into the executive process in Beijing, and individual Member States do not share among themselves the knowledge they have about China. In China, many problems require access to top-level officials, yet it can be impossible to reach them or their advisers. In many areas, negotiation between European and Chinese firms and industry branches would be useful – yet on the Chinese side, these businesses are usually represented by political officials. Authority in China remains centralised where external relations are involved, and provinces are increasingly bound by central government decisions.

China's bureaucracy for external relations, now flush with cash, excels at granting red carpet treatment to foreign dignitaries. The Chinese media (still under party control), a hyperactive diplomacy, and numerous associations and think tanks weave a web of soft relationships with Europeans where the only requirement is not to rock the boat. China's concern to protect its image does, however, provide the EU with its best opportunity to exercise leverage over China. Massive public protests – which raise the risk from China's point of view of triggering coordinated western pressure and a public backlash against Chinese goods – are one of the most effective ways of getting China to change tack. On Darfur, in 2008, persistent high-level lobbying from western governments, along with an Olympic boycott campaign organised by the Save Darfur Coalition, caused China to shift its position on UN security council resolutions against Sudan. Similarly, the public reaction in Europe to the riots in Tibet in March 2008 and the subsequent protests during the Olympic torch relay embarrassed Beijing – and probably explain why President Hu announced a (short-lived) resumption of dialogue with the Dalai Lama's representatives before the games.

Whenever possible, Chinese negotiators will avoid negotiating with European interlocutors who are empowered to speak for the EU as a whole, bringing its combined weight to bear. China prefers dealing with national negotiators, a tactical choice much helped by many Member States' preference for national control. A former senior Chinese envoy in Europe explains how the Chinese bureaucracy deals with trade disputes, however small: a vice-premier ensures "perfect" coordination between Chinese embassies in Europe and central ministries. The European Commission's position on trade is strong, but even here the Chinese are much more strongly represented than their European counterparts.

China deals more harshly with the Accommodating Mercantilists, whom it sees as "friends" and therefore expects to follow established and approved scripts, than with the Ideological Free-Traders or the Assertive Industrialists, whom it expects to be more difficult partners and who therefore have more leeway to oppose Beijing without incurring full retaliation. China is clear about what it can get from the relationship with the EU, and confident about how to manage EU pressure.

The EU has the most demands in the relationship but little leverage; China has fewer concrete requests and most of the power to say no, since it is the EU that believes in the virtue of engagement. So China can dictate the terms of the relationship, turning it on and off as it pleases.

# Chapter 3:

## Global political issues

The last decade has seen a phenomenal transformation of China's global reach. China is now a major political presence in every continent, with an active diplomacy geared towards maximising China's growing power without triggering a global backlash. Its key imperative is to source energy supplies to provide fuel for its economic growth, to seek open markets to sell its products, and, increasingly, to search for investment opportunities for its gigantic financial surpluses. China is not yet a prosperous country in terms of per-capita income,<sup>24</sup> but it has hoarded the world's largest currency reserves, resources it can draw on to build up its power.

One consequence of China's rise has been a weakening of the global normative shift of the 1990s towards a new international legal order limiting state sovereignty in cases of massive human rights violations. It is true that China recognises that intervention is warranted in cases where civil war threatens international stability; in 2005 it signed up to the UN's general commitment to protect populations from genocide, war crimes and crimes against humanity, and it has endorsed – albeit reluctantly – several UN security council (UNSC) resolutions condemning the genocide in Darfur. But these concessions should not distract from the fact that, in most cases, China continues to regard the principle of national sovereignty as sacrosanct. For example, in January 2007, China, together with Russia, vetoed a UNSC resolution on Burma, arguing that the situation inside the country did not constitute a threat to international peace and stability.

Long-standing western fears that China would ally with Russia – the other authoritarian power among the globe's big rising nations – to form an “axis of authoritarianism” abated when Beijing refused to endorse Russia's

recognition of the independence of Abkhazia and South Ossetia following the Russia-Georgia war in August 2008. China's move confirmed that it has bigger priorities than allying with Moscow, such as opposing secessionism as a matter of principle.

But the Chinese are happy to ignore, or even to undermine, western efforts at shaping the global order when it suits them. China remains suspicious of existing international institutions that were created before its emergence as a superpower, and of international rules it played no part in writing. Its contribution to the UN budget is a mere 2%,<sup>25</sup> and its quota in the IMF is just 3.72% (raised from 2.98% in 2006). China's reluctance to fund international bodies is in stark contrast to its willingness to stump up for large bilateral deals, such as the \$9 billion loan package China offered in 2007 to fund mining and transport systems in the Democratic Republic of Congo – a country that owes \$11 billion to international organisations.

Under international pressure to up its contribution to the IMF's reserves, China has hedged its bets: it claims the need for fundamental reform of global currency systems, while seeking to limit its actual financial contributions. At the recent G20 summit in London, China finally agreed to contribute \$40 billion to the IMF – much less than Japan's \$100 billion, but enough for the country to avoid being scapegoated as a global deal-breaker.

## Where the EU can make a difference

Patience, determination and relentless effort will be required for the EU to succeed in convincing China to shift its position on global issues. But above all, the EU will need to be united in its approach and focused in its demands. This emerges clearly from even a short survey of the most pressing international issues.

### *Nuclear proliferation*

The EU and China would seem to share common interests on non-proliferation. Neither is in a position to sustain a post-nuclear race in anti-

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<sup>25</sup> This compares with 6% for France and the UK, 19.5% for Japan and 22% for the US.

ballistic and space-based weapons. Nor does either of them have an interest in seeing the expansion of the nuclear and ballistic club. From Europe's perspective, it is imperative that China play a leading role in upholding and strengthening the existing international systems for controlling proliferation. The EU wants China to support reform of the Nuclear Non-Proliferation Treaty, to support the work of the International Atomic Energy Agency (IAEA), and to play a positive role in the other treaty organisations and regimes that aim to prevent proliferation. It also wants China to implement more robust export controls on nuclear and dual-use materials, and to take action against Chinese companies willing to flout international law. Some Member States want China to support strong direct action against proliferators, be they states such as Iran and North Korea, or to back mechanisms that target individual entities, such as the Proliferation Security Initiative.

But China's position is not clear-cut. It is happy to participate in anti-proliferation initiatives up to a point, but it is more relaxed than the EU or the US about the spread of nuclear weapons. China supports EU measures such as requests for IAEA inspections and agrees that Chinese export controls need improving. But it is keen to maintain good relations with states like Iran and therefore resists escalating sanctions against them. China's real concern is to ensure that the US, Russia and its regional rival India do not race ahead of them in the nuclear technology stakes.

The EU-China dialogue on nuclear proliferation has mostly focused on **Iran**, with mixed results. On the upside, the EU, mostly acting through the E3 (France, Germany and the UK), has persuaded China to drop its traditional backing for non-interference in sovereign affairs. China no longer shields Iran from sanctions at the UN and has declared its support for an international process that aims to keep the country from acquiring a nuclear weapons capacity. The E3 have also asked China to use its diplomatic and economic leverage with Tehran to persuade the Iranian leadership to accept the EU's offers of political and economic incentives to halt enrichment.

But China has also used its position in the UN security council to put the brakes on moves towards the tougher sanctions the E3 have pushed for. The EU has used public pressure to try to get China to move, calling into question Chinese "responsibility" and warning that failure could lead to a US-led military solution, and it has shared intelligence about Iranian nuclear sites with Beijing in an attempt to prod it into action. But such moves have so far proved ineffectual. The Iranian nuclear issue is, however, one of the few foreign



policy issues where the EU has been largely consistent in its dealings with China; whether and how Beijing would respond to more forceful EU demands for cooperation remains an open question.

China leads efforts to persuade **North Korea** to give up nuclear weapons, or at least to desist from expanding its nuclear capacity. As a non-participant in the six-party talks, the EU knows its role here is limited, but the E3 does press China to ensure that the North Korean case sets a positive precedent for Iran, and it would like to see North Korea rejoin the Nuclear Non-Proliferation Treaty. China's main concern is to ensure that the EU does not complicate the already difficult six-party process.

### *Africa*

No other issue highlights the clash between the EU's and China's approach to world affairs as harshly as **Africa**. Despite China's patchwork of cold war and independence-era links with some African states, Europe remains the primary foreign economic, political and military presence across most of the continent. But this is rapidly changing, with Chinese trade with Africa growing at a rate of about 33% per year, while the EU's increases at only 6%.<sup>26</sup>

China's primary interest in Africa is economic. It sees Africa as a key supplier of energy and mineral resources and as an increasingly important market (though far behind the EU and North America). China wants to develop relations with African states that are not secondary to the EU's, whose influence in the continent it sees as colonial at best and destabilising in cases like Zimbabwe's. China wants African governments to support it in the UN on Taiwan, Tibet and human rights issues. But China is willing to work with EU Member States where its assets or interests are threatened, as in south Sudan, Chad or through piracy off Somalia.

The EU is beginning to engage China on Africa through dialogue between governments. Europeans want China to align its Africa policy with international norms on governance and Paris Club debt guidelines, but lack the leverage to get China to comply. China deflects such calls by referring to the dark colonial past of some EU Member States. The EU presses China to pay more heed to Africa's development needs and to stop supporting dictators and pariah

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<sup>26</sup> The figures are from the Chinese ministry of commerce and Eurostat respectively.

states with investment, trade and political protection from western sanctions. The EU also urges China to mitigate the negative environmental and political impact of its presence on the continent, and to maximise the benefit to African development. It wants China to stop undermining security by selling arms to unstable states, and to help increase security by supporting UN security council resolutions that impose sanctions and peacekeeping troops. It also wants China to increase its own peacekeeping contributions.

**Sudan and Zimbabwe** are the clearest examples of the difficulties the EU faces in trying to shift China's Africa policy. EU pressure on China to support security council resolutions critical of the Sudanese government over Darfur in 2005 and 2006 had little effect. Nor was China willing to support a peacekeeping force unless agreed by Khartoum. It took local threats to its investments and public uproar in the west in the run-up to the 2008 Beijing Olympics – largely through human rights advocates' successful attempts to label the games the "genocide Olympics" – to push China into leaning on Khartoum to accept a peacekeeping force. EU pressure on Zimbabwe has had even less effect. China blocked an EU-inspired security council discussion of the slum clearances in Zimbabwe in 2005 and simultaneously invited Robert Mugabe to Beijing. Last April, EU and US calls on China to recall an arms shipment to Zimbabwe fell on deaf ears – so the western powers turned to southern African states and their trade unions, who refused to unload the weapons. China has no particular affinity for Mugabe and will privately admit to concern about his governance, but supports him out of the principle that EU governments should not be able to dictate what happens in African states.

### *Climate and energy*

Climate change and energy security have become the first issue in the EU-China relationship where the EU has been able to shift the fundamentals of Chinese policy. But even here, China has remained a difficult partner.

The EU's goal is to persuade China to treat the fight against climate change as a top priority, to support an ambitious agreement for post-2012, when the first commitment period of the Kyoto protocol expires, and to do everything possible to transform its economy to a low-carbon one. These objectives have been significantly complicated by the global economic crisis, and the challenge now is to ensure that recovery aids rather than sets back climate objectives.

All EU Member States want China to meet and continue to set higher domestic targets for energy efficiency and renewables, and to make use of economic tools such as pricing and trade/investment incentives. The EU also wants China to prioritise the development of clean coal technologies, including carbon capture and storage. Finally, the EU wants China to agree a global emissions stabilisation goal and to accept that it should differentiate itself from the world's least developed countries in the negotiations of a post-2012 agreement.

China's primary goal is to ensure the EU's engagement on climate change supports rather than hinders economic development. It wants EU Member States to provide investment and technologies it needs for its development, and it wants EU funds to help those regions of China that will be hardest hit by climate change. It also wants to avoid making any commitments that narrow its development options. China emphasises the responsibility of industrialised countries for climate change and asks them to take the lead in cutting emissions.

Recent EU presidencies and visiting heads of government have made climate change a top priority in their dealings with China. But there has been little in the way of a common EU approach, with the UK, France, Germany, Italy, Sweden and others forging distinct relationships and dialogues on the issue, and the Commission lacking the resources to coordinate Member States. There have been some significant developments, such as the UK-led Near Zero Emissions Coal project, or the harmonisation of Chinese standards for fuel emissions and energy efficiency for numerous electrical goods with EU standards. China has also taken the world's largest share, by far, of Clean Development Projects.<sup>27</sup> Many of these have been facilitated by substantial EU funding. China is extremely keen for the EU to continue with carbon emissions trading certificates, which have become a source of income for

*“Europeans have made climate change a top priority in their dealings with China. But there has been little in the way of a common EU approach”*

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<sup>27</sup> See <http://cdm.unfccc.int/Statistics/Registration/AmountOfReductRegisteredProjPieChart.html>

Chinese firms that start from very high emission levels. But the EU has failed to persuade China to agree to a global stabilisation goal or to commitments beyond those already in the Kyoto protocol. China is yet to be persuaded by the EU's arguments to use economic tools such as energy pricing and trade tariffs to drive change (although it is coming around to the UK and French-led idea of low-carbon zones).

On the related issue of **energy policy**, the EU's main goal is to increase transparency and information-sharing. EU Member States want China to develop its relationship with the International Energy Agency and to share information on issues such as energy reserves. China's goal is to forge partnerships with European energy giants that deliver more access for China to energy and technologies as well as two-way investment.

But the EU's "successes" here have been limited to developments which China wants to see happen anyway. The EU has failed to come up with a common approach: European energy companies go their own way in China, and Member States set up their own dialogues. China remains reticent and prioritises its own security and development. The EU's leverage as a fellow energy consumer is limited, and has shown results only when governments or companies have proved willing to invest financial resources, such as the EU-China energy centre or the numerous joint ventures across China.

# Chapter 4:

## Global economic imbalances

The imbalances created by trade with China are one of the major causes for the divisions between EU Member States. Many, particularly some of the Accommodating Mercantilists, have economies and jobs that are vulnerable to cheap Chinese imports. The power of the Chinese manufacturing machine can be astounding: as recently as 2005, the Czech Republic was helping China with shoe-making technology; two years later, China flooded the Czech Republic with 11 pairs of shoes per Czech citizen (at least some of which were presumably re-exported).<sup>28</sup> In Italy, a huge rise in counterfeit goods from China has been accompanied by a large influx of Chinese small firms and workers. Chinese workers, even illegal ones, have filled a need in eastern European economies like Hungary and Romania. But popular anger over the global economic crisis is fuelling a backlash across Europe. Giulio Tremonti, Italy's current minister of finance, has written a bestselling book condemning unfair Chinese competition and legal practices.

As a result of the economic crisis, global macroeconomic imbalances have become a major new strategic concern in the EU's relationship with China. In 2007, total EU-China trade reached €300 billion, making the EU China's largest trading partner; Europe's deficit was almost €160 billion,<sup>29</sup> even though Europe draws a modest surplus of around €4 billion for trade in services with China.<sup>30</sup> Yet in spite of the global downturn, the EU trade deficit with China increased to €169.2 billion in 2008,<sup>31</sup> and may not shrink substantially in 2009. <sup>32</sup> No analyst expected such an increase in the European trade deficit with China following its entry into the WTO.

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<sup>28</sup> Tomas Franek, "Czech market swamped by shoes made in China", *Aktualne.cz*, 20 February 2008.

<sup>29</sup> See "External and intra-European trade, Statistical yearbook, Data 1958-2007", Eurostat.

<sup>30</sup> Eurostat.

<sup>31</sup> Eurostat, 23 March 2009.

<sup>32</sup> See "Surplus to requirements", *The Economist*, 15 January 2009.

Chinese imports from the EU and the US have fallen far more quickly than the country's exports, with serious macroeconomic consequences: even if China's growth rate were to remain positive in 2009, China would still be subtracting more demand from the global economy than any other country.<sup>33</sup> China's strategic choice two decades ago to finance its rapid rise through the accumulation of massive surpluses is one of the main factors that made the credit crisis and the ensuing global economic meltdown possible. The country's exports now represent 69% of GDP, while the unevenly distributed household income of the country's 1.4 billion citizens amounts to only 34% of GDP. In effect, the floor workers in China's "world factory" earn little more than they did in 1995, despite the country's rapid economic growth. According to the world's largest trade sourcing firm, Chinese export prices in early 2009 are down "at least 5 to 10 per cent" compared to 2008.<sup>34</sup>

European firms in China, meanwhile, continue to face a myriad of behind-the-scenes restrictions, from special standards to new financial requirements, often involving arbitrary action at a local level. Member States and the European Commission expend a great deal of time in helping European companies that get into trouble doing business in China. Every year the EU Chamber of Commerce in China publishes a list of complaints from European companies that effectively sets the agenda for much of Europe's trade and investment effort.<sup>35</sup> Meanwhile, the pace of China's progress towards convergence with global rules on service, fiscal and regulatory issues is glacial. Chinese government intervention in the economy, particularly its implementation of five-year plans sector by sector, has increased rather than decreased in recent years. The government has, for example, instructed the car industry that in five years, new vehicles must have a minimum of 60% Chinese-made parts,<sup>36</sup> and has given similar instructions to the railway industry. Foreign firms face difficulties over the acquisition of brand-name firms in such "strategic" sectors as kitchenware, where a takeover bid by a French company in 2006 was delayed by more than a year.<sup>37</sup> A government agency has launched financial news providers whose content is often patterned after the Reuters news network. More disturbingly, trademarks and copyrights have not been

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<sup>33</sup> Economic historians have pointed out similarities between China's current economic policy and that of the US after 1929 – when it fought to maintain huge trade surpluses and thereby deepened the global recession.

<sup>34</sup> Li & Fung, quoted in the *Financial Times*, 25 March 2009.

<sup>35</sup> European Business in China Position Paper 2008/2009, European Union Chamber of Commerce in China.

<sup>36</sup> According to a senior European diplomat, Europe's car industry will "go the way of the Italian silk industry" in the near future (ECFR interview, Beijing, 5 June 2008).

<sup>37</sup> SEB made a bid for 51% of China's Supor in August 2006; the deal was only authorised 14 months later (*Le Figaro*, 21 November 2007).

integrated under the WTO agreement. Beyond the usual complaints about piracy in electronics and luxury goods, one case stands out: all 500 million mobile phones in China use the European-developed GSM system without any fee being paid by Chinese firms. This does not reflect piracy per se, but China's negotiating ability: in order to compete in China, European GSM phone producers gave away the rights to use the standard.

*“European firms in China continue to face a myriad of behind-the-scenes restrictions, from special standards to new financial requirements”*

## Free-trade ideology weakens EU power

There is no firm international or European consensus about what China should do to help the global economy recover. EU Member States do, however, agree on the general goal of creating a more level playing field with China. For one, the EU is pushing for China to continue economic reform and to adhere to international trading rules. As the former EU trade commissioner Peter Mandelson observed at the launch of the 2006 Commission Paper on Trade and Investment with China, “we need a stronger balance and reciprocity in creating access to China's markets and creating fair trading conditions”.<sup>38</sup> Europeans argue that this will make the trade relationship more sustainable, allowing trade imbalances to be countered by investment and surpluses elsewhere. In December 2007, the EU secured Chinese agreement to a high-level economic and trade mechanism, similar to the Sino-US dialogues. But the two sides have already disagreed on what the frequency and depth of the discussions should be, as well as on the level of Chinese government participation, with Beijing reluctant to involve the top tier of decision-makers.

China has little to ask from the EU, since the European market in trade, services and investment is more open than that of any other major region. Partly for this reason, and partly because it faces a much more focused partner in the US, China has been more complacent about requests from the EU than from the Americans. (China also has far less financial interest in the European

system than in the US.) In the words of a senior EU official, “European trade issues don’t move the Chinese leadership: we don’t register on their scale, and trade disputes don’t have a bearing on strategic issues”. Yet the same official also said that “at €300 billion, trade also becomes strategic”.<sup>39</sup>

Yet China can afford to be relaxed in its dealings with the EU, as divergent or even opposing interests between Member States make it difficult for EU trade negotiators to agree on a common position. The Ideological Free-Traders are less concerned with the trade deficit and devote their energies to combating protectionism. The Netherlands, for instance, considers that it benefits from its role as a distribution and service centre for Chinese goods transiting its ports. Sweden’s H&M is the most profitable textile distributor in Europe, and the country has no textile industry. The UK, while it doesn’t claim to create jobs from Chinese investment, has largely chosen to base its fortune with China on financial services, including those based in Hong Kong, and on the pivotal role of the London financial market.

Germany’s case is unique, in that its trade with China has been less unbalanced than that of any other Member State, owing to the high standing of Germany’s manufacturing equipment and the popularity in China of its high-end car brands. In some years, the sales of one German company – Siemens – to China have been roughly equivalent to France’s overall exports to China. Germany’s trade surplus worldwide has in recent years been even higher than China’s (although the global slump is decreasing the demand for high-end German goods). Germany’s competitiveness makes it particularly alert to attempts by Chinese firms to acquire German technology on the cheap. It is also growing impatient with China’s sluggish opening of its own markets. As a result, Germany has become noticeably more sympathetic to targeted trade restrictions against China.

Several EU trade officials note that strategic and protective measures taken by the US<sup>40</sup> and Japan<sup>41</sup> have given these countries much more leverage than Europe over China, despite the EU’s open market and financial systems. Mainly owing to opposition from the Ideological Free-Traders, the EU is failing to fully exploit its main points of trade leverage: temporary caps and the use of anti-dumping measures, allowed under the terms of China’s accession

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<sup>39</sup> ECFR interview with senior EU official, Beijing, 6 June 2008.

<sup>40</sup> The Buy American Act and strategic limitations on foreign investment.

<sup>41</sup> Protection of its firms with financial rules and official “guidance” regarding technology transfer.



to WTO. Yet time is short: these terms will expire between now and 2012. One senior European diplomat pointed out that if the EU does not soon resolve the differences between its Member States so that it can present a focused negotiating position to China over the market economy status issue, the trade weapons issue will lose any value as a pressure point. A diplomat from the Ideological Free-Trader group acknowledged as much when he said that “it never harms to be tough”, and admitted that his country “had not worked well enough with the Commission on trade issues”.<sup>42</sup> The current situation has led insiders to become pessimistic about the EU’s economic relationship with China. European trade officials are coming to the conclusion that, as one of them put it, “EU trade policy does not work against an economy with such strong industrial policies”.<sup>43</sup> In the current Doha round of trade talks, China is again, against all reason, claiming developing country status, and delaying further tariff reductions beyond 2025. At the IMF, WTO and in talks about OECD rules, China has remained mostly passive, despite its economic size and influence.

*“China can afford to be relaxed in its dealings with the EU, as divergent interests between Member States make it difficult for EU trade negotiators to agree on a position”*

## Bringing China into the fold

As the global financial crisis turns into a worldwide recession, China’s importance as an economic partner is increasing. Beijing has begun, slowly, to shoulder a meaningful share of the burden of the global response to the crisis. But its reluctance to take centre stage was made apparent at the G20 summit in London, where its new contribution to the IMF’s reserves was just 40% of Japan’s offer. China’s central bank, unlike its equivalents in Japan and Australia, has not created liquidities for the international credit market following the fall of Lehman Brothers in September 2008. True, China’s giant surplus-producing machine churns out capital recycled on the US treasury bond market and in other semi-public debt instruments. There are signs

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<sup>42</sup> ECFR interview with senior European diplomat, Beijing, 5 June 2008.

<sup>43</sup> ECFR interview with senior EU trade official, Beijing, 4 June 2008.

that China is now diversifying; it is hunting down raw materials and energy, buying firms or locking in contracts for the next decades with Russia, Brazil, Saudi Arabia, Australia and, lately, Iran. The shopping spree extends to Europe, albeit in a different form: following Premier Wen Jiabao's admission during his recent EU trip that the trade imbalance was a Chinese concern – a first – China is sending purchasing missions to acquire technologies and small to medium-sized firms in several European countries, at a time when companies are cheap. Yet China has been known to initiate anti-dumping complaints against the EU. While it is by far the world's largest steel exporter, in December 2008 China started an action concerning European steel screws, bolts and fasteners.<sup>44</sup>

There are troubling indications that, in spite of the hopes pinned on China's public domestic spending package and its new accent on social policies, China is still wedded to an all-out export policy. At Davos in January 2009, Wen identified China's low labour costs as a key competitive advantage for China in dealing with the crisis.<sup>45</sup> If this strategy persists, the Chinese export economy could well become the chief deflationary factor lengthening the global recession. Yet to many in Europe, the deficit remains of little concern. For the smaller EU economies, trade with China is insignificant compared with trade with neighbouring Member States. For eurozone countries, the common currency has lessened the immediate impact of trade deficits – there is simply no national awareness of a "European deficit". In 2007, the US's global trade deficit was \$819 billion (€598 billion), while the EU27 registered a deficit of only €187 billion, with the eurozone countries actually in balance.<sup>46</sup> The chief economic concern for the EU is not China's trade surplus as such, but the global economic imbalance it helps fuel, and the fact that it is not compensated by other monetary flows into European public bonds or private capital markets. China's management of its gigantic monetary reserves (officially \$1.946 trillion at the end of 2008, not counting holdings in offshore institutions) is a state secret; while there may have been a move away from the dollar in 2007, the euro remains likely to comprise less than 20% of China's reserves.

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<sup>44</sup> Announcement by China's ministry of commerce, 29 December 2008.

<sup>45</sup> Wen's speech can be found at <http://english.sina.com/china/2009/0128/214624.html>

<sup>46</sup> US Census Bureau and Eurostat.

Europeans are hoping to stimulate further trade growth with China.<sup>47</sup> And the EU needs China to deliver on its responsibility as a key lender into the world's financial system, particularly the IMF. Such changes require that China boosts investments into the shared ownership of foreign firms, takes on a larger share of the IMF's burden, loosens its symbiotic relationship with the American economy, and turns away from its mercantilist, export-driven monetary and industrial policies. This is not yet happening. The depth of the global crisis, however, might begin to foster a sense in China that it needs a new investment partnership with the EU. With its abnormally high level of currency reserves, China is vulnerable to a global systemic failure and to major asset losses. The EU is the world's largest integrated market, with a record of macroeconomic and monetary caution. Given the right instruments – such as a public bond market that would act as a source of financial capital and investment into key European projects<sup>48</sup> – China might well find it to its own advantage to diversify its holdings into European debt vehicles and other investment opportunities.

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<sup>47</sup> At a meeting with Wen Jiabao in London on 2 February 2009, Gordon Brown pledged to double British exports to China in the next two years.

<sup>48</sup> See George Soros, "The eurozone needs a government bond market", *Financial Times*, 18 February 2009.

# Chapter 5: The move to reciprocal engagement

The first step towards a better European policy towards China is for Member States to acknowledge that even the biggest among them are failing to achieve their goals in the relationship. Yet issues such as Darfur and Iran show that China will shift its position when faced with united and focused demands. The implications are obvious. Overcoming disunity and focusing the relationship with China on a small number of priorities must be the basis of a new approach. Lazy assumptions about a convergence of interests and values between Europeans and Chinese should be discarded; the EU should instead respond to China's interest-based approach with an interest-based approach of its own. We propose to call this strategy “**reciprocal engagement**”. This should be based on two principles and two criteria. The principles: **reduce** the number of policy areas where offers are made to China, and use leverage and incentives to ensure that China will **reciprocate** before entering a binding commitment. The criteria: select the policy areas according to their **relevance** to the EU, based on the **realistic** expectation that they will lead to a shift in Chinese policy.

For the four “R”s of reciprocal engagement to work, each group of Member States must be prepared to make adjustments to their China strategies. The Ideological Free-Traders must accept that refusing to use market access as a political instrument debilitates EU leverage on China and makes it nearly impossible to counter Chinese trade policies designed to exploit Europe to maximum Chinese advantage. The Accommodating Mercantilists must recognise that their meekness towards China on political issues exposes the EU to global irrelevance, while their support for national champions will remain largely ineffective against Japanese and American competition if the overall effect is to weaken the EU. The Assertive Industrialists must acknowledge the need to integrate their criticism of and requests from China into a coherent

EU strategy. And the European Followers must understand that it is not good enough simply to follow EU policy without engaging in the debate: EU China policy is weakened when so many Member States seem to treat it as a matter of secondary importance.

Reciprocal engagement does not mean tit-for-tat reciprocity, which would inevitably result in stalemate. Nor is it an aggressive strategy aimed at containing China. Such an attempt would be counterproductive: there are many global tasks – such as fighting climate change, stabilising the global economy or stopping nuclear proliferation – where the EU must seek to work in partnership with China. Acknowledging China as a key global stakeholder and accepting a historic rise that is transforming the life of a fifth of mankind is imperative for any realistic European foreign policy. But the same realism must lead the EU to develop a strategy for the relationship that is as tough, coherent and interest-based as China’s own.

*“The EU must develop a strategy for its relationship with China that is as tough, coherent and interest-based as China’s own”*

Reciprocal engagement will give all four groups of Member States greater leverage on economic matters and greater influence on the global political and security issues that are central to the EU’s agenda. The Accommodating Mercantilists and Assertive Industrialists will find themselves in a far stronger negotiating position when it comes to tackling illegal dumping practices and encouraging further economic opening by China. Similarly, the push by the Ideological Free-Traders for China to pay more attention to human rights will stand a much better chance of success if it is backed by the large group of European countries who prefer to accommodate China on political issues for supposed trade benefits. EU Member States have long been pressing for better access to market and public procurement, the service and financial sector, and for better protection of patents and intellectual property rights (IPR). Reciprocal engagement will allow these demands to be leveraged against market economy status for China and better access for Chinese investment into European firms – and therefore increase the chances of a deal beneficial to all.

Yet this combination of incentives and pressure is not enough. The EU should learn from China's policy of building power on expertise, and move quickly to boost education and research about China and its language, politics and economics. Training for European managers, diplomats and other officials dealing with China should be made easily available. Legal restrictions that prohibit the EU from using its China "country strategy" funds to advance European interests should be abolished. The EU should demand that China facilitate access to government machinery for EU officials, and suggest it will reduce access to Chinese officials in Europe if China does not cooperate. The EU should also open sub-delegation offices in major cities across China, coordinating with Member States' consulates and establishing a mechanism for Member State consulates to feed into and deliver EU business where EU offices are not viable.

## Rebalancing the economic relationship

The global economic crisis has made it even more urgent for the EU to correct the imbalance in its trade relationship with China, both for its divisive political impact on the EU itself and its potentially destabilising consequences for the world economy. The conditions for a new departure are there: for the first time in many years, China is faced with economic circumstances that will make a significant part of its population worse off, while EU leaders are coming to realise the devastating effect of global economic imbalances. China must reduce and offset its huge trade surplus with Europe by opening significant sectors to European firms, and by making long-term investment in key European sectors for economic growth. European infrastructures will benefit from Chinese funds and offer safe prospects of return; more generally, an open-minded European policy on long-term investment by Chinese banks and funds will benefit both economies. But better access for Chinese investment should be granted only in exchange for similar Chinese concessions, or the existing imbalance will simply be extended into new sectors.

The EU should propose a specific trade: China offers new openings for EU investors in China's capital market, service sector, public procurement and infrastructure projects, and better enforcement of IPR, in exchange for new opportunities for Chinese capital investment in the European market. To help the process along, both the EU and the Chinese should accept the

need to amend, where necessary, their legislation and regulatory practices relating to the ownership of firms, investment, IPR and technology transfer. We recommend that the EU:

- offer to grant China market economy status. In exchange, China should remove specified non-tariff trade and investment barriers such as “local content” requirements for manufacturing,<sup>49</sup> demonstrably improve the enforcement of IPR protection, and secure better legal protection for European firms and managers.
- commit to facilitate Chinese investment in sectors such as transport infrastructure, energy distribution and telecoms, in exchange for China doing away with the limitations on foreign companies acquiring similar Chinese firms, and opening up its finance and service sectors.
- pursue a mutual opening of public procurement,<sup>50</sup> and ensure that such an opening is translated into practice once an agreement has been reached.

Technology transfers are another area where suspicion and inadequate legislation have deterred mutually beneficial investments. The EU has struggled to come up with an answer to Chinese efforts to forcibly transfer technological knowhow to China through measures ranging from pilferage to pressure on European companies to hand over technology or face discrimination in Chinese markets.

The EU should improve its ability to protect its firms from such Chinese pressure, boost its own competitive position in R&D, and better control the flow of knowhow to China. We propose that the EU:

- launch an active industrial policy, expanding the support for European R&D programmes such as Galileo or Hermes into a broader technology development strategy. As part of this policy, the EU should secure co-ownership of the rights to key technologies and patents it helps develop, while facilitating Chinese investment into leading European companies

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<sup>49</sup> Such rules impose on manufacturers, including foreign firms, an obligation to use specific levels of domestically made parts in their final products.

<sup>50</sup> The WTO's agreement on government procurement was only signed for Hong Kong, in 1997. It was revised in 2006, and is completed by a new agreement on transparency. China started its application process in December 2007.

(with the defence sector remaining an important exception). In exchange, China should be asked to open up those so-called “strategic” sectors where it currently restricts foreign investment.<sup>51</sup>

- establish an IPR and patent support fund, supervised by the EU delegation or Chamber of Commerce in Beijing, to which European SMEs could apply for financial support and legal advice to assist with IPR registration/protection in China.

## Using China’s money

Like China, but unlike the US, the EU is a net saver and exporter of capital. Even with the global crisis, the eurozone countries as a whole do not need the steady flow of Chinese public debt purchases the US Treasury now requires. Yet the EU does need money to launch large infrastructure projects, to integrate the economies of new Member States, and simply to stimulate demand. Creating a liquid European public bond market will offer better financing conditions for a range of important projects across the EU than purely national financial vehicles can. China’s sovereign funds and financial agencies, searching to diversify their holdings to spread investment risks, should be encouraged to enter this new bond market; Chinese firms should later be able to bid for the projects. What should China be asked for in return? The simple answer: easy access for European firms to China’s huge infrastructure projects.

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<sup>51</sup> In 2006, China ruled that seven sectors must remain in state hands – coal, oil, electricity, defence, telecoms, air transport and ocean shipping. There is also government oversight in the machinery, automobiles, information technology, construction, iron and steel, and nonferrous metal sectors. Foreign ownership is limited in the banking and insurance sector, and prohibited in the media.



## Climate and energy

China has seized on the global crisis as an opportunity to negotiate long-term energy contracts with Brazil, Iran, Russia and Saudi Arabia, where it lends money to cash-strapped national companies against long-term contracts for oil. One reason behind this is China's concern that the value of its huge currency reserves will be eroded by future inflation, particularly in the US; better to use the money while it is worth something. Another is the Chinese leadership's long-standing fear of being starved of energy. But the push for such long-term contracts makes little sense as an energy policy: the volatility of the oil price means these deals are usually renegotiated anyway.

The EU's twin objectives should be to help reassure China about the safety of its future energy supplies while encouraging it to focus on measures designed to fight climate change. The economic crisis is seriously threatening the prospect of China developing a low-carbon economy: recent stimulus spending packages bring forward investment that will further lock in carbon dependence and make high-cost, low-energy technologies unappealing. As the post-2012 negotiations move towards their last stage, the EU needs to cooperate with the US to strike a deal with China. Overall, the EU should create the conditions for stronger energy cooperation and interdependence with China. We propose that:

- The EU ask China to commit to a global stabilisation goal and to specific domestic targets on emissions in post-2012 negotiations. China should also agree to accelerate the development and eventual deployment of clean coal technologies, including carbon capture and storage. In return, the EU should offer China a technology transfer package of key energy-efficient and renewable technologies, including EU funding and knowhow transfer.
- The EU and China make identical statements rejecting energy sanctions and the denial of energy services, so as to guarantee mutual energy access and encourage others to make a similar pledge. Doing away with the use of energy as a political tool in international relations – as has happened with food supplies – will reinforce the shared interest of China and the EU as large energy importers.

- China be urged to reduce ownership limitations on Chinese energy firms and joint ventures, and increase information-sharing and transparency, including through the International Energy Agency. The EU should favour more energy interdependence with China, sharing distributors and technology and fostering joint projects to allow Chinese firms to enter the European energy distribution sector.
- The EU and China pursue clean coal development and prioritise the UK/French-led initiative for the development of “low-carbon zones” in China<sup>52</sup> as a precursor to a country-wide EU-China low-carbon trade and investment framework; a pilot zone has already been agreed in Jilin province. The EU and China need to offer tariff reductions for trade of low-carbon products to and from these zones, as well as investment incentives for EU companies, particularly to head off the alternative threat of carbon taxes.

## Iran and proliferation

The EU wants China to be more vigorous in helping persuade Iran not to develop a nuclear weapons capacity; Beijing has agreed to use its influence on Iran, but only up to a point. The most concrete incentive the EU can offer Beijing is to lift the embargo on sales of arms to China it has had in place since the Tiananmen repression of 1989. The practical impact of the embargo, in terms of limiting arms sales to China, has been so small as to be largely symbolic. Trading the embargo for a vigorous and successful Chinese push against Iranian nuclear weapons would be an important contribution to global security and come with little real cost to Europe.

The EU could also suggest to Beijing that it will not favour further development of missile defence by the US or northeast Asian states in exchange for a stronger Chinese commitment to counter-proliferation. The EU should offer support for the deployment of the Chinese navy against piracy; in exchange, it should demand more transparency and better coordination with European and other navies, as well as Chinese help with naval counter-proliferation efforts.

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<sup>52</sup> This is a proposal, inspired by China’s designation of country-wide “Special Economic Zones”, to set up “low-carbon zones” that could demonstrate the feasibility of low-carbon development. For further details, see <http://www.e3g.org/index.php/programmes/climate-articles/low-carbon-zones-eu-china-cooperation/>

To convince China to be more active on Iran, we recommend the following:

- The EU should aim for a deal on lifting the arms embargo. In exchange, China must contribute to the success of stronger sanctions against Iran and commit to specific improvements in implementation of its export controls.
- China wants to join proliferation regimes such as the Missile Technology Control Regime (MTCR), the Australia Group and the Wassenaar Arrangement.<sup>53</sup> The EU should support this in exchange for Chinese support for reform and strengthening of the Nuclear Non-Proliferation Treaty at the 2010 review convention, and for reinforcement of the IAEA's oversight and inspections through additional protocols.<sup>54</sup>
- The EU should offer help for Chinese maritime operations against piracy in the Indian Ocean, including logistical support and diplomatic backing for ground bases. China should accept coordination with other navies, and support international efforts at sea to control proliferation.

## Africa and global governance

China's expanding Africa policy is increasingly under challenge, which may make it more open to offers of EU cooperation in exchange for better behaviour on the continent. First, China is now exposed to significant security risks ranging from Angola, Nigeria and eastern Congo to southern Sudan and the Indian Ocean routes. Second, international finance institutions are taking steps to check the unrestrained and unconditional rise of Chinese public lending. A case in point is Congo, to which China has offered a loan of \$9 billion against infrastructure building contracts and rights in the mining sector, with preferential guarantees for Chinese lenders. International financial institutions have now said that the Congolese government, should it make the deal with China under these conditions, will have to repay \$11 billion in past loans. Third, the initial popular enthusiasm in Africa about China's delivery of cheap consumer goods, mobile telecoms

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<sup>53</sup> The MTCR is a voluntary association of 30 countries seeking to limit ballistic missile development. The Australia Group seeks export controls to limit the development of chemical and biological weapons. The Wassenaar Arrangement involves 40 countries that seek transparency and responsibility in arms exports and sales of dual-use technologies.

<sup>54</sup> See the International Atomic Energy Agency's fact sheet at [http://www.iaea.org/Publications/Factsheets/English/sg\\_overview.html](http://www.iaea.org/Publications/Factsheets/English/sg_overview.html)

networks and inexpensive public works now seems to be on the wane: reduced prices for African raw material and energy exports may lead to a backlash against the growing presence of Chinese industries and contract workers competing with local firms.

Up until now, the EU's dialogue with China on Africa, global governance and development has produced nothing more than a few token cooperation projects. But the tougher environment will make China realise the benefits of cooperation and the disadvantages of acting outside international norms and consensus. The EU should make greater use of multilateral organisations and regional cooperation groups to obtain Chinese action on problem countries such as Sudan and Zimbabwe, and more generally on governance and transparency in Africa. To get China to align its economic and political practices across Africa and elsewhere with international standards, the EU should also use specific combinations of enticements and pressure. These should include:

- EU support for Chinese international lending, in exchange for China joining international lender coordination mechanisms, including the Paris club. The EU should be willing to act within existing financial institutions to prevent debtor countries from taking on new Chinese loans that do not respect minimal criteria.
- EU cooperation with host African governments to protect Chinese activities and investments from security threats. This commitment should be traded for greater Chinese support for peacekeeping operations, both through troop contributions and Chinese support for UN-authorised operations in Sudan, Chad and elsewhere.
- EU offers to use developmental aid budgets to back Chinese projects and investments where they contribute to EU development goals. In exchange, the EU should commit China to specific development measures in the country or region concerned, such as greater use of local labour or measures to mitigate environmental damage. In both cases, trilateral cooperation with African regional organisations should be sought.

- Redeployment of existing but outdated EU aid programmes in China<sup>55</sup> towards cooperation with China in third countries, especially in Africa. The EU should seek commitments from China to finance and manage joint programmes in third countries, which will help to bridge the gap between international norms and current Chinese practice.

Where positive offers do not work, the EU should support local NGOs, unions and media groups that challenge bad Chinese behaviour, and be prepared to publicly criticise China.

## Human rights

This chapter has deliberately omitted important issues traditionally raised in EU-China discussions: Burma, Taiwan, and China's own human rights record, including Tibet. The truth is that in all these cases, the EU's leverage is, at best, extremely small. On Burma, China will not be pushed into pressuring the regime into improving its human rights situation in the absence of similar pressure from other Asean nations and India. On Taiwan, the EU accepts the validity of the "one China" doctrine – which precludes Taiwanese independence while condemning the use of force – which China has not renounced in principle. Any more activist policy would require the EU to get involved in cross-straits relations – something not even the US has sought from Europe.

The EU's ability to get China to be more respectful of the human and civic rights of its own citizens is equally very limited. A recent report to the European parliament, which starts with the unconditional-engagement premise that trade with China will lead to democracy in China, ends with the observation that the EU human rights dialogue with China "has not led to any significant results".<sup>56</sup> This is not to say the situation in China is static. There is increasing public debate within the country on a range of topics not directly linked to the regime's legitimacy and ideology.<sup>57</sup> But no positive steps can be directly

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<sup>55</sup> Amazingly, half of the EU delegation in Beijing is still employed to administer aid and technical cooperation programmes for the benefit of China.

<sup>56</sup> Section 60, report to the European Parliament on trade and economic relations with China, 17 January 2009.

<sup>57</sup> China has even taken a first step towards reducing its massive use of capital punishment—China executed at least 1,718 people last year, more than the rest of the world combined, according to a recent Amnesty report – through introducing a compulsory review of each case by the supreme people's court.

linked to European or even western pressure. Treatment of Chinese human rights advocates – a topic regularly raised by EU leaders – has actually worsened in recent years.

In this area, as in others, European policy must be realist – but not cynical. We suggest that under a reciprocal engagement approach, the EU should:

- recognise that external pressure is not going to lead to wholesale political reform in China, and therefore prioritise and unite around a limited set of objectives. We suggest four priorities: **restriction of the use of the death penalty; an end to imprisonment without judicial review; protection of religious freedoms; and progression towards reconciliation in Tibet.**<sup>58</sup>
- Revitalise an EU human rights dialogue with China, based on these four priorities. The existing EU-China human rights dialogue has been widely criticised, and has shown few if any results. There is perhaps no more urgent candidate for consolidation.
- strengthen rather than weaken its public position on human rights in China. There is now a growing consensus that the current approach – based on discreet official channels and informal dialogues behind closed doors which Beijing turns into meaningless rituals – does not deliver significant results. China does react to international public protest against its rights abuses, and such pressure can help ward off worse offences.
- When Beijing applies pressure to individual Member States, European leaders should not deny each other support in order to curry favour with Beijing. This should apply even when they feel that a particular criticism of China by one of their fellow leaders has been exaggerated or poorly timed. China interprets any division on the issue as a sign of collective European weakness.

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<sup>58</sup> We suggest these four priorities because they are the subject of active debate in China, because the Chinese government is, at least in theory, committed to them, and because they are issues of principle to many Europeans.

- Issue a statement that EU leaders and parliamentary authorities will not tolerate any restriction on their right to meet political and religious figures, including the Dalai Lama. China’s ability to bully the EU on this issue has been particularly damaging to EU unity.

There is perhaps no other area where the EU’s ambitions and its leverage are so mismatched. But to renounce human rights goals in the name of “realism” would weaken the essential principle of the EU and European society – the rule of law. Instead, the EU must bolster the credibility of its human rights stance – including, when necessary, listening to criticism by China and Chinese citizens of its own criminal law and human rights practices.

## A better organised EU

The complexity of the relationship between the EU and China, the powerful interests involved and the divisions between Member States mean that forging a more united EU China strategy is no easy task. As one European diplomat puts it: “The problem with the theoretical benefit of a coordinated EU approach is that on most issues the hurdle of getting agreement at 27 is usually bigger than the hurdle of dealing directly with China. So most Member States go it alone: a small return from your investment is better than no return because your resources are spent trying – and failing – to get an agreed EU position”.<sup>59</sup> For reciprocal engagement to work, the choice of channels, institutions and proper coordination will be absolutely crucial.

The most effective way to do this will be for the **European Council to launch a major review of China policy** in order to establish priority areas where the advantages of a truly common approach are most obvious. But this will not be enough. On important issues, EU Member States must aim to combine their collective weight into one representation to achieve their objectives. In order to streamline procedures and improve their China policy framework, Member States should agree to:

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<sup>59</sup> ECFR interview with senior European diplomat, 2 March 2009.

- “Europeanise” national cooperation programmes and key dialogues with China. Coordination between Member States has been no effective substitute for a single, focused dialogue or programme with China on priority issues. Even key bilateral strategic dialogues will be more effective under a European formula.
- Establish a permanent “open troika” system for engaging China on priority topics. The troika should comprise the presidency, the next presidency and the Commission, as well as those Member States demonstrably willing and able to contribute on specific issues; producing a proposal on a relevant topic or funding for a project could serve as entry requirements. The aim is to ensure that no concerned Member State feels shut out and that important Member States’ interests are represented in EU contacts with China.
- Extend the open troika format to representation at EU-China summits. If the Lisbon Treaty is ratified and a permanent presidency and external action service replaces the troika, the open troika principle should be turned into an open presidency or series of EU working groups on China-related priority issues.



# Conclusion

As this power audit of the EU's relationship with China has sought to demonstrate, the strategy of unconditional engagement is no longer working. The old approach has been rendered obsolete by China's power, its skilful exploitation of European weaknesses and its refusal to become a democracy.

Beyond the politics and the economics, there is a strategic case for rethinking and "retooling" the EU relationship with China. Looking beyond the bilateral Sino-European framework, the election of Barack Obama has opened a new chapter in US foreign policy, but one marked by unprecedented economic challenges and the rise of China and other powers. The American debtor and its Chinese lender have locked each other into a symbiotic embrace. The EU must push for global cooperation to avert an even deeper recession and address the underlying causes of the global slump. It must urge both China and the US to correct their economic imbalances, without making others pay for the adjustment.

To be heard on these issues, the EU needs to move fast to demonstrate its importance to China – and it must make a similar effort in Washington. Europeans need to make the case to their American interlocutors that the best results with China, whether on climate change, rebalancing the world economy or fighting the spread of nuclear weapons, can only be achieved through partnership with Europe. And they will need to persuade China that listening to the EU on major strategic issues pays, while ignoring it carries a cost.

The challenge of dealing with China may well be one of the strongest arguments for ratifying the Lisbon Treaty and giving the EU a president chosen by his or her peers and a high representative with clout. But regardless of Lisbon's fate, the EU must adopt a new and better approach with China. Europe needs China to become a better partner and a better global citizen. Reciprocal engagement can go a long way towards making that happen.

# Annex 1: Member States' attitudes towards China

# *Assertive Industrialists*

## **CZECH REPUBLIC**

### **POLITICS, DIPLOMACY, AND PUBLIC OPINION**

- The Czech Republic's priorities are increasing market access and investment, promoting transparency and democracy in China, and resolving global issues like climate change and energy.
- The government's China policy is mostly focused on economic and commercial relations, but owing to Chinese reluctance to visit Prague, bilateral dialogues are very limited.
- With regard to the EU, Czechs have felt undermined by the big three Member States, but are increasingly aware of how they can use the Commission, for example on textiles.
- Human rights demonstrations in the Czech Republic are not perceived to have had a negative impact on relations with China.
- Missions in Beijing, Shanghai and Hong Kong.

### **ECONOMICS AND TRADE**

- Czech industry is pro-China, even though cheap Chinese imports are hurting the economy. Growing export numbers are stimulating free-trade attitudes in the Czech Republic, contributing to improvements in the quality and competitiveness of Czech products, and weak trade union organisation in sectors like shoes and textiles.
- Other Asian partners like Japan or Korea are still more important than China to the Czech economy in terms of investment and trade.
- In 2004, at the request of President Bush, the Czech prime minister cancelled a planned sale of radar technology (Vera surveillance system) to China.

### **GLOBAL ISSUES**

- The Czech Republic is perceived by both Chinese and Europeans to be the EU's strongest critic of human rights abuses in China.
- Human rights criticism comes mainly from NGOs and right-leaning media. The Green party hung Tibetan flags out of a parliament window in 2007, and there are regular protests in front of the Chinese embassy in Prague.

# GERMANY

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Germany was a strong partner of, and had military ties with, Republican China until the mid-1930s. The German Democratic Republic (GDR) established diplomatic relations with the PRC in 1949, and West Germany followed suit in 1972. Maoist China had preferential links with Walter Ulbricht's GDR.
- Relationship dominated by commercial and economic links, though political and security problems, like nuclear non-proliferation on the Korean peninsula and in Iran, global warming and Africa, are growing in importance.
- Major domestic political rift on China between the Christian Democratic Union (CDU) and the Social Democratic Party (SPD). China has criticised federal chancellor and CDU leader Angela Merkel for her stance on human rights and Tibet, while former SPD leader and chancellor Gerhard Schröder has said that Merkel sees the evil Soviet Union in countries like China. The SPD's Frank-Walter Steinmeier, foreign minister in the coalition government, has also repeatedly criticised Merkel's approach.
- Annual strategic dialogue at vice-foreign minister level. Regular high-level bilateral meetings on human rights, finance, rule of law, economic policy, defence, intellectual property rights (IPR), environment, technical cooperation and agriculture. Annual human rights dialogue. Regular non-governmental dialogues organised by businesses or cultural and academic organisations.
- German delegations visit China frequently. Merkel has visited every year, as did Schröder before her. At least 25 CEOs join each ministerial visit to China.
- German public opinion of trade relations increasingly critical, because of the trade deficit. Unfavourable media coverage of human rights violations and China as an economic threat is politicising trade relations.
- In addition to the Beijing embassy, Germany has consulates in Shanghai, Hong Kong, Guangzhou and Chengdu.

## **ECONOMICS AND TRADE**

- Germany has a leg in both the free-trade and the regulated-trade camps. Recent trade disputes include a WTO case on car parts tariffs, the Osram anti-dumping case on lightbulbs and the Maglev IPR case.
- Germany is China's largest trading partner in the EU by far, and holds 5% of China's market.
- The country accounts for over 40% of EU exports to China and over 20% of imports. Chinese imports to Germany find it hard to compete in advanced industrial sectors.

## **GLOBAL ISSUES**

- Chancellor Merkel has been vocal in criticising human rights abuses in China. During an EU-China human rights seminar in 2007, Germany did not cave in to China's demands and instead let the Chinese delegation walk out.

# POLAND

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China backed Wladyslaw Gomulka's reformist project in 1956, and the Communist parties of the two countries have had strong relations. The Gdansk movement and Lech Walesa were cited by Deng Xiaoping as a risk for China. There was no dialogue between democratic Poland and China until 1991.
- Poland's bilateral priorities are political dialogue, increasing trade, cultural and academic exchanges and the promotion of civil and political rights.
- Poland's history has contributed to public sympathy towards Taiwan and Tibet.
- Yearly trade and political meetings at deputy ministerial level. Bilateral dialogues remain limited.
- Little public or media interest in China.
- Beijing embassy, consulates in Guangzhou, Hong Kong and Shanghai.

## ECONOMICS AND TRADE

- Increasing requests for anti-dumping and other protectionist measures to protect Polish industries. Trade deficit receiving growing attention.
- Bilateral economic relations still very limited; concern in Poland that the country is losing investment from old EU Member States to China.
- Korea and Japan invest more in Poland than China does.
- Poland not concerned about IPR because China is transferring technology to Poland rather than the other way round.

## GLOBAL ISSUES

- Active domestic human rights lobby. No human rights dialogue, but Poles active in the EU dialogue and raise issues bilaterally.
- Chinese say Poles can be as difficult as the Czech Republic on human rights abuses and Taiwan. But China gives Poland a higher priority because it sees it as a leader in Central/Eastern Europe.

# Ideological Free-Traders

## DENMARK

### POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Denmark was among the first EU countries to recognise the People's Republic of China (PRC) in 1950, and has a long-standing "one China" policy.
- The country's main priorities in dealing with China are creating a political dialogue which takes in human rights and Tibet, and strengthening bilateral ties in commercial relations and R&D.
- The relationship is described as "mutually beneficial" by Denmark. Negotiations are ongoing over the formation of a "strategic partnership" to upgrade dialogue.<sup>60</sup>
- The Danish political right supports Taiwan, and the left supports Tibet and is critical of China on human rights. Former and current prime ministers have met the Dalai Lama in their official residence.
- In the last three years, there have been ten Danish ministerial visits to China and 12 Chinese ministers have visited Denmark. Yearly political consultations take place with the Chinese ministry of foreign affairs and there is a joint commission in trade affairs with the ministry of commerce, both at vice-ministerial level.
- China is home to Denmark's largest diplomatic mission abroad.

### ECONOMICS AND TRADE

- Strongly in favour of free trade with China; not worried about the trade deficit. Consistently opposes protectionism-inspired measures by the EU.
- In 2007, China ranked fifth in exports to Denmark and 14th in imports from Denmark.
- Almost all major Danish companies are active in China.
- Very few restrictions on foreign investments, mainly concerning banks.

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<sup>60</sup> "Denmark-China: A mutually beneficial partnership," Danish ministry of foreign affairs, October 2008.

## DENMARK (continued)

### GLOBAL ISSUES

- Climate change is a high priority in advance of the Copenhagen UN climate change summit in 2009.
- The two countries are cooperating on energy efficiency, with strong Chinese interest in Danish technology. Denmark initiated the three-year Sino-Danish Wind Energy Development Programme in 2006.
- Denmark's stand for a human rights resolution on China at the UN has led to bitter disputes in the past, with China threatening economic reprisals.
- Danish ministers raise human rights with the Chinese on all possible occasions.
- Sceptical towards lifting the EU arms embargo, mainly for human rights reasons.



# NETHERLANDS

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China is a high priority for the Dutch government, which has set a policy agenda of cooperation on politics, prosperity, sustainability and society.
- The Netherlands had a major run-in with China in 1982 over a submarine sale to Taiwan. The country remains the major destination in Europe for Taiwan's public-owned airline.
- Sino-Tibetan heritage programme. One of the Member States most active in human rights in Tibet.
- Yearly bilateral meeting between foreign ministers; yearly consultations at the level of vice-minister or director general (alternately in The Hague and Beijing); yearly joint economic committee; yearly bilateral human rights dialogue.
- Believes "the most effective way to influence Chinese policy is through the EU."<sup>61</sup>
- Large embassy, consulates in Guangzhou, Hong Kong and Shanghai, and seven business support offices.

## ECONOMICS AND TRADE

- Dutch China experts, the business community and politicians all see China's rise as an economic opportunity: "China's emergence has a positive impact on the Dutch economy".<sup>62</sup>
- In 2006, China was the Netherlands's fifth biggest trading partner. The Netherlands is China's second biggest EU trade partner after Germany.
- Dutch exports to China are growing, but imports are growing faster. The country's role as a service and re-export centre throughout Europe minimises the issue.
- Dutch firms push for a level playing field and full market access.
- Government organises training on IPR, often in cooperation with Philips.

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<sup>61</sup> "Shaping a Relationship for Bilateral Cooperation with China, 2006-2010", Policy Memorandum on China, Dutch ministry of foreign affairs, 2006.

<sup>62</sup> Wim Suyker, Henri de Groot, "China and the Dutch Economy, stylised facts and prospects", CPB Document 127, September 2006.

## NETHERLANDS (continued)

### GLOBAL ISSUES

- Parliament, NGOs and the media regularly bring up human rights and pollution problems. Trade unions are concerned about labour issues in China.
- The Dutch government sat on the fence over the arms embargo issue the last time it flared up in early 2005.
- Happy to raise global issues with China – for example, the Dutch foreign minister brought up China's role in Africa during a visit to China in May 2007.<sup>63</sup>

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<sup>63</sup> See 30800 V Vaststelling van de begrotingsstaten van het Ministerie van Buitenlandse Zaken (V) voor het jaar 2007 Nr.96, Brief van de minister van Buitenlandse Zaken Aan de Voorzitter van de Tweede Kamer der Staten-Generaal Den Haag, 29 May 2007.

# SWEDEN

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Sweden, a neutral, was the first western country to recognise the PRC, in January 1950.
- Priorities include trade and investment, human rights, climate change, research and educational cooperation.
- Government, media and business very interested in China, but public opinion increasingly turning against China in view of human rights and environmental problems. The net result is a standoffish relationship. Chinese had to press for President Hu Jintao to visit in 2007.
- Development cooperation is set to end in 2010, except on environment, climate change and human rights.
- Practitioners of Falun Gong are active in Sweden, leading to hostile interventions by Chinese embassy.
- Sweden studied by China's party think tanks for its social model and for environmental performance.

## ECONOMICS AND TRADE

- China is Sweden's tenth largest trade partner, but accounts for only 2% of exports and 4% of imports.
- Exports are engineering and telecoms. Swedish value-added in services, design, knowledge and R&D.
- 500 companies, including large Swedish multinationals, are present in China; not all business registers on Sweden's balance sheet.
- No major Chinese investments in Sweden, but telecoms R&D operations present.
- Domestic scepticism about Chinese investments in Sweden, question marks over unregulated sovereign wealth funds.
- IPR frequently brought up by Swedish authorities – important sectors include telecoms, high-voltage transmission and trucks. Concerns about Chinese industrial espionage.

## **SWEDEN** (continued)

### **GLOBAL ISSUES**

- Parliament active on human rights and arms embargo.
- Dialogues on human rights, environment, trade and, at prime ministerial level, climate change. Evidence of good coordination with EU, including consultations with European Commission President Barroso on climate change.

# UK

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- The UK recognised PRC in 1950, initially with only a chargé d'affaires since it also kept links with Taiwan. In 1953, it became one of the first countries to have a trade delegation visit.
- Negotiations over the return of Hong Kong dominated relations in the 1980s and 1990s.
- Current priorities are economic opportunities, climate change, Chinese foreign policy/UN security council business, human rights and education/S&I.
- Taiwan not a major issue. Prime ministers meet Dalai Lama in non-official surroundings. In October 2008, the UK changed a policy dating from 1914 on China's sovereignty over Tibet.
- There is one UK minister in China on almost any given day, but Gordon Brown has visited far less than his German or French counterparts.
- Extensive network of dialogues coordinated by task forces on each side. Bilateral financial dialogue at chancellor/vice-premier level.

## ECONOMICS AND TRADE

- China viewed as a great opportunity because of the size of the Chinese market, and its position as a cheap production supplier and source of inward investment.
- Britain is the third largest EU trading partner for China.
- UK priorities are financial services, educational services and hi-tech equipment. UK not viewed in China as a key technology and manufacturing partner in the way Germany is.
- UK has been the largest EU investor in China, though Germany now claims to have overtaken it. China beginning to make strategic investments in UK (for example, 3.5% stake in Barclays, 1% in BP).
- Pressure put on government to help British companies beat German and French rivals to Chinese contracts.
- IPR concerns in pharmaceutical sector, for example GlaxoSmithKline cases.

## UK (continued)

### GLOBAL ISSUES

- Climate change a high priority, with significant staff and resources committed to cooperation projects.
- Supports “responsible stakeholder” view. Military cooperation on peacekeeping training. Cooperation on counter-proliferation.
- Bilateral human rights dialogue and active role in EU dialogue. But issue has become less important in recent years – prime minister criticised for not raising issue during last visit.

# *Accommodating Mercantilists*

## **BULGARIA**

### **POLITICS, DIPLOMACY, AND PUBLIC OPINION**

- Bulgaria was the second country (after the Soviet Union) to recognise the PRC in 1949. Relations froze during the cold war. Renewed interest from China since Bulgaria joined NATO and EU.
- China viewed as an opportunity rather than a threat, but relationship comes second to that with Japan.
- A Confucius Institute opened in June 2007, one of the first in the Balkans/Eastern Europe.
- China provided aid to Bulgaria during transition period and also, more recently, during severe floods in Bulgaria. Last significant help in 2005.
- Three ministerial visits since 2004, both from Bulgaria and from China.

### **ECONOMICS AND TRADE**

- China not a leading trading partner (34th place in 2006), but of growing importance.
- Imports from China dominated by IT and electronic products, exports by metal materials.
- Textile industry suffers from Chinese imports; industry associations have voiced concerns.
- Main Chinese investment in Bulgaria is in telecoms.
- Bulgaria wants to position itself as an access point to EU markets, with low-cost and qualified labour.
- 2008 agreement in tourism (one of the key sectors of Bulgaria's economy).

### **GLOBAL ISSUES**

- Bulgaria raised UN security council issues with China on western Balkans, as well as on the issue of Bulgarian nurses held hostage by Libya.

# CYPRUS

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Strong political links, owing to China being the most supportive permanent member of UN security council on partition: “China is the most important country for Cyprus, since it joined the UN in 1974.”<sup>64</sup>
- According to Cypriot sources, “Cyprus’s political positions are all in favour of China”.<sup>65</sup>
- Fully supports Chinese position on Taiwan and blocks any EU action or language that is incompatible with it, for instance at WTO meetings.
- Within the EU, Cyprus collaborates with those Member States that are the most friendly to China.
- Small embassy in Beijing (two diplomats), with little activity in trade (no commercial attaché).
- Positive image of China in the political sphere and among the general public.

## ECONOMICS AND TRADE

- Cyprus benefits from the EU on economic issues but not in other areas.
- No Cypriot companies in China.
- Growing Chinese investment in Cyprus, involved in mixed private-public deals.

## GLOBAL ISSUES

- Has encountered pressure from the EU to adapt its position on military and commercial issues (shoes, textiles).
- On human rights, “We don’t see human rights like other EU countries. There are issues on which you won’t get results through pressure. We believe China is very positive”.<sup>66</sup>

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<sup>64</sup> ECFR interview with a Cypriot diplomat, Beijing, June 2008.

<sup>65</sup> *ibid.*

<sup>66</sup> *ibid.*



# FRANCE

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- High priority in foreign relations. French approach shaped by diplomatic recognition in 1964, friendship and President Chirac's "multipolar world" objective.
- Since 2004, "global strategic partnership" has served as a framework for relations in political dialogue, economic exchanges, cultural, scientific and technical cooperation etc.
- Since 2007 and the accession of President Sarkozy, China has been stung by calls for a "reciprocal" relationship and criticism on human rights, especially with regard to Tibet.
- Clear "One China" policy on Taiwan. Jetfighter and frigate sales to Taiwan in 1992 led to a major crisis in relations with China, which ended in December 1993.
- With the exception of the period after the Tiananmen massacre in 1989, previous French governments have judged the political and strategic value of friendly relations with China to be more important than meetings with the Dalai Lama or strong human rights criticism. Protests in France on Tibet (and against France in Beijing) occurred under Sarkozy, who finally met the Dalai Lama in December 2008, leading to the cancellation of the EU-China summit.
- France is concerned about China's role in Africa, and its potential to squeeze out French influence.
- France has the largest Chinese community in Europe.
- Large number of visits and dialogues. Head of government exchange almost every year. Strategic dialogue between presidential advisers.

## **FRANCE** (continued)

### **ECONOMICS AND TRADE**

- Claims that “political trade” has achieved results, based on large contracts in key industrial sectors, are not supported by overall trade figures. However, large business deals are often signed during senior government visits.
- In 2007, France captured only 1.4% of China’s market. China became its first non-EU supplier. France is China’s fourth biggest market in Europe (after Germany, the Netherlands and the UK).
- IPR important issue, particularly for well-known and luxury brand names.

### **GLOBAL ISSUES**

- Climate change has become an important priority since Sarkozy’s 2007 visit.
- France was instrumental in changing Europe’s stand at the UN commission on human rights in 1995.
- Legal and police cooperation, but no human rights dialogue – views the issue as an EU responsibility. But French public highly critical of China’s record on human rights and Tibet.
- France has been a leading advocate of lifting the EU arms embargo on China, and remains committed in principle.

# GREECE

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Relations with China date back to 1972, with regular visits in the 1980s and 1990s. In March 1997, Greece helped China evacuate its personnel from Albania when chaos erupted there. Official speeches tend to underline mutual respect for each country's cultural heritage. Strategic partnership signed in 2006.
- Adheres to the "one China" policy and the EU line on Taiwan.
- Interest in China's role at the UN on Cyprus, the FYRO Macedonia and the Balkans.
- No formal dialogue. Cooperation expanded in the run-up to the Beijing Olympics, with Athens having hosted the 2004 Games. 2008 was "Hellenic Year in China."
- Some public resentment, since small enterprises and family producers have suffered from cheap Chinese imports.
- Embassy in Beijing, and a consulate general in Shanghai since March 2005.

## GREECE (continued)

### ECONOMICS AND TRADE

- In 2007, Greece's exports to China totalled €111 million, yet its imports from China reached €2,795 million, or more than 95% of total trade.<sup>67</sup> Other primary areas of interest for Greece are marble, mining of raw materials and tourism.
- Eagerness to attract Chinese investment and to pitch itself as an entry point to Europe in general and the Balkans in particular.
- Shipping sector is a "strategic field of cooperation", according to Premier Karamanlis,<sup>68</sup> with Greek shipowners the most important customers of Chinese shipyards, and nearly 50% of Chinese exports and imports with Greece transported by Greek merchant fleets.
- Thirty-five-year concession deal recently signed for a new container terminal at the main Greek port of Piraeus. Dockers reacted to the deal with strikes. "The government and the Chinese leadership should realise that we will not allow our ports... to become Chinatowns", a union statement said.<sup>69</sup>

### GLOBAL ISSUES

- No serious criticism on human rights.
- Adheres to EU policy on the arms embargo.

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<sup>67</sup> Eurostat, 2008.

<sup>68</sup> "Greece, China sign three bilateral agreements", Athens News Agency, 25 November 2008.

<sup>69</sup> Derek Gatopoulos, "China President in Greece for \$1 Billion Port Deal", ABC News, 24 November 2008.

# HUNGARY

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- One of the first countries to recognise PRC (4 October 1959). Strong trade ties until 1989; throughout the 1980s, China sent regular high-level delegations to Hungary to study the post-1968 reforms.
- Significant historical links with China. Hungary considers itself to be the only European nation of Asian origin, and has had orientalist since the 18th century.
- Maoist China encouraged the Soviets to crush the 1956 Budapest revolt.
- Asia/China became fourth priority of Hungarian foreign policy around 2000.
- Top priority is expanding exports of agricultural products, and diversification of exports towards environmental sector. Hungary would benefit from EU-China framework agreement on agriculture.
- Seen as a close political ally of China by both China itself and other EU Member States.
- Regular high-level visits (Hu Jintao 2004, Wu Bangguo 2007, Jia Qinglin 2008 and Wen Jiabao 2009). Hungarian prime minister visits China on average every two years.

## ECONOMICS AND TRADE

- China more important trading partner than the US. Trade volume rose fifteenfold to \$6.14 billion in the ten years to 2007. Trade imbalance reduced from 1 to 23 in 1998 to 1 to 7 in 2007.
- Strategy: “to become a European hub for China”,<sup>70</sup> with the launch of a China Brand Trade Centre in Budapest (450 Chinese companies established in March 2008, target: 2000), direct flights to Budapest, and the only branch of the Bank of China in eastern Europe.
- Main exporters are Nokia and Audi (over 80% of exports).
- Around 20,000 Chinese in Hungary. Only EU country with a bilingual Chinese school.
- Hungarian season in China 2007-08; Hungarian taught in two Chinese universities.

## GLOBAL ISSUES

- On human rights, domestic feeling that Hungary is not in a position to criticise. Hungary has had a non-controversial human rights dialogue with China since 1999.

# ITALY

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China not a high priority: Italy has been said to suffer from “Marco Polo syndrome”, where trade and informal contacts crowd out governmental relations. Italy’s objectives include increasing market share in China for Italian products and attracting Chinese investment to Italy.
- Growing pro-Tibetan sentiment both in parliament (across centre-right and centre-left) and in public opinion.
- Italy-China inter-governmental committee established in 2004.
- Perceived invasion of cheap Chinese products (especially textiles and shoes) – a “China threat” to jobs and standard of living. Chinese immigration is now a significant issue. Growing number of citizens perceive the relationship to be detrimental.

## ECONOMICS AND TRADE

- In 2007, bilateral trade amounted to €28 billion. Italy’s trade deficit with China in 2007 was €14 billion.
- Italy consistently against awarding Market Economy Status to China.
- IPR cause of concern, as Italy is a major exporter of well-known brands.

## GLOBAL ISSUES

- Conducts one of the EU’s largest environmental cooperation programmes with China.
- Public criticism of China’s human rights record.
- Supported lifting arms embargo, possibly in exchange for Chinese support of Italy’s stance on UN security council reform.

# MALTA

## **POLITICS, DIPLOMACY, AND PUBLIC OPINION**

- Close links with China since the 1970s. Described by Chinese and European interlocutors as a close ally for China.
- Adheres to the EU position on Tibet and Taiwan.
- Would like to see the EU-China relationship taken to a higher level, as well as the development of synergies with China in Africa.
- Keen to see the EU more mindful of China's sensitivities.
- Mainly pursues its interests with China bilaterally.

## **ECONOMICS AND TRADE**

- Main priority: business development through the identification of market niches in China's economy.
- Aims at positioning itself as a trans-shipment hub in the Mediterranean.

## **GLOBAL ISSUES**

- No domestic lobby on human rights.
- In favour of lifting the arms embargo.

# PORTUGAL

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Portugal was among the first to recognise the PRC, because of Macau and its neutral status.
- China not a top priority, but there is increasing political commitment to reverse the decline in bilateral relations that followed the handover of Macau in 1999. Portugal wants greater access to the Chinese market and cooperation with China in African Lusophone countries.
- Portugal takes a zero-risk approach on Taiwan and Tibet.
- Chinese initiative to establish strategic partnership with Portugal in 2005.
- Has supported taking an EU-led approach to China since the early 1990s, when Portugal tried to involve the EU in the last phase of the Macau transition, but clear preference to deal bilaterally on joint projects in Lusophone Africa.
- State visits have intensified in the last five years, with six cabinet-level visits from Portugal to China and four from China to Portugal between 2004 and 2007 .

## ECONOMICS AND TRADE

- Low bilateral trade flows and widening trade deficit. Protectionist attitude on Chinese shoes and textiles owing to domestic SME pressure in Portugal.
- China second most important non-EU source of imports after Brazil.
- Neither IPR nor technology transfer much of an issue.

## GLOBAL ISSUES

- Human rights not fundamental issue; little internal pressure and low-profile position on the issue before Macau handover.
- Follows EU position on the arms embargo.



# ROMANIA

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Extensive historical links with China, dating back to Sino-Soviet split. Ceaucescu regime had strong links to China, North Korea and Vietnam. The 1989 fall of Ceaucescu made a strong impression on China's leaders.
- China is fourth foreign priority, after EU, US and Russia.
- Described by China as "all-season partner."<sup>71</sup>
- "No difficult political issues with China... Embassy spends 70% of its time locally on trade."<sup>72</sup>
- EU perceived as not adding much value to bilateral relationship.

## ECONOMICS AND TRADE

- Generally in favour of free trade, but protectionist stance on textiles.
- China accounts for 8% of Romanian external trade, although the figure reached 27% during the cold war.
- Large trade deficit: in 2007, Romanian exports to China represented \$157 million out of overall trade of \$2.3 billion.
- More than 8,000 Chinese companies in Romania, accounting for 5,000 jobs.

## GLOBAL ISSUES

- Has "no time for Chinese human rights issues",<sup>73</sup> as human rights lobby is focused on the domestic sphere.

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<sup>71</sup> ECFR interview with Feng Zhongping, Chinese Institutes of Contemporary International Relations, June 2008.

<sup>72</sup> ECFR interview with Romanian official, June 2008.

<sup>73</sup> *ibid.*

# SLOVAKIA

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China not considered a priority.
- Similar views to China on territorial integrity. Dalai Lama visited Slovakia in 2000, but ministers refused to meet him. In 2005, Slovakia did not issue a visa to the then Taiwanese foreign minister.
- No structured bilateral dialogue. Over the past 15 years, eight of the highest representatives of Slovakia have paid official visits to China.
- Feeling that the EU would best serve Slovak interests if it managed to improve the business environment in China.

## ECONOMICS AND TRADE

- Focus on economic relations, especially trade deficit (over \$1.2 million in 2007), and barriers to market access in China.
- Little Chinese investment in Slovakia – Korea invests more. Some Chinese investment in IT (Lenovo, Huawei), with 600 jobs created since 2006. Only one Slovak-Chinese joint venture, in loss since its creation in 2006.
- IPR problems, with one major case involving tyre manufacturer Matador, the country's largest exporter to China.

## GLOBAL ISSUES

- Little interest in Chinese human rights issues: policy not to criticise China, in part because Ukraine and Belarus are bigger problems locally, in part as a contrast to neighbouring Czech Republic.

# SLOVENIA

## **POLITICS, DIPLOMACY, AND PUBLIC OPINION**

- Relations date back to 1992; maintains low-level political relations, intensified in 2008 by the EU presidency.
- Has a bilateral national minorities dialogue with China.
- Small embassy in Beijing (five diplomats).

## **ECONOMICS AND TRADE**

- Supported EU restrictions on Chinese textiles, but otherwise open to trade.
- Priorities are balancing trade and improving Chinese intellectual property protection.
- Lowest proportion of external trade with China of any Member State.
- Chinese investment has created around 1,200 jobs in Slovenia.

## **GLOBAL ISSUES**

- As EU president in first half of 2008, agreed to Chinese demands to exclude certain NGOs from the legal experts seminar held in the margins of the human rights dialogue.

# SPAIN

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China not a high priority, ranking below EU, US and Latin America. Recognised PRC in 1973.
- Spain interested in improving its balance of trade, opening up sectors of the Chinese economy and gaining Chinese support for Madrid's bid for the 2016 Olympics.
- Spain has a low profile in Beijing, although now rising in importance – “strategic relationship” declared in 2005, while 2007 was “Year of Spain” in China.
- Historical relations with Taiwan under Franco, but now a firm adherent to “One China” policy.
- Spain uses relationship with Latin America to act as intermediary in Chinese relations there. China asks Spain to intercede with Latin American countries that still recognise Taiwan.
- Regular bilateral dialogues and working group established on Latin America.
- Strong “China threat” line in media. In 2005, only 30% of Spanish people considered China an opportunity for Spanish businesses, while 61% considered Chinese products a threat. In 2004, a crisis in the footwear industry led to violent attacks on Chinese businesses and the burning of footwear made in China.

## ECONOMICS AND TRADE

- Trade with China is proportionately small for Spain's economic size: ranks below trade with other European Member States, the US, Mexico and Morocco.
- Deficit with China growing, currently standing at about 14% of Spain's overall deficit. Government concerned.
- Spain strong advocate of anti-dumping actions, especially on footwear.

## GLOBAL ISSUES

- Renewable energy seen as an opportunity for Spanish firms.
- Neither the present Socialist nor the previous Conservative government has prioritised human rights.
- Spanish government has repeatedly stated its full support for lifting the EU arms embargo.

# *European Followers*

## **AUSTRIA**

### **POLITICS, DIPLOMACY, AND PUBLIC OPINION**

- Recognised the PRC in 1950 as a neutral.
- China not a primary focus, does not feature in official priorities.
- China regularly pressures Austria on Tibet and Taiwan. In 2007, Chancellor Alfred Gusenbauer met the Dalai Lama in his office for “private” meeting.
- Austria follows the One China principle and has no official relations with Taiwan.
- Regular bilateral military exchanges, including joint training.
- No strategic dialogue, but regular ministerial visits.

### **ECONOMICS AND TRADE**

- China Austria’s second largest trading partner outside Europe, after the US.
- Trade deficit with China of €1.23 billion in 2007. Deficit not viewed as threatening, although Austrian delegations repeatedly urge China to buy more products from Austria to compensate for rising Austrian imports.
- IPR not a major problem.

### **GLOBAL ISSUES**

- Some domestic parties, especially Greens, critical on human rights. Active NGOs covering Tibet, human rights and Falun Gong.
- No human rights dialogue but “dialogue on the rule of law”.

# BELGIUM

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China not top priority, equivalent to India or Russia.
- Belgian objectives are attracting foreign direct investment, cooperation on Congo, avoiding tensions over human rights and Tibet.
- China has several times exerted pressure to keep the Dalai Lama out of Brussels. Government defended Taiwan's right to hold cultural exhibitions in Belgium.
- No strategic dialogue, but regular ministerial visits and exchanges at director level.
- Public views of China focus on human rights, China's involvement in Congo and product safety. Criticism of China from some political parties.

## ECONOMICS AND TRADE

- No domestic protectionist pressure.
- In 2006 China was Belgium's 16th largest export destination, accounting for 2.9 billion.
- With the exception of the container port in Antwerp, Chinese investment in Belgium is negligible.
- Belgium profiles itself as an economic gateway to Europe, aiming to attract Chinese investment.
- Concerns over product safety and conditions of Chinese labourers.
- Annual dialogue on the Democratic Republic of Congo (DRC) focusing on transparency in Congolese mining sector. No specific projects. China is mainly seen as an opportunity for the DRC.

## GLOBAL ISSUES

- No human rights dialogue, but issue always mentioned in official statements. Domestic lobbying is modest.

# ESTONIA

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China not a priority and rarely mentioned in foreign policy speeches.
- Good political relations built on Chinese support for Estonian independence and Estonia's long-standing "one China" policy.
- Dalai Lama has visited Estonia twice, in 1991 and 2001. Tibet riots in 2008 triggered unusually strong response from Estonian public, resulting in protests in front of the Chinese embassy and some politicians calling for an Olympic boycott.
- Despite official One China policy, some parliamentary groups support Taiwan or Tibet.
- Several recent high-level exchanges between Estonia and China. Joint commission on economics and trade that meets every two years.
- Small embassy in Beijing and trade representative in Shanghai.

## ECONOMICS AND TRADE

- General view that economic relationship with China is beneficial. Trade deficit with China not major. Estonia a free trader but not automatically against any trade protectionism.
- In 2007, China ranked as only the 16th largest trading partner for Estonia, accounting for 1.6% of total trade, but in 2006 growth in Estonian trade with China was the fastest of all EU member states.<sup>74</sup>
- Negotiations ongoing between port of Tallinn and Ningbo port over Chinese investment plans to build a container terminal in Tallinn.

## GLOBAL ISSUES

- No human rights dialogue and Estonia has not raised any human rights issues with China nor given any human rights-related training or assistance.

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<sup>74</sup> Memo from ministry of economic affairs and communications of Estonia, 21 April 2008.

# FINLAND

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Historically close relationship. Finland recognised PRC early, in 1950. Finland was the first western country to send a minister to Beijing following the Tiananmen massacre.
- Relations with China less important than those with Russia, other EU Member States and the US.
- Finland supports One China policy and does not raise Taiwan as an issue in discussions with Chinese ministers.
- Several Finnish parliament members, but no senior Finnish government officials, have met with Dalai Lama.
- Finland's prime minister among the first EU leaders to publicly declare he would attend Olympic opening ceremony following 2008 Tibet riots.
- Most Finnish government ministers have made an official visit to China in the last few years.
- No bilateral strategic dialogue, but wide range of cooperation and partnerships.
- Few Chinese experts or speakers in Finnish foreign ministry.
- In early 2000s, China was perceived as a threat to Finnish jobs. Tibet riots in 2008 provoked a new wave of public anti-China sentiment.

## ECONOMICS AND TRADE

- China is Finland's fourth largest trading partner after Germany, Russia and Sweden, but it is also the country with which Finland has its largest trade deficit.
- About 260 Finnish companies operate in China.

## GLOBAL ISSUES

- Finnish companies lobby government to minimise criticism of China's human rights record.
- Finland supported French drive to lift arms embargo in 2004.



# LATVIA

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- China had no relations with any of the Baltic states under Soviet rule; Latvia values the fact that Republican China had not recognised its incorporation into the USSR. China formally recognised the three Baltic states in September 1991. Increased interest from China since Latvia's EU accession.
- China is not a priority country and there is no mention of it in any of Latvia's key foreign policy documents.
- Prefers to develop relations with China bilaterally. Bilateral relations focus on economy, culture and municipal ties.
- Taiwan is a major issue. Ongoing competition between China and Taiwan. China "temporarily closed" the Latvian embassy in the 1990s. During the Chinese ambassador's absence in 2005, the Taiwan representative arranged to speak to the parliament officially. Chinese exerted pressure to prevent this.
- Interest towards Tibet from Buddhist groups, who have invited the Dalai Lama twice.
- Unusual restraint from China in its criticism of Latvia. Latvia is also encouraging a soft approach by China.
- Latvia-China security policy consultations launched in Beijing in 2007.
- Chinese embassy in Riga first to open in Baltic states; Chinese official news agency Xinhua's Riga office covers Latvia, Lithuania and Estonia.
- Views polarised along ethnic Russian/Latvian lines. Russians are more positive towards China's rise, while the largely pro-US Latvians are more critical.

## ECONOMICS AND TRADE

- Limited trade (\$270 million in 2007) and investment, modest trade deficit.
- IPR not an issue, little involvement in trade disputes.

## GLOBAL ISSUES

- No strong domestic human rights lobby targeting China.

# LITHUANIA

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Links established in 1991. China not considered a priority, distant (“if it is a threat, it’s too big for us”). Main goal: to “let China know that we exist.”<sup>75</sup>
- Despite little public interest in China, there is public sympathy for the Tibetan cause for historical reasons. Parliament has a Tibet group and a Taiwan friendship group.
- Would like to engage China on Afghanistan.
- “Economically the EU delivers for us. Politically, I don’t know.”<sup>76</sup>
- Yearly political consultations at foreign ministry level.
- Small embassy in Beijing (three diplomats), focusing on consular affairs (also covers Mongolia, Vietnam and South Korea).

## ECONOMICS AND TRADE

- Trade level insignificant: only three Lithuanian companies registered in China, and five Chinese companies in Lithuania.
- Promotes itself to China as international transport and logistics hub.

## GLOBAL ISSUES

- Competes with Estonia and Latvia for Chinese attention and therefore sticks to EU positions on issues such as Taiwan, Tibet and the arms embargo.

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<sup>75</sup> ECFR interview with Lithuanian official, June 2008.

<sup>76</sup> *ibid.*

# IRELAND

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- Views China as the major trading and political partner after EU and US.
- Main priorities are: economic links, development of business opportunities and attracting Chinese investment, though climate change and human rights also feature strongly in the relationship.
- Wants to strengthen presence in China through national organisations such as the Industrial Development Agency and Enterprise Ireland.
- Economic links with Taiwan, but no official relationship. Taiwan has a “representative office” in Dublin.
- Interest in Tibet, especially among MPs.
- No formal dialogue with China. Periodic economic and political consultations. Trade missions the cornerstone of Irish government’s strategy.
- Irish public sees rise of China as positive.

## ECONOMICS AND TRADE

- Sees key areas of opportunity as educational services, electronic, engineering equipment, healthcare, financial services, and Irish food and drink products.
- Total bilateral trade was €3.3 billion in 2007. Main exports are electrical machinery; main imports are office machines. Trade deficit not viewed as threatening.
- Growing Irish investment in China, especially in property firms, electronics and construction companies.
- IPR a concern for Irish companies operating in China, particularly in pharmaceuticals.

## GLOBAL ISSUES

- Important private-sector involvement in China’s alternative energy sector.
- Human rights raised regularly on Irish visits to Beijing and in other contacts.

# LUXEMBOURG

## POLITICS, DIPLOMACY, AND PUBLIC OPINION

- No historical ties with China, relationship perceived as less important than that with Russia.
- Luxembourg follows “EU declarations on anything and everything.”<sup>77</sup>
- Strong domestic public opinion on Tibet; Luxembourg follows EU line.

## ECONOMICS AND TRADE

- Trade deficit not a central issue, as Luxembourg exports high-value industrial goods (steel, car parts).
- Steel industry single biggest link, with Arcelor the biggest Luxembourg company operating in China.
- China serves as a basis for re-exportation of Luxembourg products.
- Luxembourg aims to establish itself as a financial centre and a point of entry in the EU for China.
- IPR and local market access important issues.

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