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The EU and China: Time for a Change?

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SUMMARY

- EU-China relations have been severely strained over the past few years. The EU and China are both searching for mutual understanding and the scope for misperception remains high. In the context of the forthcoming EU-China Summit (to be held in Nanjing on 30 November), this paper examines the nature of EU-China relations, assesses current sticking points, and explores what the future holds.
- Trade and investment lie at the heart of the EU-China relationship. The EU needs to support fundamental reform of global financial institutions and allow China to play a greater role. Both sides should recognise the need to keep trade open and avoid protectionist legislation or rhetoric. China should recognise the EU's concerns and allow greater market access, especially in services.
- The EU and China need to create a stronger working relationship based on mutual understanding. This is an urgent challenge and will require both the EU and China to fundamentally reassess how they deal with each other.

Introduction

The relationship between the EU and China was not always as difficult as it is today. After the successful negotiations to enter the World Trade Organisation (WTO) in 2001, some more imaginative commentators looked towards the looser federal model of the EU. Its pooled, centralised structures of economic power was seen as a potential model for a future China in which the central government in Beijing would try to give greater powers to its provinces and autonomous regions, while avoiding the spectre of instability and break-up. Those days are over, however, as the relationship has markedly deteriorated in the last five years.

As both sides prepare for the next major EU-China summit to be held in Nanjing on 30 November, this paper examines why this has happened, discusses the current sticking points, and explores what the future holds. We argue that the EU and China must create a stronger working relationship based on mutual understanding.

EU-China Relations

China started looking at European economic integration and the European Economic Community (EEC) quite early on. Academics in Beijing studied it in the early 1970s, at about the same time as the rapprochement with the US started. Relations officially began in 1975. In the 1980s, during the first phase of economic reform, China continued to nurture good relations with separate European countries, in particular the big three; France, Germany and the UK. But it was only in the 1990s, with closer political as well as economic integration after the Treaty of Maastricht came into force in 1993, that China started to realise that the EU was fast becoming a major international force. This followed the establishment of formal EU relations with the 1985 EU-China [Trade and Cooperation Agreement](#).

But by 2001, a senior official for the EU on a visit to China admitted in a meeting between member countries that the EU's unified public face alongside internal conflict between member states continued to baffle Chinese policymakers. He cited major aviation contracts in particular, where companies from separate countries in Europe competed against each other in front of the Chinese to secure deals.

Their initial reaction was to admit that the sheer size of the EU's trade with China, and of its investment into China, was too great to simply brush aside, and that China had to upgrade the overall political relationship. They accorded VIP status to visiting EU representatives like former trade

commissioner Chris Patten, Peter Mandelson, and EU Commission presidents. The 2003 China-EU summit even talked of a 'strategic relationship'. But in 2004 and 2005 things started to go wrong. Initial moves by the EU Commission to lift the arms embargo imposed on China after the Tiananmen Square events in China in 1989 came to an abrupt halt when the US intervened.

This was despite the fact that the embargo is entirely symbolic and in many ways actually irrelevant. Arms sales are controlled by the EU Arms Code, which was to be tightened up before the embargo was lifted. However, the damage over this episode proved to be long-lasting. The fact that the Bush presidency was able to demand that the EU back down spoke volumes to the Chinese leadership. The EU looked like a toothless tiger, and was used in Robert Kagan's famous study of power as the final exemplar of an entity rich in soft, cultural, diplomatic power, but bereft of any real hard military power.

Despite this the Chinese have generally had a positive view of Europe. They had the highest regard for its establishment and the development of the single market, for its educational system, and for its culture and business. The evidence for this was in the large numbers of students, tourists and trade delegations that came to the EU each year. Yet there was a sense that the EU was much less politically than the sum of its parts. There was also suspicion among EU member countries that on many important issues they were being played off against each other, and that there was a fundamental imbalance and lack of substance in the collective relationship with China.

However, in the last 18 months, politically, things have gone from bad to worse. The arrival in particular of three new leaders of the main three EU member states, France, Germany and the UK, posed a challenge which was then spectacularly mishandled. Angela Merkel led the way. Her predecessor, Chancellor Schröder, cultivated relations with China assiduously, visiting each year, signing big deals (one Ambassador in Beijing in 2002 wryly commented that it was always interesting to see different EU leaders come to China to sell the same Airbus planes several times over), and hosting major Chinese leaders in Germany. But Merkel had a different approach. In October 2007, despite a cordial meeting with Premier Wen Jiabao in Beijing a few weeks before, she met the Dalai Lama in the Chancellery, and followed this by a press conference. The Chinese protested and, for a while, visitors to Beijing who spoke at ministries with officials were subjected to the novel experience of hearing Germany universally bad-mouthed. This was after years of its having been held up as the exemplar of good behaviour and co-operation.

Even now, it is not entirely clear why Merkel made the decision she did, and why a less divisive method of meeting the Dalai Lama had not been used.

Jacques Chirac was a Sinophile, steeped in Chinese culture. Nicolas Sarkozy's first official visit to China in November 2007 was a great success. He said the right things and signed some \$30bn worth of trade deals. But then he returned home and proceeded to criticise China's human rights record. Relations subsequently worsened in 2008. European governments were tainted with the problems of the ill-fated Olympic torch procession through London and other European capitals which reached its nadir in Paris where a disabled Chinese athlete was attacked by protestors and the Chinese were accused of encouraging the Tibetan riots of March 2008. Apologies from France did not help, and in any case President Sarkozy met the Dalai Lama at the Nobel Peace Prize awards in Poland just before the EU-China summit in November 2008. Many of the large deals he had signed at the previous summit in late 2007 had led nowhere. His mercurial behaviour managed to annoy the Chinese leadership even more. One UK official bemoaned the fact that 'the Chinese had shot themselves in the foot over cancelling the summit only days before it was due to begin.' But when asked about this in December, an official in Beijing was clear: 'we know it is not in our interests to call such an important meeting off so late in the day,' he said, 'but the EU must know there are red lines, and the treatment of Tibet is one of the most important ones.' The use of the EU language of red lines against it was only one of several ironies. France, along with Germany, which had enjoyed excellent political relations with China for decades, was now in the dog-house. For a brief moment, Chinese tourists were discouraged from visiting their favourite European destination. But the lure of Paris proved too strong, and this restriction was lifted, even though the fall-out from Sarkozy's actions remains.

Surprisingly the UK, which in Chinese eyes has been the least favourite European country at least during the long years of negotiations over the hand-back of Hong Kong, avoided similar repercussions when Prime Minister Gordon Brown met the Dalai Lama. This was due to Downing Street's recognition of the sensitive nature of the meeting by hosting it at Lambeth Palace, the home of the Archbishop of Canterbury, and meeting the Dalai Lama solely as a religious leader.

Where Things Stand

On the eve of the next EU-China Summit, things appear to have stabilised over the last few months. However, negative sentiments remain. Some Chinese academics have expressed resentment at the double standards that exist when it comes to the EU's stance on human rights and governance. The effect of the economic crisis on European countries has not helped things either. China's position is that the EU should set its own house in order before getting tough with others. One Chinese official called the EU 'stagnant' and 'complacent', and believed that the EU wanted the world to come to it, thought it was the best, and did not want to look outside and see where it needed to change. Another official simply declared that the constant failure of the 27 member states to come up with common positions was profoundly frustrating, and had caused many leaders in China to come to regard the EU as marginal.

These views need to be balanced against more moderate voices. Academics like Zhou Hong of the Chinese Academy of Social Sciences, one of China's leading experts on the EU, has consistently argued that the EU is a critical partner for China, and that in terms of technology and aid, it has been a real partner. One can point to a programme sponsored by the EU to work together on rural issues like village elections. This was by far the largest single aid programme in this area in the last ten years. There were plenty of other examples of positive work together, from collaboration on clean coal technology, to work on the Galileo satellite project. The UK, in particular, was praised over its relations with China, and its role on the G20 summit agreements in April. But the sense that the EU had let China down was still strong.

In the run-up to the summit, the overwhelming mood is one of nervousness. This is an important relationship that cannot fail. But more honest voices on both sides still feel that things are nowhere near as good as they could be, and that it is a pity the relationship has gone so badly wrong. The EU and China won't be able to divorce each other but their current position resembles a trial separation. How can they be brought closer together again?

It is not that there has been a lack of effort on both sides. The Commission in Brussels has produced comprehensive documents on China, calling relations with it 'strategic'. But the feeling is that the relationship should be more than the sum of its parts, not less (as it is now), and this issue plagues the talks between both sides.

The EU is going through an interregnum. It is a multi-headed animal, difficult to deal with and torn by rivalry between Member States and the Union and competition between Member States. However, dealing with several Chinese ministries on one interdisciplinary subject can also be very difficult. We hope that the entry into force of the Lisbon Treaty will be a considerable help.

The Jewel in the EU Crown

The one thing that the EU can truly boast of in its relations with China is the trade link. The EU is the largest trading partner for China and is attracting increasing amounts of investment. However, commercial partnership does not automatically translate into stronger political links – that takes political focus and will. Both Japan and the EU have been amongst the largest aid donors and the largest transferrers of technology to China over the last three decades. Both now know that this does not help when the dialogue gets difficult over historical issues or what China perceives as its own internal affairs. Germany in particular has been a massive technical partner, and for a period in the late 1990s and early 2000s companies like Siemens and Volkswagen were dominant in their specific sectors in China. Both Siemens and Volkswagen have massive manufacturing capacity in China, and have placed a large amount of technology in their hands. But the sheer volume of two-way trade, especially since China's entry to WTO in 2001 and the further liberalisation of its markets, has created its own specific challenges.

The trade deficit in particular has become an ongoing political headache, something shared with the US. China now runs a \$169bn (2008) deficit with the EU, even though this has dipped since 2007 as a result of the economic crisis. The EU's trade negotiations with China have focussed on market access, and on the tricky issue of conferring market economy status on China. The Chinese government has pointed out the EU's contradictory stance in allowing the far less developed Russian market to have market status in 2002, but failing (as yet) to confer this on China, which, in its own eyes, is far more market-oriented. This remains one of the main points of contention in the relationship, along with the issue of Tibet and the failure to lift the arms embargo. Added to this are specific contentious issues – rather than broader issues of principle – such as anti-dumping cases, and tariffs on specific goods where there is demand from within the EU for greater protection for local industry. Even the opportunities from the rising tide of Chinese outward direct investment have been hit by German claims that this

involves simple asset stripping (see journalist James Kynge's description of the removal, lock, stock and barrel, of the Thyssen steelworks from Germany in the early 2000s¹) and that Chinese outward investors come to Europe with little knowledge of the specific trade union or labour laws in each country, and with an expectation that they can simply export labour from China.

In the Eye of the Beholder

A range of surveys continue to show that there is significant misunderstanding about what the EU is, how it differs from Europe, how it is run, what its purpose is, and how to engage with it. Specific countries still remain the main prism through which many Chinese, in business, academic or even official groups, understand the EU. Even so, there is now evidence that the Chinese have put a lot of effort into at least understanding the dynamics of the EU member states, and something of its culture and economy.

A ground-breaking survey undertaken in Brussels among EU and Chinese students based there showed that the Chinese participants were far more knowledgeable about EU ideals, aspirations and beliefs than the reverse.² Although this survey was very small, it caught something of the complacency and stagnation of the EU's belief in itself, and perhaps explains in part the accusation from many in China that the EU often adopts a tone of moral superiority. One of the more worrying features of the survey was a strong sense from EU participants that they were largely ignorant of the position of the Chinese, and were not even able to guess correctly how they felt about issues like political reform, human rights and globalisation.

China's pace of development and its dynamism means that it is hard to keep up with how quickly things are changing. In the last two decades, at least, Chinese universities, institutions and companies engaging with the EU have put huge resources into understanding the position of the other side. They have also become optimistic about their own future, and believe that China's role in the world will increase in importance, its economy will continue to expand, and it will be able to face the many challenges coming towards it in the future. The Europeans, however, are more pessimistic.

The EU needs to promote a far stronger image of itself and undertake a campaign to inform people in China, particularly those in government,

¹ See James Kynge: 'China: Rise of a Hungry Power' 2006

business and intellectual elites, about what it is, what it stands for, and why it is important. The idea that the world needs to come to the EU, rather than the EU reaching out to the other countries, is not sustainable. If the EU maintains the path it is currently on it runs the risk of becoming a contaminated brand.

Much of this needs to be dealt with by the actual process through which the EU and China have dialogue at a formal level. The methodology of the 30 plus bilateral dialogues and working groups needs radical reform. Most of them meet occasionally, explain their positions and, after a formal discussion, separate. There should be continuous exercises to define common problems and to seek common solutions. Instead of sitting on opposite sides of the table, everyone should sit on the same side with the problem in the middle – the very successful approach used by the EU's Founding Father, Jean Monnet.

Many Chinese believe that EU policy towards China has hardened and become more demanding and ideological. In fact, the Commission's policy towards China has not changed. The attitude of the European Parliament, the media and special interest groups should not be confused with executive policies. It must also be remembered that in China, the motivators for all foreign policy issues are domestic, and statements by politicians ahead of national elections should be treated with care.

The Coming Summit

The China-EU summit will be held in Nanjing on 30 November. The occasion will not have been made easier by the fact that President Obama has just made his first presidential visit to China. The Climate Change summit in Copenhagen next month will, however, at least give focus to what the two sides will discuss. One of the strongest areas of their cooperation has been on the environment. Since 2001, they have been working on programmes dealing with clean coal technology, energy efficiency, renewable energy and, more recently, carbon capture. The EU is seen as a global leader in these areas and will hopefully assert some influence. China's political position, along with that of India and many other developing countries (what has been called the G77) is clear. In October 2009 China and India signed an agreement to work together on climate change. It is unjust for China to have to meet ambitious new carbon emissions targets given it is the developed

² Commissioned by the Bertelsmann Stiftung from Prof Dr Peter Kruse of Nextpractice Berlin, EU China Workshop, October 2009

countries that have largely caused global warming. China largely manufactures for the developing world, and particularly for the EU and the US markets. How to take account of this outsourcing of polluting industries will no doubt be an important part of what the EU and China discuss. But on the Chinese side, the expectation remains that the EU can, and should, do more.

Inevitably, the continuing global economic crisis will be discussed. China will no doubt continue to press for market economy status. This is the only trade bargaining chip left for the Europeans, who are reluctant to give it up without reciprocal concessions. The problem is that Beijing cannot guarantee the implementation of many market access provisions. The business community should agree with the Commission on the concessions reasonably required. Market Economy Status (MES) should be granted on the fulfilment of, say, half of these concessions.

Africa should also be high on the agenda. The leaders committed China and the EU to collaborate in Africa at the 2007 Summit but so far there has been little cooperation. The two have different policy approaches: the Chinese are essentially preoccupied by economic issues, but the Europeans have to bear in mind the delicate political relationships between member states and the balancing of interests to create consensus that this entails. The West has wasted a lot of aid to Africa, and China is right to concentrate on infrastructure. Good governance is important, whether or not aid is conditional on it. The parties should cooperate closely on security in Africa.

Fortunately, the Presidency of the EU is in the hands of Sweden, a country that has enjoyed largely unproblematic relations with China, and which has good expertise on China. President Sarkozy's meeting with the Dalai Lama was a significant diplomatic *faux pas* precisely because, according to some Chinese officials, he did so while holding the Presidency of the EU. This gave the meeting far greater symbolic weight than it might otherwise have had and partly explains the vehemence of the Chinese response. The French President's explanation afterwards that he was meeting the Tibetan spiritual leader simply as President of his own country cut no ice with the Chinese.

Conclusion

The relationship between the EU and China has so far been one of missed opportunities. The EU has always seemed to be less than the sum of its constituent parts. Frustration at its complexity comes out in official Chinese discourse, making it hard to see things getting better any time soon. But as one European analyst of EU-China relations said at a meeting earlier this

year, if China doesn't talk to the EU, and seeks to continue to engage simply with member countries, then it is missing the whole point of the EU project. For all its irritations, the EU remains a hugely positive economic force, and one which the Chinese know would be foolish to sideline or ignore. They often struggle to understand what the EU is and how best to talk to it. Hopefully the summit will progress the complex dialogue and, with the Lisbon Treaty coming into force in January, some of the hindrances and irritations on both sides will be dispelled.

Given the EU's experience in a variety of policy areas that are relevant to Chinese domestic development, China largely sees Europe as a useful friend and a valuable adviser. However, it does not see the EU as a real player internationally, except in economics and trade. Outside trade, the Union has no standing. China would like it to be a moderating influence with the US as the US continues to have influence behind the scenes. It is important that there are three successful bilateral relationships and more trilateral cooperation, both economically and strategically.

As the November summit will primarily focus on climate change and the financial and economic crises, issues around climate change will offer the best opportunity for cooperation as it affects every sector of society and other policies. Although the relationship has suffered setbacks, and there are obstacles ahead to overcome, significant progress has been made over the last decade. Critically, leaders on both sides need to recognise that there are more issues that unite the EU and China than divide them.