
Examination of the Contemporary EU-China Political and Economic Links

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Abstract

Sino-European relations have considerably improved over the last decade, but there are still issues over which there is disagreement. This chapter briefly reviews EU-China institutional relations. Analysing this strategic partnership raises a number of questions. The chapter looks at the political and economic links between the partners. Through examining their political ties, potential issues for cooperation such as climate change, emergency management and maritime security are explored. The chapter also remarks on sticking points such as human rights. It then explores the economic relations by highlighting the economic and trade interdependencies as well as their complementarity. Nevertheless, frictions persist in regard to the trade imbalance, the opacity of the Chinese market and anti-dumping practices. Finally, the chapter draws some tentative conclusions.

1 Slow Processes Hold Promises, but Simply Standing Will Bring Failure

Sino-European strategic partnership is constantly deepening. It has developed into a multi-dimensional and multi-level network of relations. Trade and economic cooperation is still the key pillar of this relationship. The political pillar, however, has also expanded, and there are new topics on the agenda such as urbanisation, climate change, maritime security and a RAPEX system.

Despite the differences between the nature of the political morphology and values of both actors, this partnership is a matter of strategic necessity (Martinusz 2011). The European Union (EU) is being challenged by the financial and economic

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crisis and a shift in the distribution of global power. Simultaneously, the Chinese leadership has to tackle an extensive number of domestic problems, including the political transition, population growth and the economic downturn. Cooperation between partners follows the patterns of domestic reforms. A shift on perceptions creates tensions with the existing institutional framework.

On the basis of an in-depth review of the Sino-European literature and a total of eight interviews with six European officials and two Chinese scholars, this chapter argues that both partners are willing to expand their political and economic cooperation. Sporadic trade disputes, genuine concerns about democratic values and frictions over balance of power will always exist but, even with negative public opinion and media coverage, overall trade provides an incentive for cooperation.

The starting point of this chapter is a brief overview of the Sino-European relationship with an emphasis on the past decade: the launch of the strategic partnership. The chapter's aim is to assess where this relationship stands. For this purpose, political and economic cooperation are examined—the first and second pillars. Cultural and educational cooperation—the third pillar—will not be analysed due to limitations of the scope of this research and the embryonic stage of this pillar, which would hinder any in-depth assessment of a cooperation trajectory in this area.

2 An Overview of the Past Decade

Stretching back to 1975, Sino-European official relations were limited to economic affairs. In 1985, both partners signed the Trade and Economic Cooperation Agreement (TECA) becoming the core basis for economic cooperation. A political dialogue was launched in 1994, although it was not until 2003 that the relationship was defined as a strategic partnership.

The gradual inclusion of new areas of cooperation has contributed to developing the institutional framework of the Sino-European relationship. Currently, the institutional architecture comprises three pillars; Political Dialogue (2010), with 11 specialised dialogues; Trade and Economic Dialogue (2008), with 44 sectoral dialogues; and High Level People-to-People Dialogue (2012),¹ with three specialised dialogues. According to the European External Action Service, there were 58 sectoral dialogues as of June 2014 (European External Action Service 2014a).²

¹ The HPPD was officially launched in March 2012, and has become the third pillar of EU-China institutional architecture. It tackles the areas of education and training, culture, multilingualism and youth, all of which are ongoing under the European General-Directorate of Education and Culture. The aim is to invest in the field of people-to-people exchanges to overcome mistrust and establish an intercultural understanding between the societies. The last discussion was held in Beijing in September 2014. The potential components of this pillar are: 'EU-China Higher Education Platform for Cooperation and Exchange', the China-Europe International Business School and the China-EU School of Law.

² The dialogue architecture is constantly changing as discussions evolve and new topics for cooperation appear. The number, nature and scope of the dialogues may then be different at the time of reading this chapter.

Since the strategic partnership concept was coined (2013), in spite of a transitory cooling period caused by the events of 2007 and 2008, the relationship has developed positively. The past decade has encompassed three stages: a thriving and dynamic period (2003–2006); a cooling period (2007–2009); and a revival of relations (2010–present).

2.1 A Thriving and Dynamic Period (2003–2006)

The partnership developed in a positive and fruitful way. Two official documents were published: *‘A maturing partnership: shared interest and challenges in EU-China relations’* (European Commission 2003), produced by the European Commission; and *‘China’s EU Policy Paper’*, produced by the Chinese Ministry of Foreign Affairs (Chinese Ministry of Foreign Affairs 2003). The Chinese document was a milestone as it was the first exclusive Chinese White Paper to focus on studying a partner. In addition, two major events took place in 2003: the participation of the PRC in the Galileo programme and Europe tentative pledged to lift the arms embargo.

During the 2005 anniversary of diplomatic relations, the 8th Summit was held in Beijing, which highlighted the exceptional economic and trade relations. The European partners showed their interest in and willingness to further engage in cooperation with the PRC by producing a second comprehensive document: *‘EU-China: Closer partners, growing responsibilities’* (European Commission 2006). This consisted of two parts—trade and economy, and political and strategic cooperation—for the first time. This stage concluded with the 9th Summit (September 2006), a *Joint Initiative* emphasising common ground and dismissing all of the existing frictions.

2.2 A Cooling Period (2007–2009)

Following the initial positivity of the strategic partnership, the so-called ‘honeymoon period’, the relationship was marked by mutual misperceptions. The reasons behind this shift in perception began with the pre-Olympic games: the Olympic torch relay was cut short due to French protests and consequently French companies, such as Carrefour, were boycotted. Other frictions appeared during the Global Financial Crisis (GFC), which affected European member states’ economies and highlighted trade imbalances. In addition to the trade disputes, both regions saw the negative public perceptions of each other increase.

2009 was imbued with a lack of confidence and mistrust. In an attempt to calm the tensions, Wen Jiabao’s—温家宝 former Premier of China—made his first official visit to the EU in 2009. Both partners realised the need to promote reconciliation. The 11th Summit reflected their mutual need to tackle the international challenges affecting their domestic security. While the economies of the Eurozone had begun to be shaken, the PRC had suffered extraordinary

environmental disasters including the 2008 Sichuan earthquake, an economic downturned and civil society protests.

2.3 A Revival of Relations (2010-Present)

The 35th Anniversary of the Sino-European relationship represented the start of the third stage. Economic and trade relations had increased from €4 billion in 1978 to €400 billion in 2010 (European Union 2012). On October 2010, the 13th Summit took place. It was the first to be held since the Lisbon Treaty had entered into force. The Treaty was to have a positive effect on the relationship: European foreign policy may shed some light to political ties. The creation of the European External Action Service also supported the political dialogue: the High Representative of the EU for Foreign Affairs and Security Policy/Vice-President of the European Commission (HR/VP) was appointed.

After the 13th Summit (2010) numerous official visits and high-level meetings took place. As Zoltan Martinusz, former advisor to the European Council President Van Rompuy, stated; ‘it was certainly no coincidence that President Van Rompuy’s first official bilateral visit outside Europe took him to China’ (Martinusz 2011). Throughout 2012, the leaders’ willingness to enhance cooperation was clearly expressed through the hosting of two EU-China Summits. The agenda of the 14th Summit (February) included a large number of new topics and specific initiatives were generated such as the creation of the High Level People-to-People Dialogue (HPPD). The 15th Summit (September) illustrated diplomatic gestures from both sides. European officials valued the Chinese interest in staging the Summit just before the 18th National People’s Congress meeting. In turn, Chinese diplomats welcomed the opportunity to provide a European send-off to Wen Jiabao by holding his last Sino-European Summit on his birthday, under the motto ‘*happy birthday & bye bye, Mr. Wen*’.

Nevertheless, the partnership lost *momentum* for a short period, when the positive relations came to a halt. 2013 started with a trade dispute over solar panels. Some news headlines added grist to the mill, ‘EU China solar panel trade war looms’ (BBC 2013) and ‘their biggest trade row by far’ (Emmott and Blanchard 2013), during summer 2013 but in the end the dispute was resolved.

3 Juggling Between Recognition of Mutual ‘Need’ and Domestic Matters

Both leaderships had expressed their intentions to engage with their strategic partner at numerous high-level events in order to deepen, in particular, their political ties. The domestic context and challenges, however, marked the direction of each partner’s political decisions.

European leaders have repetitively expressed their interest in fostering relations with China and engaging in a more developed and closer form of cooperation.

Manuel Barroso, former president of the European Commission, said to President Xi Jinping (习近平) during his April 2014 visit to Brussels that ‘the EU-China relations are of strategic and prospective significance and enjoy sound development momentum’ (China Embassy 2014b). This is not just because of its economic, territorial and demographic size, but also because of the PRC’s weight in the international arena. The Chinese Government is not perceived as a threat by its European partners. Catherin Ashton, former HR/VP, defined China as a ‘major world power’ and tried to boost relations with Beijing in a pragmatic way by suggesting lifting the arms embargo (Rettman 2010).

The current political strategy towards the PRC is based on objectives that were defined in 1998: ‘engaging China further in the international community, supporting its transition to an open society, integrating it in the world economy, and raising the EU’s profile in China’. EU leaders indeed support the Communist Party of China (CCP) working towards to transform itself into a more democratic political system with a liberalised economic system (European External Action Service 2014b). Scholars such as Godement and Fow have defined this wish as ‘an anachronistic belief’ (Godement and Fow 2009), because of the unrealistic hope that Chinese leaders will embrace European policies and post-modern values as a model for China’s own transformation. The EU’s attitude to support China’s democratisation had exposed slight ironic undercurrent; described as ‘self-serving interest’ (Welzel and Graf 2011). This negative perception of Europe is also grounded on some EU member states’ colonialist history, which projects a ‘selfish’ image, and a certain degree of insensitivity towards China (Tang 2011).

Chinese officials did not initially understand the EU’s true function. Today, their comprehension is greater, although they still wish that the EU would make decisions faster with one united voice. Declarations of their strong interest in Europe, by defining their strategic partner as a relevant, friendly and reliant actor have also been made. During Wen Jiabao’s 10 years as Prime Minister, he promoted the EU as an important partner (Liu 2013). The new leadership has followed a similar path. In 2012, President Xi and Premier Li Keqiang (李克) took a tour around European capitals and emphasised the importance of building strong economic and political ties on an equal basis. The last high-level meeting occurred from 31 March to 1 April 2014 in Brussels, when Xi, the first Chinese leader to visit the EU institutions since ties were established in 1975, stressed that the two sides should combine powers, markets and civilisations in order to promote four key issues: peace, growth, reform and civilisation (China Embassy 2014a).

Nonetheless, major domestic challenges in both regions have affected the relationship and negative public perceptions of both strategic partners have at times increased. These issues have been compounded by the global economic crisis and, subsequently, complex social issues have been aggravated. When the euro currency started to lose value compared to the RMB, unemployment rose across the Eurozone and the European integration model slowed down, European’s claim on its superiority Welfare State Capitalism, of course, changed profoundly. This situation has undermined the EU’s credibility in promoting policies and it’s on model (Bai 2014). In Europe, the PRC’s economic rise has also inspired fear and

negative feelings. These feelings—consciously or not—influence the way in which the news are selected, written and presented. According to research done by Ingrid d’Hooghe, China’s popularity has been falling. Media reporting about China mainly focuses on negative issues such as heavy pollution and human rights records.

4 Doors of Opportunity in Traditional and Soft Security

While, for the first time in their long histories, neither partner is exposed to any direct serious territorial threat from their traditional adversaries, they are, nevertheless, addressing other security concerns. Security cooperation involves traditional and soft security issues.

Since the 6th Summit (2003) and the launch of the Strategic Dialogue, multilateral global governance, international stability and security matters are now more present in the discussions. The main common areas in traditional security are counter-piracy and maritime security, crisis management, cyber issues (EU-China Cyber Task-Force), non-proliferation and conventional arms exports (Gill and Murphy 2008). Both partners aim to support a multilateral order to prevent conflict and maintain international peace and stability. During the 10th Sino-European Summit (2007), the participants expressed their interest in effective multilateralism and the need for the United Nations (UN) to be more effective in the face of the emerging security challenges. At the 15th Summit, global responsibility and the management of humanitarian crises were also emphasised (Council of the European Union 2012; European Commission 2013a).

Cai Run (蔡润), Director-General of the Policy Planning Department, International Department of the CCP Central Committee, recalled that both partners have intensified cooperation with regard to peace, security and stability operations. Military officers have been exchanged for training purposes; for example, stage police training, capacity-building seminars and military bodies. Concrete examples include the EU ATALANTA operation (2008); EUNAVFOR (2012), and the combined maritime forces combating piracy and escorting World Food Programme vessels in the Gulf of Aden (European Commission 2013b). Maritime cooperation is indeed becoming a relevant field for security and defence cooperation. In March 2014, the EU Naval Force conducted a Counter Piracy exercise with the Chinese Navy (EUNAVFOR 2014). Another example is the visit by Major General Luo Wei, defence advisor to the PRC, and other Chinese military staff, to the Operation Commander of the EU Naval Force in June 2014 (EUNAVFOR 2014). This situation was a reverie just 10 years ago.

The EU is geared towards engaging the PRC in international responsibility: the so-called principle of the ‘responsibility to protect’ (R2P) (European Council 2003). The protection of China’s economic interests abroad is now a national interest: Chinese enterprises are some of the largest investors in certain African countries. The Chinese leadership signed the World Summit conclusions on the R2P (Teitt 2008) and it also included, for the first time, the issue of protecting the

legitimate rights and interests of Chinese people abroad in the 18th National Party Congress' report (Caixin 2012).

A shift in the CCP's commitment is perceived: it has adopted a more proactive, constructive and cooperative attitude. The PRC is the 7th contributor with 3.93 % of the total budget (\$7 billion for the period 1 July 2012–30 June 2013) of the UN peacekeeping operations. It participated in 14 missions with a total of 1,925 experts in 2012 compared to 2,078 in 2013 (United Nations 2012). The PRC is the biggest contributor to UN peacekeeping operations among the five permanent members of the UN Security Council (Gill and Murphy 2008). Despite the outstanding figures, the People's Liberation Army's (PLA) involvement in UN peacekeeping missions in terms of capabilities and budget is low compared to other new emerging actors. The case of Lebanon illustrates this point. The UNIFIL mission involved the following personnel: European (5050), Indian (899), South Korean (369) and Chinese (344) (Renard 2011).

Regarding non-traditional or soft security issues, the main questions are related to cross-cutting issues such as water scarcity, food security, the decrease in arable land and urbanism. Leaders from both regions are currently looking at synergies between China's 12th Five Year Plan and the European 2020 Strategy to improve their cooperation. The new 2012 EU-China Urbanisation Partnership addresses the economic, social and environmental challenges of urban areas (European Commission 2013c). Under the DRAGON-STAR Programme joint actions have been undertaken to identify areas of societal importance regarding water security and urban agriculture.³ Moreover, the Copernicus programme also shows how traditional and soft security issues are, sometimes, combined.⁴ Technology is considered with regard to both its military and civil uses; it is difficult to draw a clear line between these. Initially, this system was implemented to assist China's National Disaster Reduction Centre after the 2010 Sichuan Earthquake. At present, space and ground technology is also used to monitor climate change, as well as atmospheric and marine pollution. The Arctic Circle is another example. Despite a degree of competition between the partners for access to Greenland's rare earth mineral resources,⁵ the region offers opportunities for scientific cooperation. In addition, with the thaw that is being observed, new maritime trade routes may emerge.

Partnership on Climate Change (CC) indeed is one of the main fields of cooperation. In the case of the PRC, the effects of CC are already negatively impacting agriculture and in turn affecting food and energy security. Concern about gas emissions and air pollution are everyday headlines in any Chinese media. The European green diplomacy and 'eco' market have then found opportunities. At the institutional level, the Rolling Work Plan agreed in 2006 sets out a number of

³ For more information visit: <http://www.dragon-star.eu/tackling-societal-challenges>

⁴ For more information visit: http://www.esa.int/Our_Activities/Observing_the_Earth/Securing_Our_Environment/Overview3

⁵ Large reserves of oil, gas, zinc, diamonds, gold and iron.

actions and win-win mechanisms: the EU-China Low Carbon Zones (LCZs)⁶ and the China-EU Near Zero Emission Coal (NZEC) project.⁷ Renewable energy is of utmost importance for both partners, particularly since China's total energy demand is constantly growing along with its coal consumption. On the European side, extensive experience of sustainability and energy efficiency projects can be offered, although adaptability to the local markets is essential.

5 From Political Sticking Points to Frozen Frictions

Despite potential opportunities for cooperation, political ties still are permeated with genuine concerns. Disagreements mainly regard: European reservations about China's intentions regarding global governance and military budget expansion; the arms embargo; and China's human rights record. As Hua Chunying (华春莹), Chinese Foreign Ministry Spokesperson, has pointed out, both partners need to employ 'strategic patience' (Scott 2011).

A march to the beat of a different drummer is in place. Joshua Eisenman defined the PRC's engagement in international security, operated on a case-by-case basis, the so-called 'One-China principle' (Eisenman 2005). China's non-interference principle and its opposition to imposing economic sanctions contrast with Europe, which not only endorses sanctions but also conducts humanitarian intervention; therefore global suspicions regarding China's intentions on the international scene are increased. Ambiguity was apparent when despite an arrest warrant from the International Court of Justice,⁸ Xi Jinping allowed Omar al-Bashir, the President of Sudan, to visit China in June 2011 (Vaïsse et al. 2012). China's unsupportive actions at the UN Security Council also fuelled the frustration of its European partners: the case of Iran illustrates a 'fine-tune' Chinese position (Holslag 2009). Wen Jiabao expressed China's opposition to Iran's possession of nuclear weapons and manufacture in his visit to the Middle East in 2012. Yet, the Chinese Foreign Ministry also highlighted efforts at 'harmonious diplomacy' and economic cooperation, which show how it changed track towards peaceful negotiations instead of using military intervention (Epochtimes 2012). All these cases illustrate the idea that the CCP should transition to a more democratic style of governance.

Furthermore, European suspicions feeds into Chinese peaceful development due to the major investments that the CCP has made to improve the capacity of its army without clear accountability and with ongoing territorial claims (Vaïsse et al. 2012: 39). It is puzzling that Chinese peaceful development and China's dream rhetoric

⁶These zones will provide the test beds for innovative regulations, policy, standards and so on for low carbon development in China.

⁷This Project aims to develop and demonstrate carbon dioxide capture and storage (CCS) technology, in the EU and in China, to capture and store CO₂ emissions from coal-fired power plants by 2020.

⁸The PRC does not recognise the International Court of Justice.

appear to be combined with growing military strength and military modernisation (Wang 2007; Buzan 2010). Huang Yingxu (黄迎旭), journalist at the Study Times newspaper, explained that China's dream also encompasses a military dream. As China's power is growing its responsibility in the international scene is growing too. The modernisation of its military forces is not just a matter of national protection but also international responsibility (Huang 2014).

Linked to the first genuine concern about China's intentions regarding global governance is the arms embargo. In the current political climate, because lifting the embargo might trigger an arms race in Asia, the issue has been separated from Human Rights (HR) and linked instead to security questions.⁹ The arms embargo finds its origin in HR issues connected to the events of Tiananmen. On the Chinese side, Western reactions to these events recalled historical and political concerns, such as the 'century of humiliation' and 'Western domination'. As a result, these sanctions have been pejoratively labelled 'HR diplomacy' (人权外交, *rénquán wàijiāo*) (Zhu 2008). Since the EU imposes arms embargoes on countries such as Zimbabwe, Burma/Myanmar and Sudan—but not North Korea—, the CCP makes a correlation between arms embargoes, mistrust and a lack of international recognition as a peaceful actor (Scott 2011; Council of the European Union 2012). Chinese scholars add that the embargo is merely symbolic; the CCP has, anyway, increased its military capabilities, technology and equipment.¹⁰

The EU member states are divided on how to untie the Gordian knot. Southern and indebted countries agree with lifting the embargo, particularly if they stand to benefit economically from their Chinese partners. France and Germany have been in favour of lifting it, although their positions have varied at different times (Laursen 2011). Even if the former HR/VP was in favour of lifting the embargo, it is unlikely that it would occur.¹¹ The opposition group is too large. The main EU member states espousing the embargo are the Netherlands, Denmark and Sweden (Hellström 2010). European officials argue that the ball is in the Chinese court. The EU cannot make further concessions while its Chinese partners still have not signed the Code of Conduct. Their signature could change the entire 'symbolic' picture.

While some European officials see no link between the dynamics of the Transatlantic relations and the embargo, others have stated the opposite. Arms sales are based on the EU Arms Code and the US exerts pressure on its European allies (Huang 2010). The current official American position in favour of maintaining the embargo is based on the HR record, regional insecurity and Taiwan's dispute—but the last element was not made explicit in the imposition of the embargo (Dai 2006; Hellström 2010). Yet, it seems that the Europeans will not be the first to make a decision of this magnitude; it will be their American partners. Nonetheless, the European leaders need to take into consideration public opinion too, which would

⁹ Interview with European Official (1), 29 November 2012, Brussels.

¹⁰ Interview with Chinese scholar (1), 17 October 2014, Shanghai.

¹¹ The conditions specified to govern the lift were as follows: upgrading of the Code of Conduct on Arms Export, improvements in the HR situation and security in the region.

probably react negatively to a viral headline such as ‘the EU lifts China’s arms embargo’.

Finally, the HR matter is the third main friction in the Sino-European political cooperation; this is a matter of genuine concern for Europe with regard to the CCP. HR lies at the heart of the EU’s strategy in foreign policy. Since the EU-China HR Dialogue was established in 1996, HR is still of supreme importance to China’s European partners. This was demonstrated at the 15th EU-China Summit *Joint Communiqué*, which dedicated an entire paragraph to it on the second page. HR is related to the Rule of Law. Because the PRC is a member of the UN Council for Human Rights, it has signed up to a wide range of HR treaties, ratified six of the nine HR binding instruments and voted in favour of HR Council resolutions such as ‘Human rights and international solidarity’ (A/HRC/RES/18/5), and officially accepted the universality of HR, etc.; hence the Chinese government must respect international law.

European concerns about China’s HR situation are being exacerbated by news of the resettlement of entire communities, for instance prior to the Olympic Games in Beijing (Economist 2008); violations of workers’ rights; and weak judiciary procedures with unclear separation of legislative, executive and judiciary powers (China Labor Watch 2014). The European Parliament (EP) often cries wolf about much publicised cases such as China’s dissident Ai Weiwei, and common practices—according to their sources—such as arbitrary detention, capital punishment and political and religious freedom (European Parliament 2011). Viorel Isticioaia Budura, director for Asia and the Pacific in the EEAS, clarified that the specific case of Tibet falls under ‘historical territorial recognition’ matters. The EEAS and Chinese officials discuss this topic in seminars, where the PRC can be acquitted by EU best practice regarding the recognition and respect of minorities and languages (Budura 2012).

Almost two decades after the establishment of the HR Dialogue, little has been achieved. This dialogue has taken the form of a case-by-case discussion and it has become no more than a talking shop. The procedure is essentially as follows: the Europeans present to their Chinese partners a list of individual cases based on information from international civil society organisations, primarily about arbitrary detentions and citizens living in re-education camps (劳动教养, *láodòng jiàoyǎng*). The list contains no more than 50 cases, although everyone is aware that China’s rehabilitation camps—the true number of which is unknown—are spread around the country and that around 200–400 people are living in each one.¹² The Chinese government is then supposed to follow these cases and provide evidence of improvement. While it is true that the situation of the 50 individuals might improve thanks to them being on the list, how worthwhile is it to have an HR Dialogue based on individual cases, particularly in view of the size of China’s territory and population? Is this discussion having a tangible impact on China’s overall HR record?

¹² Interview with European official (2), 11 December 2012, Brussels.

A bigger question mark related to HR strategy is raised when individual EU member states' governments do not strictly abide by the standards of due process and are swayed by political-economic pressures. One of the most recent cases was the international arrest warrant for Jiang Zemin, 江泽民 former President, and Li Peng, 李鹏 former Prime Minister, in which a judge from the Spanish National Court alleged genocide against the people of Tibet at the end of 2013 (Aljazeera 2013). The reaction of the Spanish central government not only cast doubt on the overall European HR strategy, it also created negative perceptions about the Chinese one-party government, which was described as repressive, dictatorial and unfeeling about rights issues and the rule of law (Reinoso and Garea 2014).

China's domestic transformation brings potential opportunities for Sino-European cooperation regarding HR. Additionally, the CCP is aware of the importance of addressing women and migrants, and environmental rights. In an attempt to improve its international image, the CCP has reduced the number of death penalties meted out (Vaïsse et al. 2012). It also plays a more active role within the UNHCR; evidence can be found in the resolutions adopted by vote on which the PRC was in favour. The Sino-European HR Dialogue could indeed contribute to an excellent platform for discussing and identifying solutions to, for instance, the labour rights of Chinese migrants, which would improve the situation for a large number of citizens instead of simply focusing on a few individual cases.

6 A Long-Distance Race for Economic and Trade Cooperation

Sino-European economic interdependencies have become increasingly robust over the past decades. The EU and China now form the second-largest economic cooperation in the world. The PRC has become the largest supplier of goods and the third-largest export market for the EU, and the EU is China's largest trading partner. As noted in Table 1, bilateral EU-China trade doubled between 2005 and 2013. Bilateral trade in goods was worth well over €428.1 billion in 2013 and trade in services topped €49.9 billion in 2012 (European Commission 2013a). While only 2 % of total EU services exports are accounted for by China, the field has a promising outlook: it grew by 16 % p.a. between 2004 and 2012 (Deutsche Bank Research 2014).

During the 10th ASEM Summit in Milan on October 2014, Li Keqiang pushed for China's proposal to build the Silk Road Economic Belt and the twenty-first century Maritime Silk Road (Beijing Review 2014). Maritime trade is vital: over 50 % of China's GDP and almost 90 % of EU external trade depends on shipping (Smieszek 2011). This figure is not small: any issue impacting maritime transport affects the industrial sector and the manufacture of goods. This situation illustrates the correlation between maritime security and trade along with climate change.

Investments are more important than ever for both partners. The EU is the world's leading host of Foreign Direct Investment (FDI); EU inward stocks accounted for €3 trillion in 2010 and its outward stocks of FDI amounted to €4.2

Table 1 EU-China bilateral trade 2002–2013

Year	Imports from China (€)	Exports to China (€)	Total (€)
2013	270 billion	158 billion	428 billion
2009	220 billion	80 billion	300 billion
2005	160 billion	50 billion	210 billion

Source Based on Deutsche Bank Research (2014)

trillion in the same year (Delegation of the European Union to China 2013). As stated in recent data from Eurostat, the main locations for EU-27 outward FDI stocks were Hong Kong, China and Singapore (Eurostat 2014). According to Jiang Shixue (江时学), the Deputy Director of the Institute of European Studies at the Chinese Academy of Social Sciences, ‘the EU is the most favoured [investment] destination of Chinese investors among all developed countries’ (Jiang 2014). China’s stocks of FDI in the EU-27 increased by 44 % in 2012 (Eurostat 2014). Chinese stocks’ increasing is perceived as a strategic movement to access technology, expertise and even brands.

According to Deutsche Bank Research (2014), however, Chinese direct investment accounts for less than 1 % of the EU’s total inbound FDI stock. China does not appear among the top ten investors in the EU-27: part of the Chinese outward investment might be routed via Hong Kong. The inward flow from offshore financial centres fell abruptly until it became negative in 2013 (Eurostat 2014). Data from China’s Ministry of Commerce in October 2013 showed that until the third quartile, China’s investment growth in the EU only accounts for 108.1 %, compared to 250 % investment growth in the U.S. (Lu 2014). Yet, the current amount of bilateral investment is extremely low with regard to two of the most important economic blocks in the world.

At the same time, the EU and the PRC cooperate in a wide range of other aspects to facilitate mutual investment flows and trade. Standards convergence has become a key element. European companies are constantly bleating about Chinese standard system and transparency. For this purpose, the China-Europe Standardisation Information Platform was created.¹³ Its main role is to make related technical regulations and standards more accessible. In November 2013, over 300 European Standards formed the basis for Chinese standards (European Commission 2013a). The EU Rapid Alert System for non-food consumer products (RAPEX system) is an effective market surveillance scheme, which was created to exchange information on products posing a serious risk to consumers.¹⁴ By using this system EU member

¹³ For more information look at: <http://www.cencenelec.eu/intcoop/projects/visibility/CESIP/Pages/default.aspx>

¹⁴ For more information visit: <http://www.eftasurv.int/internal-market-affairs/notifications/rapex-notifications/>

states are able to inform the Chinese authorities of dangerous non-food consumer products of Chinese origin identified in the EU market. Over 2,405 RAPEX notifications have been investigated by the Chinese authorities; out of these cases, 1378 export stops and products' manufacturer involved were investigated (European Commission 2013b).

At present, the second pillar, trade and economic cooperation, covers about 44 sectoral dialogues. They take place at various levels, from the working level to the ministerial level, and involve a range of participants including officials, politicians and businesspersons. The legal basis governing trade relations, however, is still based on the 1985 TECA. Attempts to upgrade the TECA were launched in 2006 with the Partnership and Cooperation Agreement (PCA)¹⁵ and a Free Trade Agreement (FTA). Negotiations have been stalled due to discrepancies between the mandates, the interests and the expectations of the parties.¹⁶

During the Summit of 21 November 2013 in Beijing, negotiations for a comprehensive EU-China Investment Agreement were formally launched. This agreement will replace the 26 existing Bilateral Investment Treaties (BIT) between 27 individual EU member states and China. In Chinese 好事成双 (*hǎo shì chéng shuāng*), literally means 'good things, when short, are twice as good'. Yet, overly high expectations from the BIT loom: carrying on two things at once is never easy. On the one hand, the BIT pretends to simplify and harmonise cooperation between the EU—and all of its individual member states—and the PRC, as well as remove market access barriers to investment, thereby bringing a high level of protection to investors in the EU and Chinese markets (Lu 2014). On the other hand, it should also open the door to relaunching negotiations for a FTA. Xi and Belgium's Prime Minister, Elio Di Rupo, stated that 'such a comprehensive EU-China Investment Agreement... envisage[s] broader ambitions, including, once the conditions are right, a deep and comprehensive FTA, as a longer-term perspective' in their summit statement of 31 March 2014 (Emmott and Guarascio 2014). A year ago, in the midst of the solar panels and wine trade disputes, it was simply unthinkable to talk about any free-trade deal. The BIT is seen as a precursor to a possible—and much needed—FTA. Discussions on an FTA may boost close ties. Both partners must indeed expand their trade ties; Europe's economy is barely growing and China's previous remarkable growth is decreasing.

¹⁵ The mandate to launch negotiations on this new agreement was approved by the Council in December 2005.

¹⁶ For more information look at http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf

7 Effects of the Twin Crises on the Sino-European Relationship

The 2008 GFC triggered one of the worst economic downturns in contemporary history. The PRC is usually portrayed as the main beneficiary of the shift in global power (Schwartz 2009). China has become the largest economy in terms of purchasing power parity (ppp): the International Monetary Found stated in October 2014 that Chinese ppp amounted to \$14.4 billion based on per capita GDP, while the U.S. topped \$17.4 billion (Liao 2014; WallStreet 2014). China's Socialist Market Economy is still growing at a fast rates, particularly when compared to the EU's annual growth. Over 20 million Chinese households exceed the threshold of household income of \$13,500 per year (European Commission 2014a). The Chinese literature described China as saving capitalism (Liu 2009; Qiu 2012).

While the PRC has been perceived to be on an ascending path, the EU, on the contrary, has experienced difficult times. The Euro Debt Crisis is seen as one of the most challenging threats to the EU project itself. Barroso described the crisis in the following terms: 'It was a momentous stress test for the solidity of the EU and for the single currency' (European Commission 2014b). The GFC has evidenced a lack of political leadership and an inefficient response, to prevent or, at least, to make painless the downturn. At this juncture, institutional problems have been revealed by the supranational and intergovernmental duality.

In the wake of the GFC, a number of European commentaries have described the PRC as a possible 'saver' of the Eurozone. These opinions are based on the fact that the People's Bank of China (PBoC) held about \$3.82 trillion in foreign-exchange reserves at the end of December 2013: the world's largest reserve (Pi and Zhou 2014). Chinese officials have expressed willingness to take steps to resolve the Eurozone Crisis. Wen Jiabao, on a visit to Germany, affirmed that the country would support European efforts to solve its debt crisis through the European Financial Stability Facility instrument and the European Stability Mechanism. Wen, however, highlighted that the EU needs to put in all its efforts to clean the trash in its own backyard (Wang 2012). These comments show the critical views and doubts regarding China's long-term disposition to stand behind the EU.

Despite China's outstanding economic developments, its ascendance is shifting. The GFC has indeed slowed down its overall economic development (Overholt 2010; Yu 2010). Shen Xiaoquan (沈孝泉), senior editor of Xinhua News Agency World Issues Research Center, highlighted that the effects of the Euro Debt Crisis have affected the PRC differently from the overall impact of the GFC (Shen 2012). The crisis of global trade has emphasised the limits of China's export-led growth strategy and revealed the risks in terms of social and political stability (Bai 2014). It has also caused a slowdown in its economic growth from 14.3 % in 2007 to 7.4 % in 2014; for 2015–2016, the average growth is expected to ease to slightly above 7 % (World Bank 2014).

The consequences of the Euro Debt Crisis are mainly a decline in the import of products from China to the EU and a cutback in European investment and capital flow into the PRC. 'The EU-28 direct investment activity decreased in China down

from EUR 15.5 bln for the EU-27 in 2012 to EUR 8.2 bln for the EU-28 in 2013' (Eurostat 2014). China real economy and overall-export model has been affected and it risks becoming stuck in the middle-income trap. In turn, the CCP intends to shift its economic model to an innovation and services one (Xinhua News 2014).

8 Arm Wrestling: Endless Tugs-of-Trade War

While economic and trade relations have expanded, this has not been without frictions. Despite—or perhaps because of—the massive volume of trade, the two partners have a long history of mephitic trade disputes.

Since late 2006, frictions have become more prominent in the areas of unfair trade practices, the EU trade deficit and the implementation of international standards. In July 2007, Peter Mandelson, former trade commissioner, pointed out that the EU-China trading relationship was at 'a crossroads' and emphasised that China must meet its World Trade Organization (WTO) commitments (Beneyto et al. 2013). At the end of 2009, the European Union Chamber of Commerce in China published a report analysing the conditions of European business in the PRC. Among the obstacles, market access, legal and political transparency, and the protection of intellectual property rights (IPR) were highlighted (European Chamber of Commerce 2009).

The GFC has also given rise to recurrent European calls to the Chinese government for greater Chinese market openness and better access for investments. The European media regularly reports on the activities of Chinese companies in the European markets, i.e. buying up Portugal's former state-owned energy company (Vaisse et al. 2012). A negative image of China has consequently grown among the European public. On the Chinese side, it is argued that more beneficial economic cooperation could be achieved if Europe lowered its trade and investment barriers, as this would allow more investment from Chinese companies in Europe (Lu 2014). Authors such as Godement and Fow perceive that the Chinese leadership is taking advantage of internal European divisions to gain trade opportunities by using three different methods: taking advantage of the EU's open market, but with restrictions on its own; accepting sectoral dialogues, but becoming empty; and bargaining among member states and creating frictions within the group of 28. These methods fulfil their own needs, but jeopardise Europe's role and position.

8.1 Valuation of the RMB and Trade Deficit

Two of the most important and interrelated problems in current EU-China economic relations involve the valuation of the renminbi (RMB) and the growing EU trade deficit with China. European officials have stepped up their calls for a revaluation of the Chinese currency. In November 2007, Serge About, former EU ambassador to China, highlighted that the EU would 'demand Beijing take steps to address its swelling trade surplus and allow faster appreciation' of the RMB (South

China Morning Post 2007). The RMB depreciated by nearly 13 % against the euro at the end of 2007 (Freeman 2008). Since March 2013, the RMB has steadily appreciated and shown positive gains against the euro and USD but its competitiveness has weakened (Apoteker et al. 2013).

According to Jonathan Clark, FC Concepts' Vice-Chairman, the linear-like appreciation of the RMB shows that the PBoC is controlling the rise of its currency according to a determined plan (Euromoney 2013). During the weekend of 22–23 November 2014, the PBoC cut interest rates, and consequently, the RMB slid more in 2 months than it ever had previously and lost 200 basis points against the US dollar (IB Times 2014). Liang Hong (梁红), chief economist of China International Capital Corp, stated that Chinese regulators will not depreciate the RMB as this would simply deepen trade frictions with China's main international partners, trigger capital outflows and negatively affect the internationalisation of the RMB (China Daily 2014). According to a report published by Scotiabank, the RMB will steadily appreciate and the external surplus will remain a key driver of slow growth (Scotiabank 2014).

In turn, Europe's trade deficit with the PRC has become a political malaise. The EU is facing an ever-growing trade deficit with China. As can be seen from Tables 2 and 3, trade between the two partners is not balance (European Commission 2014a).

This problem continues to garner attention not only from bureaucrats in Brussels but also among the frustrated European public for whom China has become a negative symbol of unbridled capitalism. The perception that the exchange rate of the RMB appears to be at an artificially undervalued level and the impression that Chinese products benefit from an unfair advantage is obviously reinforced in times of crisis.

8.2 Conflicting Claims over Unfair Trade Practices

After the optimistic first years of China's accession to the WTO, interwoven trade disputes erupted over a range of sensitive items: textile and food safety, telecommunications equipment, solar panels and wine. Charges from Brussels have always pointed out unfair Chinese trading practices, while Beijing claims that European protectionism is a regular habit. The volume of affected trade is enormous, and at some points, it has seriously derailed Sino-European trade relations.

The 2005–2006 textiles and shoes disputes, the so-called Bra war, illustrated this type of friction. The clash began when the 30 years old Multi Fibre Agreement¹⁷ came to an end. Both partners signed a new quota system to limit the growth of Chinese exports of ten categories of products to the EU at 8–12.5 % per year for the period 2005–2007 inclusive (Dai 2006). As a result, 80 million garments were stuck

¹⁷ A quota system created to limit global clothing sales. The EU reserved the right to impose temporary limits on imports from China as a part of the agreement between the two sides on China's WTO membership.

Table 2 Total goods: EU trade flows and balance, annual data 2005–2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Imports	150,000	190,000	235,000	250,000	210,000	270,000	300,000	290,000	270,000
Exports	50,000	60,000	70,000	75,000	80,000	105,000	140,000	145,000	150,000
Balance	100,000	130,000	165,000	175,000	130,000	165,000	160,000	145,000	120,000

Source European Commission (2014a)

Table 3 EU-China trade import and export balance 2013

EU-China trade import and export balance 2013						
Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Mio euros	2013	280,095	148,297	428,392	−131,798
Share in EU trade	%	2013	16.6	8.5	12.5	
Annual growth rate	%	2012–2013	−4.1	2.8		
Annual average growth rate	%	2009–2013	6.8	15.8		

Source European Commission (2014a)

in European ports because of complaints by European textile manufacturers about the flood of cheap Chinese-made goods, even though the retailers were European and had already paid for the products made in China (The New York Times 2005). Dai Xiudian (黛秀典), professor at the political and international department of the University of Hull, considers that this type of dispute illustrates the EU's inconsistent rhetoric: China must comply with WTO rules and commitments, while the EU simply imposes quantitative restrictions through antidumping measures (Dai 2006). Finally, the dispute came to an end in September 2005 during a visit to Beijing by Tony Blair, former British Prime Minister, who held the rotating presidency of the EU at that time (The Telegraph 2005). As Barroso expressed: 'only when there is a strong trade relationship are there trade problems' (Barroso 2005).

The latest wave of trade disputes started in September 2012 with the solar panel case, when a German manufacturer brought the quarrel to the European level and, accordingly, the European Commission launched an anti-dumping investigation into Chinese photovoltaic manufacturers. The roots of this dispute started in late 2000 when the Chinese government facilitated capital equipment, land and regulatory provisions permitting to boost a scale-up of manufacturing. Consequently, a boom in the construction of PV modules and a decline in demand from European countries—Germany, Italy and Spain—caused market disruption (European Photovoltaic Industry Association 2014).

During the first semester of 2013, the EU and the PRC clashed over an anti-dumping and anti-subsidiary investigation becoming a major issue: this involved around €21 billion of Chinese solar panels sold in the EU. Gucht, former Trade Commissioner, stated that the European Commission 'could not accept a situation where Chinese dumping would destroy the European solar panel industry' (European Commission 2013c). The EU member states voices, however, were contradictory: France, Italy and Spain wanted to apply punitive tariffs on Chinese PV, but a greater number of member states—led by Germany—were against these measures (European Council on Foreign Relations 2014). During Li Keqiang's visit to Berlin in May 2013, Merkel stated that her government would make all the effort it could to head off special duty on Chinese solar panels (South China Morning Post 2013). In July 2013, Gucht announced that an 'amicable solution' had been reached

between the leaderships: ‘a voluntary price undertaking where they [Chinese] commit to stop dumping and keep prices above certain floor. In turn, those companies who participate in this engagement do not have to pay the anti-dumping duties’ (European Commission 2013c). The agreement was officially signed between EU exporters and the Chinese authorities in March 2014. This price will be in place until April 2016; in exchange, China will not impose anti-dumping and anti-subsidy duties on polysilicon exports to China.

The European sanctions against Chinese PV production triggered an investigation into European wine manufacture. The Chinese reaction was based on the notion that since the European Commission subsidises agriculture, the wine sector should be subsidised too (Finance Tecnet 2013; Global Times 2013). Turning the trade dispute on its head provided a valuable lesson to the European leaderships and manufacturers. This quarrel did not reach scandalous proportions, and in March 2014, both the European and the Chinese Wine Federations solved the dispute by signing a Memorandum of Understanding and withdrawing the anti-dumping and anti-subsidy complaint (EURObiz 2014). The last case to de-escalate the past two years’ trade frictions concerns telecom equipment. In mid-October 2014, the long-running dispute over the annual €1 billion of imports by Huawei and ZTE was resolved. Gucht indicated that both sides had reached an agreement and that the rest of the commissioners would be asked to drop the case (Reuters 2014).

In spite of sporadic disputes, overall trade cooperation provides an incentive for cooperation. Both leaderships are willing to engage in discussions. Fredrick Erixon, director of the European Centre for International Political Economy, and Nicola Casarini, Asia expert at the European Union Institute for Security Studies, defined Sino-European trade cooperation as ‘too big to fail’ (Domínguez 2013).

9 Conclusions

Both strategic partners recognise themselves as important powers in the twenty-first century. The geographical, political and financial scale of both has turned into an essential bilateral relationship to deal with international affairs, tackle global challenges, and, even more importantly, overcome domestic threats.

The Sino-European partnership is described as having great *momentum*. Political ties are enhanced: collaboration in traditional and non-traditional issues has increased. Security matters have generated new areas of cooperation such as maritime security, the management of humanitarian crises and CC. A willingness to deepen cooperation is in place but domestic contexts lay down economic and political guidelines, if necessary, define the limits of this cooperation. Nevertheless, the main pillar in this bilateral relationship is still the economic interdependencies and large trading volume. Since the GFC blew out, China’s ascendance has been highlighted, while the Eurozone is still avoiding drowning in its own debts. The effect of the GFC on the international order, however, has affected both partners: EU investment in the PRC and demand for Chinese goods have both slowed in the

past years. The GFC has witnessed the need for both partners to strategically work together to overcome the downturn.

Despite their political willingness and economic interdependencies, the trust deficit—particularly among public opinion—remains an enormous constraint. Different historical conceptions, values and political systems are in place. Their way of thinking and the way in which their policies have been shaped are imbued with past history. Yet, frictions exist between the partners: HR and trade disputes are on occasion mentioned. European claims about the need for China to build a transparent and more democratic government are still fundamental. Nevertheless, empirical studies show that trade cooperation sometimes takes precedence when there is a conflict of values.

This chapter argues that most likely attempts to further formalise cooperation at the high level will develop win-win strategies and use dialogue to solve disputes. No longer can either partner afford to consider that their disputes do not affect their domestic development and create unstable situations on the global scene. Nevertheless, if political and economical frictions fail to be understood and solved, the relationship will run the risk of cooling again. In Confucius' terms, 不怕慢,就怕站 (*bú pà màn, jiù pà zhàn*), which means 'slow processes hold promises, but simply standing will bring failure'.

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