

EU-CHINA OBSERVER

DEPARTMENT OF EU INTERNATIONAL RELATIONS AND DIPLOMACY STUDIES



"EXCHANGING IDEAS
ON EU-CHINA RELATIONS:
AN INTERDISCIPLINARY
APPROACH"

College of Europe
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DEPARTMENT OF EU INTERNATIONAL
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Baillet-Latour Chair of
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THE CHANGING GLOBAL GOVERNANCE LANDSCAPE: CHINA'S MULTIPRONGED APPROACH AND THE EU'S RESPONSE

Balazs UJVARI

Introduction

Building a just and representative global governance system is an arduous endeavour. While entrenched institutional arrangements are difficult to alter, the global political economy landscape is constantly changing. And currently we are in the midst of such a change. The Group of Seven's (G7) share of global gross domestic product (GDP) had dropped from 45 per cent in 2000 (measured in purchasing power parity) to just 32 per cent by 2014. By the same year, the share of the BRICS countries (Brazil, Russia, India, China and South Africa) had risen from 18 per cent in 2003 to 30 per cent.¹ In the past two years, however, this dynamic has clearly withered as a result of weak global consumption, plunging commodity prices and a host of other economic and political problems that have led two of the BRICS – Russia and Brazil – into recession while slowing growth in China and South Africa.² Yet, the fact remains that the significant shift of economic weight from the G7 to the BRICS occurring in the past decade remains largely unaccounted for in global governance terms and thus still puts a strain on the system by questioning the legitimacy of several established international institutions.

Disenchanted with the scale and slow pace of reforms in global governance, China – the largest of the BRICS economies – has been the most active in utilising its increased economic and, by extension, political weight to shape global governance. This paper argues that China has pursued a multipronged approach (through a melange of unilateral and

multilateral initiatives with its BRICS partners) and proposes a four-dimension analytical framework (integration, creation, innovation and reinvigoration) to define Beijing's new-found activism in global governance. The contribution then turns to investigate the EU's perception of and reaction to the four facets of China's manoeuvring on the international scene.

China's multipronged approach

Integration – a Trojan horse?

China's quest for more influence manifests itself first and foremost in its integration efforts into traditional organs of global governance. In the wake of the 2008/2009 financial crisis, in particular, Beijing has secured membership to a host of international bodies, including the Financial Stability Board, the Basel Committee on Banking Supervision and the European Bank for Reconstruction and Development³, while also obtaining unprecedented senior positions and increased voting power in the International Monetary Fund (IMF) and the World Bank.⁴ In addition to China becoming the third largest stakeholder in both institutions, Justin Yifu Lin was – as the first ever Chinese national – appointed in February 2008 as the World Bank's chief economist and senior vice-president while Zhu Min became, in July 2011, one of the four IMF deputy managing directors.⁵

Yet, despite the above improvements in terms of representation and staffing, there is little evidence to substantiate China's ability to translate its increased wherewithal into substantially reshaping the International Financial Institutions' (IFIs) policies. While initially promising, the Chinese

chief economist's promotion of active industrial policies in the World Bank, for example, eventually turned out to be largely unsuccessful. Furthermore, the adoption of guidelines by the IMF between 2010 and 2012, allowing for a broader policy space for use of capital controls in certain circumstances, may seem at first glance as an instance of China's success in securing one of its crucial preferences. Yet, the initiative to reconsider the role of capital controls is commonly traced back to a Brazilian-German-led research project on the management of capital flows, and therefore confirms the lack of direct Chinese agency in the reform process.⁶

Creation – shaping the rules of the game?

In addition to trying to overhaul existing bodies from the inside, China has also begun to put its weight behind the establishment of parallel institutions. The BRICS-owned New Development Bank (NDB) and the China-initiated Asian Infrastructure and Investment Bank (AIIB) are expected to enlarge and shape the international development policy landscape by operating alongside established multilateral development banks (MDBs).⁷ In addition, the BRICS's Contingent Reserve Arrangement (CRA) with China as the largest contributor of capital is, in the long term, meant to offer an alternative to the IMF's rigorous policies. Moreover, the five-country bloc is expected to expand further their institutional qualities by creating a joint credit-rating agency and an India-based NDB institute to assess projects for the Shanghai-based multilateral at the forthcoming BRICS summit in October.⁸

Whether these new multilateral structures will indeed offer a viable alternative to the orthodox system is, however, highly questionable. To be able to operate cost-efficiently on the international financial markets and therefore borrow and lend at favourable rates, the NDB and the AIIB will need to earn the trust of international investors through the acquisitions of high ratings from major international credit agencies. The two MDBs' high creditworthiness is, nonetheless, also contingent upon the presence of developed Western countries, whose membership will certainly involve a degree of influence on the banks' policy choices. The AIIB's current and the NDB's prospective opening towards traditional Western donors and their efforts to develop institutional partnerships with traditional MDBs clearly show the difficulty China and other emerging powers face in seeking to challenge the orthodox development discourse.⁹

Innovation – thinking outside the box?

China is seeking to carve out a greater role for itself in the international system through the inauguration of multilateral

networks that do not build on any existing fora but represent innovative solutions. Two of the key schemes falling into this category include the Belt & Road (B&R) initiative and the somewhat less-known China-Central and Eastern Europe framework (also called 16+1). While the former aims to boost cooperation and physical connectivity between China, Central Asia and Europe (financed through the AIIB and the US\$40 billion Silk Road Fund); the latter is led by the objective of helping channel funding for infrastructure and energy projects in Central and Eastern Europe (supported by an investment fund worth US\$ 3 billion). The 16+1 framework involves annual meetings of heads of governments and is now also combined with gatherings specifically on the B&R. It has been argued that the 16+1 model could potentially be applied to 'any group of countries + 1', and Beijing's attempts to create similar frameworks – and therefore further dividing lines – in other parts of Europe (such as in Northern Europe or in the Mediterranean) may follow.¹⁰

Reinvigoration – a new élan?

The final element of China's strategy concerns the revitalisation of existing but neglected international (or rather regional) frameworks. Beijing's intention to reinvigorate the Conference on Interaction and Confidence Building Measures in Asia (CICA) – a marginal security network covering most of Asia but not Japan – during its presidency (2014-2016), for example, is aimed at reducing Asia's reliance on external actors in the security field, but also at addressing the increasing terrorist threat in Western China.¹¹

Closely intertwined with China's championing of CICA is the government's determination to mainstream the Xiangshan Forum – an annual Beijing-based regional security dialogue put in place in 2006. Initially a track-two high-level forum for dialogue on Asia-Pacific security and defence issues, the Xiangshan Forum has functioned as an annual track-1.5 forum since 2014, with invitations also extended to government officials. The increasing emphasis on the Xiangshan Forum is driven by China's growing irritation with the Shangri-La dialogue's constant focus on the territorial disputes in the South and East China Seas. The Xiangshan Forum thus serves as a platform for Beijing to place other security issues on the agenda, such as the need for a comprehensive security architecture for Asia.¹²

The EU's response to China's ambitions

Despite EU-China relations having lately been crammed with a vast number of issues (e.g., the Paris climate conference; the bilateral investment treaty or the market economy status issue), Beijing's multiple efforts aimed at global governance reform have also gained increasing traction

in Brussels. But how has the EU reacted to the separate strands of China's activism? And, how do these responses relate to each other?

An EU position can most clearly be discerned with regard to China's desire for a greater voice in traditional global governance bodies. Conscious of the shift of power in the direction of emerging powers, the EU supported, at the G20 Pittsburgh Summit of 2009, the transfer of at least five per cent of the quota share in favour of the emerging powers and developing countries in the IMF – even if this would involve EU countries losing two of their eight seats in the 24-seat Executive Board.¹³ Faced with further demands for quote realignments in the Bretton Woods institutions, the European Commission's strategy consisted, at the October 2012 annual meeting of the World Bank and the IMF in Tokyo, of insisting that economic openness should be given more weight than GDP in determining the quota formula – a highly advantageous scheme for the EU due to its single market.¹⁴ More recent documents such as the 'Elements for a new EU strategy on China' prepared jointly by the Commission and the EEAS and the EU Global Strategy strike a different tone. In essence, both regard China's expanding role in traditional IFIs as inevitable but also preferable to the rise of parallel structures. The former stresses the importance of 'giving the proper weight to China's voice concomitant with the contribution that it is ready to make'.¹⁵ The latter underlines the significance of reforming IFIs, adding that 'resisting change risks triggering the erosion of such institutions and the emergence of alternative groupings to the detriment of EU member states'.¹⁶

THE EUROPEAN COMMISSION HAS WELCOMED THE CREATION OF ADDITIONAL DEVELOPMENT FINANCING OPTIONS.

This leads to the second dimension, the emergence of parallel structures, which has been viewed with caution by the EU. The above communication on China stipulates that 'the EU should work with China to find solutions within the existing global governance structures wherever possible, and above all to ensure that new initiatives meet global standards and are complementary to the existing international institutions'.¹⁷ More specifically, while the NDB has not generated discussions at the EU level yet, the European Commission has welcomed the creation of additional

development financing options, provided they are complementary to existing institutions.¹⁸ As the Shanghai-based bank is expected to admit new members as of July 2017, the question arises as to whether the EU can avoid the sort of division that characterised its response to the AIIB in April 2015. Although a joint EU response to the AIIB was briefly explored in the Economic and Financial Committee, it was eventually dismissed largely due to the UK's unilateral decision to join the bank. This has, thus far, resulted in the accession of 14 EU member states to the AIIB,¹⁹ officially on the grounds that they were better able to influence the bank's mandate and lending standards from the inside.²⁰ Nearly a year after EU countries raced for AIIB membership, Mr Gunnar Wiegand, the EEAS's Managing Director for Asia and the Pacific, expressed support on behalf of the EU for the AIIB. Downplaying fears that the bank would counteract international development norms, Wiegand praised the unfolding cooperation between the Beijing-based institution and the Asian Development Bank as well as the European Investment Bank, underlining also the AIIB's potential to complement existing efforts.²¹ Against the background of this increasingly prevalent perception of the AIIB as a complementary rather than rival institution to the EU-championed ADB and World Bank, the EUGS's reference to 'the emergence of alternative groupings' as a source of risk detrimental to EU member states seems rather inconsistent. Not only does this approach appear to ignore the expanding web of inter-institutional agreements between the old and new structures, but also the potentially promising economic opportunities the NDB and the AIIB represents to the EU's private sector.

Similarly to the above parallel structures, the EU's response to the '16+1' cooperation and the B&R project has gradually shifted from one of overwhelming suspicion to one of pragmatic engagement. With the former including eleven EU member states as well as five other European countries, it is hardly surprising that Brussels's initial reaction to the network was that of considerable unease, deeming the initiative yet another Chinese attempt to create dividing lines in the 28-country bloc. By inviting European Commission officials to '16+1' gatherings and by increasingly enmeshing the network in the B&R initiative – which is in principle open to any EU member state – China has managed to significantly allay Brussels's concerns that the framework will contravene EU law while also undermining the EU's China policy.²²

As for the B&R initiative, the EU's main response has so far consisted of the launch of the Connectivity Platform at the EU-China summit in June 2015. Led by the goal of pre-empting a fragmented EU reaction to the project, this platform

aims to improve infrastructure and transport links and to develop synergies between existing European and Chinese projects. Through this platform, Brussels seeks to claim ownership in the B&R initiative by transforming China's ideas into a joint strategy and action so that it is in line with European economic and strategic interests. Notwithstanding the explicit intention of the Commission to ensure a high degree of coordination vis-à-vis the B&R (and thus not to repeat the EU's division as with the AIIB), cracks have already surfaced within the bloc. Hungary, as the first EU member state, has already signed a bilateral agreement with China in the framework of the B&R with regard to the modernisation of the Budapest-Belgrade railway.²³

Finally, as for China's revitalisation efforts of the regional security structures, there has been limited action taken so far at the EU level. Although the EU's engagement in Asian security issues is generally seen as limited, a Union delegation – along with those of several member states such as Germany, France and the United Kingdom – participated in the 2015 Xiangshan Forum in Beijing and will do so again at the forthcoming summit in October.²⁴ As for

the CICA platform, the EU – just like its member states – has remained largely disengaged to date, having neither member nor observer status in the body. References to the inter-governmental forum only feature intermittently in the mandates of respective EU Special Representatives (EUSR) for Central Asia – most recently in that of the former EUSR for the region, Patricia Flor.²⁵

Conclusion

Overall, it can be argued that the EU has formulated a degree of response to each of the four dimensions presented above as defining elements of China's restructuring of certain segments of the global governance system. While inconsistencies remain, the Union, for now, appears to favour the preservation of traditional international institutions – even if the price to pay is to compromise over a few seats or some voting power – over the embracing of new structures, while seeking to shape Beijing's innovative multilateral networks through unity and momentarily settling for an observer position in the awakening Asian security cooperation mechanisms. The jury is still out on the viability of this strategy. ☺

¹ The figures are based on the author's own calculation informed by IMF data. ² 'Brics New World Order Is Now on Hold', The Wall Street Journal, 15 August 2016, <http://www.wsj.com/articles/brics-new-world-order-is-now-on-hold-1453240108>. ³ B. Ujvari, 'The European Union and the China-led transformation of global economic governance', Egmont Paper, no. 86, Brussels, Egmont Institute, June 2016, pp. 3-4. ⁴ M. Huotari & T. Hanemann, 'Emerging Powers and Change in the Global Financial Order', Global Policy, vol. 5, no. 3, 2014, pp. 300-301. ⁵ Ibid. ⁶ Ibid. ⁷ Another important unilateral Chinese initiative is the Boao Forum that has sought to provide an alternative to the World Economic Forum in Davos since 2002. ⁸ Interview with a Brussels-based Brazilian diplomat, Brussels, 8 June 2016. ⁹ B. Ujvari, op. cit., pp. 34-36. ¹⁰ A. Ekman, 'A Multilateral Agenda for the EU: taking China's Activism into Account', in B. Ujvari (ed.), The EU Global Strategy: going beyond effective multilateralism?, European Policy Centre and Egmont Institute, June 2016, pp. 17-20. ¹¹ A. Ekman, 'China's multilateralism: higher ambitions', EUISS Alert, no. 2/2016, Paris, European Union Institute for Security Studies, January 2016, p. 1. ¹² Ekman, 'A Multilateral Agenda for the EU: taking China's Activism into Account', op. cit., p. 17. ¹³ S. Keukeleire & T. Delreux, The Foreign Policy of the European Union, London, Palgrave Macmillan, 2014, 2nd edn., p. 313. ¹⁴ 'IMF Quota and Governance Reform: Political Impulse Needed for Progress on Reform Process', Centre for International Governance Innovation, 26 July 2013, retrieved 17 August 2016, <https://www.cigionline.org/publications/imf-quota-and-governance-reform-political-impulse-needed-progress-reform-process>. ¹⁵ European Commission, Joint Communication to the European Parliament and to the Council: Elements for a new EU strategy on China, JOIN(2016) 30 final, Brussels, 22 June 2016, p. 13. ¹⁶ Shared Vision, Common Action: A Stronger Europe – A Global Strategy for the European Union's Foreign And Security Policy, Brussels, June 2016, p. 39. ¹⁷ European Commission, op. cit., p. 14. ¹⁸ Parliamentary Questions, OJ C 19 E, Brussels, 28 May 2013, retrieved 16 August 2016, <http://www.europarl.europa.eu/sides/getAllAnswers.do?reference=E-2013-003603&language=EN>. ¹⁹ Several other EU countries are edging towards membership including Belgium, Hungary and the Czech Republic. ²⁰ B. Ujvari, op. cit., p. 32. ²¹ G. Wiegand, European External Action Service Managing Director for Asia and the Pacific, 'EU-China relations', speech at the EU-China Think Tank Dialogue, Beijing, Diaoyutai Guesthouse, 6 April 2016. ²² M. Okano-Heijmans & D. Lanting, 'Europe's Response to China's Activism: Balancing Hope and Fear in the New Age of Global Economic Governance', Clingendael Report, The Hague, Clingendael Institute, October 2015, p. 61. ²³ Ibid., pp. 69-70. ²⁴ Interview with an official, Asia-Pacific Department, EEAS, Brussels, 8 June 2016. ²⁵ European Union, 'Council Decision 2013/306/CFSP of 24 June 2013 extending the mandate of the European Union Special Representative for Central Asia', Official Journal of the European Union, L 172/25, 25 June 2013.



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THE SINO-EUROPEAN NEXUS IN GLOBAL ENERGY GOVERNANCE

MARIA KOTTARI / VIRGINIA MARANTIDOU ¹

Introduction

Multiple changes are afoot on the global energy scene and new critical energy challenges have emerged at the intersection of conventional energy security concerns and new environmental imperatives due to climate change and energy resources scarcity. The EU and China, energy consumers par excellence, are currently facing complex energy challenges related to their growing reliance on fossil fuels imports, their vulnerability to the impact of climate change, the increasing volatility of energy prices, and their dwindling domestic resources.

Considering China as a game-changer in global energy and environmental politics and the EU as playing a pioneering role in both the promotion of renewable energies and in advocating global energy action, this research paper aims at identifying the points of convergence and divergence in the EU–China conception and configuration of their energy security strategies and relations with external energy partners, within the framework of EU–China energy relations, and the global energy governance institutions.

The EU External Energy Governance: Seeking enhanced cooperation with partners

The Russian-Ukrainian gas disputes, which date back to 2006, signified a turning point in EU energy politics. Energy security has emerged as a core issue for the EU's external relations and policy orientations and a relevant strategy ² has been implemented in order to mitigate the risks, both economic and geopolitical, stemming from energy supply chain shortfalls.

The EU energy policy evolved on the basis of three specific policy objectives: sustainable development, internal energy market competitiveness, and security of supply. The physical security of supply constitutes a unique and important aspect of energy security. ³ Given the scarcity of indigenous sources and rising energy consumption, the security of supply has become a synonymous term for EU energy security.

The EU energy security policy is twofold. Firstly, it presupposes the development of a network of infrastructures, which are economically and technically viable (and stable), that would enable secure and diversified energy supplies. Secondly, the EU pursues enhanced energy cooperation with energy partners abroad in order to address effectively shared global energy challenges and to ensure the competence of its own energy policies, which often hinge on the energy policies of other countries. This strategy includes various tools such as the expansion of the European energy market to non–EU member states (Energy Community) and the launch of the so-called 'Energy Dialogues' with key energy suppliers (Russia) and key global energy consumers (China).

The EC Communication ⁴ on security of energy supply and international cooperation, which was published in 2011 and is based on the Lisbon Treaty's legal implications in the energy policy domain, is the first EC Communication that explicitly invites the EU member states to define objectives and joint actions in the field of the EU external energy relations. It contains a list of external energy policy recommendations, including, inter alia, the strengthening and modern-

isation of the global energy governance system through the active cooperation between the EU and the energy partners within the framework of the International Energy Agency (IEA), the International Renewable Energy Agency (IRENA) and other global energy forums. It underlines the importance of extending the Energy Charter Treaty to countries that have not yet signed and/or ratified it, in order to take advantage of the Charter's potential in key areas such as trade, transit, investment, and dispute resolution.

China's Energy Security Concerns: From self-reliance to the internationalisation of its energy policy agenda.

Over the last two decades, rapid economic growth, along with middle class population expansion, motorisation, and urbanisation have significantly increased China's energy demands. Coal, which is abundant in China, has been the dominant energy resource in domestic consumption for several decades. However, as China's domestic resources depleted, the country shifted from being a net exporter to a net importer of fossil fuels in 1993, abandoning the traditional goal of energy self-sufficiency. China is currently the world's largest energy consumer and producer, accounting for 23% of global energy consumption and 19% of global energy supply, and its dependence on energy imports is expected to grow over the next two decades.⁵

China's dependence on external energy sources preoccupies both the Chinese domestic agenda, specifically the need to sustain economic growth, and the foreign policy agenda as fossil fuel imports are perceived as a strategic vulnerability that could be exploited by foreign powers. As a major energy consumer, China's energy security policy will have a significant impact at the global level.⁶

Supplies vulnerability and volatile global energy prices pushed the Chinese leadership to establish in 2010 a National Energy Commission (NEC) in order to improve the country's energy strategy. In the past years China has developed several major strategies in an attempt to secure energy supply. The first set of goals seeks diversification of energy resources by increasing production of natural gas and nuclear power, developing clean energy technology to generate gasoline and diesel from coal, and increasing the use of other renewable energy sources such as wind and solar power. An additional diversification strategy relates to import routes diversification by reducing import dependence from the Middle East and increasing imports from Central Asia and Russia. The Arab Spring and the subsequent political turmoil in the Middle East and North Africa has highlighted China's need for a diversification strategy in this respect.

Furthermore, China seeks to improve energy efficiency by reducing the energy intensity of the economy and increasing energy efficiency in buildings. Increasing the number of Strategic Petroleum Reserve (SPR) sites and raising mandatory stockpile requirements for major oil firms, similar to the IEA's oil stock mechanism, is another key energy policy measure. Finally, China, realising that energy policy is inextricably connected to foreign policy, is becoming more actively involved in global energy diplomacy by encouraging international cooperation in offshore oil exploration and production and by participating in international energy organisations.

In recent years China has become more actively engaged in global governance structures. This has stemmed from the realisation that in a tightly interconnected globalised world, shared global challenges can only be effectively addressed through collective action. Through these structures China also seeks to assert a broader global role and to have a greater say in the international arena. China still remains a 'sovereignty hawk' and, thus, is sceptical about global governance organisations that have been created without its involvement, and which it sees as West-dominated institutions. However, China is becoming more confident that, due to its international weight, it can play an important role in further shaping and reforming the existing global governance structures with a strong focus on openness and the involvement of developing countries.

Global energy governance is one of the predominant global governance fields in which China has been active. China has signed the UNFCCC treaty, it cooperates with the International Energy Agency (IEA) and the Energy Charter, and it is a member of IAEA and IRENA, while it has initiated various energy forums. China also joins energy initiatives in broader global governance forums such as the G20 and is expected to lead discussions on critical energy issues with a focus on the deeper involvement of developing and emerging countries at the 2016 G20 Summit in Hangzhou this September.⁷

China's energy security concerns and its willingness to address them via international, multilateral forums are reflected in its recent Five-Year Plans. The 12th Five-Year Plan (2011-2015), in the aftermath of the global economic crisis which highlighted the need for cooperation to address shared global challenges, was the first to mention global energy governance.⁸

EU-China relations within the global energy structure: Convergences and Divergences

The EU and China will continue to be major consumers with a huge market share in global commodity markets. How-

ever, China's share in the global markets has surpassed the EU, including the global energy market, raising concerns in Europe about the long-term implications for the EU economy, in general, and for the availability and accessibility of critical energy sources, in particular. Both China and the EU are expected to increase their reliance on foreign supplies. Although they have developed specific renewables and efficiency schemes, their increasing dependence on imports to meet their energy needs requires a potential reorientation of their energy security policy priorities. As a result, both economies will have to invest in producer countries and facilitate the development of costly and strategically vulnerable energy infrastructures.

CHINA PROVED RELUCTANT TO JOIN AN EU-LED COALITION GROUPING DEVELOPED AND DEVELOPING COUNTRIES.

The security of energy supply and environmental problems, due to excessive consumption of fossil fuels, are the two major challenges the EU and China are facing. The Sino-European energy nexus should, therefore, be analysed on the basis of these shared energy security concerns: i.e. the promotion of a diversified energy supply chain and the configuration of a competitive, clean, and sustainable energy system. These could generate points of divergence but also platforms where the energy interests can be commonly addressed.

Cooperation on energy issues has always been a significant part of the EU-China relations. Global energy developments and domestic energy security targets made the cooperation grow stronger, more complex and, thus, strategic to the overall EU-China bilateral relations. A series of energy cooperation schemes have gradually been developed and have become more institutionalised. The China-EU High-Level Meeting on Energy, held in Brussels in May 2012, was a milestone in this process. The National Energy Administration of the People's Republic of China (NEA) and the European Commission signed the China-EU Joint Declaration on Energy Security, stating the formal establishment of the relationships between China and the EU as energy consumers and strategic partners. The EU-China Energy Dialogue, the EU-China High Level Energy Meeting and the Partnership on Urbanisation constitute the three main institutional mechanisms of the EU-China energy cooperation.

Technical cooperation between the EU and China on climate change mitigation and renewable energy development has increased over the past decade principally in low-carbon goods trade and resource efficient technology. The low cost of producing solar panels in China has enabled a more rapid decrease in the prices paid in national renewable energy-support schemes in the EU. However, imports of low cost renewable energy technology from China hampers the further development of EU-based renewable energy industry.

During climate change negotiations, most notably at the Copenhagen Summit in 2009, the EU and China held opposing views over the issue of developed countries' responsibility for past and future GHG emissions. Once again in Paris, during the highly promising COP 21, the EU consistently supported a binding treaty that would pave the way towards a low carbon emissions future. China proved reluctant to join an EU-led coalition grouping developed and developing countries, and has resisted pushing for a strong deal to combat global warming. As a result, China has been accused of trying to block progress at the climate talks ⁹.

On the other hand, China's accession to IRENA in 2013 confirms its commitment to supporting international efforts for renewable energy expansion and, subsequently, a clean energy path. IRENA provides an additional platform where EU-China cooperation in renewable energy can unfold, especially in the areas of information and best-practices sharing. However, IRENA acts mainly as an advisory body without specific binding rules and constraints imposed on its member states.

In 2014 consumption of coal stabilised in China and energy consumption growth and the output in heavy industries like steel and cement began to decline, an outcome of the country's slowed growth rate and a shift from an export-oriented growth model to a consumer-driven one. This shift is reflected in the newly approved 13th Five-Year Plan (2016-2020) which reiterates the aforementioned energy security policy priorities and the need for expanded international cooperation. Although the Plan still includes a GDP growth target which is inextricably linked to President Xi Jinping's vision of 'the rejuvenation of the Chinese nation' by doubling GDP and people's incomes by 2020, the focus is, instead, placed on qualitative improvements and alternative ways of creating growth. The Plan prioritises innovation and technological development, investment on public services, green development, and outbound investment via the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiatives, also known as the 'One Belt, one Road' initiative (OBOR) as the key drivers of the economy ¹⁰.

China's OBOR initiative, while predominantly aimed at diffusing domestic overcapacity in construction materials, has, nonetheless, a strong energy security component. China envisions a sophisticated network of pipelines and power-transmission routes along the 'Belt' in Central Asia to press forward with the diversification of energy sources and routes. Additionally, by building maritime infrastructure along the Maritime Silk Road, China aims at facilitating unimpeded passage for its seaborne energy imports, which account for the majority of its total oil supplies.

China's OBOR opens a new window of opportunity both for China's further involvement in multilateral energy regimes and for closer EU-China cooperation in global governance. OBOR's energy infrastructure investments and energy trade, although addressing vital energy security concerns such as diversification of supply routes also entail challenges. Spanning a vast and politically, economically, and even climatically diverse geographic area, these investments require protection from potentially unfriendly investment environments – including unfair treatment and unlawful actions.

China seems aware of these challenges and is exploring further engagement in energy transit governance and foreign energy investment protection mechanisms, such as the Energy Charter Treaty (ECT). The ECT is a legally binding multilateral intergovernmental energy agreement with foreign energy investment and energy transit protection focus, a dispute settlement mechanism, and overlapping constituency with the OBOR. ¹¹ Signed in 1994 and ratified in 1998, the ECT has its roots in the 1991 European Energy Charter, a political initiative launched in Europe with the aim of building the foundations for mutually beneficial cooperation between Western Europe and the post-Soviet space and its neighbouring countries in the then highly promising energy sector. The ECT still serves this purpose, to maintain the foundations and principles of international energy cooperation. ¹²

As the global energy landscape has changed significantly since the adoption of the ECT, as a result of the shifts of global energy consumption from the West to the East, the Russia-Ukraine energy disputes, the rise of the BRICS, the prominence of the climate change challenge, and the EU's internal institutional transformation and enlargement, the need for ECT reforms became eminent. The ECT modernisation process started in 2010 and envisaged the establishment of an integrated policy on 'Consolidation, (geographic) Expansion, and Outreach', the so-called CONEXO policy, which paved the way for the creation of the International Energy Charter and the Industry Advisory Panel, marking a

gradual shift from a Eurocentric and state-centric approach to a more international and sector-based approach ¹³. China has signed the International Energy Charter which is considered the first step to joining the Energy Charter Treaty, while the China National Petroleum Corporation – one of China's largest energy state-owned enterprises – has become a member of the Industry Advisory Panel.

As China's involvement in global governance comes with a mentality of reforming existing structures, China can play a crucial role in the ECT reform by enhancing energy communication with emerging countries and thus enhancing CONEXO, and functioning as a communication bridge between the ECT, EU and Russia, as China-Russia overall energy ties deepen. Due to the imperatives of the OBOR it can push forward the negotiation on the Transit Protocol which will detail the rules on the implementation of the Charter's principles on energy transit. ¹⁴

On this point, China's constructive role will be determined to a large extent by the stance of the ECT members. Given the ECT's European past and profile, the EU's willingness to accommodate and engage a proactive China will be vital.

Conclusion

Energy resources availability and accessibility, and the impact of climate change are transforming the global energy order. Global energy market unpredictability could potentially give rise to economic and political risks, such as interstate political tensions and domestic social unrest. The EU and China, in particular, are currently facing complex challenges regarding economic growth and social stability. Many of these challenges are related to their growing reliance on imports of fossil fuels, their vulnerability to climate change, the increasing volatility of global energy prices, and their domestic environmental and natural resources degradation.

Energy, therefore, can easily become an arena of competition between the EU and China as both are trying to address their energy security concerns to the best of their interests. However, as both are major stakeholders of the global energy market it has become evident that only by working together on the international stage and building cooperation platforms will they be able to effectively address common energy security challenges.

Hence, Europe and China need to forge a new understanding of their energy relations if they are to preserve their core common interests and address their common energy and climate challenges in a concerted way. China need to

assess its energy relations with the EU, as a whole and on bilateral basis with the EU member states, beyond the strict framework of economic and trade interests. A more intense energy cooperation between the EU and China, within the framework of the existing global energy institutions, could involve further market integration, policy coordination and consultation, stronger practical cooperation on regulation, innovation and technology development.

The Sino-European strategic energy nexus should thus embark on the broader global energy goal of transitioning to low-carbon, resource-efficient, and resilient economies and focus on the effort to build a coherent, rules-based multilateral international energy architecture that could ensure improved energy security and transparent energy markets. ©

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THE EU-CHINA COOPERATION IN GLOBAL SOCIAL GOVERNANCE: MISSION IMPOSSIBLE?

HANG YUAN ¹

Introduction

The 2030 Agenda for Sustainable Development identified three dimensions of sustainable development: the economic, social and environmental.² Transnational social challenges such as poverty, inadequate access to social security, unemployment and labour conditions require global social governance, or the social dimension of global governance, which involves a 'multi-actored process of shaping global and national social policies'.³ Both the European Union (EU) and China are influential actors in global social governance, in addition to others including the United States (US), the United Nations (UN), International Labour Organization (ILO) and World Health Organization (WHO). Since the 1990s, the EU has been incorporating a social dimension to its external relations to address international social problems and shape global social policy debates.⁴ Since 2013 China has paid more attention than ever to global governance.⁵ Yet, whether the EU and China are able to develop joint answers to global social challenges remains to be seen.

This article aims to explore the prospect of the EU-China cooperation in global social governance. The analysis below of their goals, priorities, and approaches, as well as their bilateral interactions on social issues, leads to one tentative conclusion: although the two may continue to have differences in global social governance, it is not impossible for them to build consensus on certain common challenges such as unemployment, decent work and social security.

1. Common ground and differences

Since the 1990s, the EU has been attempting to export its social model including value, norms and regulations to

non-member states, which is called the external dimension of EU social policy.⁶ Basically, the EU shares power with its member states in external social policy such as setting minimum labour standards. The EU's aims have extended from promoting social rights and standards such as working conditions, labour rights and associated policy-making, to broad international social and development objectives.⁷

There are two significant aspects to China's approach to social challenges. On the one hand, since the late 1980s China has been drawing on foreign experiences in economic and social development, in particular, those on social security and social welfare from developed countries such as Germany and Sweden. China has made progress in its social reform and development, particularly in poverty reduction and the expansion of social security.⁸ On the other hand, China has also been fulfilling its commitments to assist other developing countries, by helping them to achieve Millennium Development Goals (MDGs) including poverty reduction, education and health.⁹

The EU and China have some common ground in addressing global social challenges. At the most general level, both support the achievement of the social goals listed in MDGs and sustainable development goals (SDGs), including employment, decent work, poverty reduction, and social security. Both support multilateralism and the UN's central role in global governance as well as other institutions including the ILO, WTO, WHO and G20.¹⁰

Meanwhile, the differences between the EU and China in terms of objectives, approaches and priorities are also noticeable (see Table 1). Firstly, while the EU attempts to

shape global social governance by exporting the European social model, China's objective is to participate in the international response to social challenges with its own voice and solutions. Secondly, the EU and China also differ in their priorities. The EU's priorities include core labour standards (CLS), decent work agenda and corporate social responsibility.¹¹ In contrast, China has ratified four of the eight CLS conventions of ILO on the elimination of child labour and gender discrimination at work. China's discourse on social rights is closely linked to economic and cultural rights as well as the rights and interests of women and children.¹² In fact, China's priorities include poverty reduction, social development, development aid and cooperation.

Thirdly, their approaches to global social governance also differ. The EU has tried to set international social regulations (mainly labour standards) through working with the

ILO. To impose international social rules and norms on non-member states, the EU tends to employ economic diplomacy (including trade and investment), development aid as well as dialogue. For instance, the EU has tried to enhance trade-labour linkage to promote the CLS.¹³ In contrast, China stresses individual countries' rights to decide their own ways and modes of development. China's position is consistent with the principle of the Five Principles of Peaceful Coexistence in its external relations, which stresses mutual respect and non-intervention. On labour issues, along with many developing countries, China is opposed to the trade-labour linkage which is viewed as a form of disguised protectionism. Regarding the recipient countries of its development aid, China stresses the principles of 'mutual respect, equality, keeping promises, mutual benefits and win-win' and 'fully respecting their right to independently choose their own paths and models of development'.¹⁴

Table 1: Differences between the EU and China in global social governance

| | The EU | China |
|------------|---|--|
| Objectives | To shape global social governance through exporting the European social model | To participate in global governance with a Chinese voice and solutions |
| Priorities | Labour standards Decent work agenda Corporate social responsibility | Poverty reduction Social development Development aid |
| Approaches | Imposing norms and standards through trade, investment and development aid | Non-intervention, mutual respect in economic relations and development aid |

2. Bilateral consensus building and contestation: 2000s - 2016

These commonalities and differences condition EU-China bilateral relations in the social field. Before the mid-1990s, social issues received little attention in the EU-China relations. Since the early 2000s, issues such as social reform, employment, social security and social development have gradually appeared in their bilateral Summits, Sectoral Cooperation and Dialogues on Employment and Social

Affairs, and development aid projects.¹⁵ The EU-China Summit in 2015 acknowledged 'significant strides in the political, economic, social, environmental and cultural fields'.¹⁶

The EU has been encouraging China's social reform and development. Since 1995 it has issued a series of policy papers in which it explicitly mentions its objectives and strategies to foster China's stable reform, good governance and sustainable development.¹⁷ The EU noted the

social situation in China and urged social reforms in areas including social rights, social security and social cohesion. It has been promoting China's transformation through bilateral dialogues, trade and investment ties as well as development cooperation.

China's response towards the EU's effort is mixed. On the one hand, Chinese officials and scholars are interested in drawing on social policy practice in Europe to better address the challenges of China's social reforms and development.¹⁸ Those challenges include occupational safety and health, social security reform, and social inclusion. On the other hand, the Chinese government remains alert to the EU's promotion of labour rights. China tends to view labour rights issues as domestic affairs and resists external pressure on these issues, sticking to its own position on labour rights and stressing its sovereignty and autonomy in formulating its own policy according to the domestic context.

The EU and China seemingly have more consensus on employment and social security than on labour rights issues. They signed the Memorandums of Understanding (MoU) on Labour, Employment and Social Affairs (2005) and the MoU on Health and Safety at Work (2009), paving the way for subsequent sectoral dialogues and projects in the social field. They have implemented cooperation projects including the EU-China Social Security Reform Project (EUCSS 2006-2011), the EU-China Social Protection Reform Project (2013-2018), and the EU-China Occupational Safety and Health Project in High Risk Industries (2012-2016).

The Chinese government speaks highly of these projects in the social field. For instance, Chinese then Minister of Human Resources and Social Security acknowledged the 'positive role' of the EUCSS Project in 'the understanding and learning of EU experience and in the promotion of China's security system construction'.¹⁹ That project inspired broader dialogues including the EU-China High Level Round Table on Social Security (2006-2011) and subsequent projects to facilitate China's policy learning on issues such as occupational safety and health, social security, and social inclusion. The two sides are satisfied with their cooperation and have agreed to extend cooperation to related issue areas, including 'health care, high and quality employment and demographic ageing'.²⁰

In contrast, their lack of consensus on labour rights issues is also evident. They do not have any specific MoU or bilateral cooperation projects on labour rights. Although the EU-China Summits often contain discourse on human

rights, they have not explicitly referred to the CLS.²¹ Similarly, the EU-China Human Rights Dialogues have only mentioned social rights issues on a few occasions – concerning women's rights and the issue of re-education through the labour system in China.²² The marginal status of labour rights issues in the EU-China bilateral dialogues reflects their limited progress in consensus building in this area. Social and labour rights are also controversial in EU-China economic relations. In 2005, the European Parliament expressed concerns on the forced labour situation in China and urged the Commission to exert pressure on China through trade.²³ To set standards for subsequent investment agreements in line with its trade agreements, the EU has recently attempted to incorporate labour rights issues in the EU-China Comprehensive Agreement on Investment (CAI) negotiations.²⁴ Convincing China to address challenging issues such as human rights, labour rights and the environment in these negotiations is recognised as a particular challenge for the EU.²⁵ As a result, the scope of the CAI text is expected to include 'labour-related dimensions of foreign investment'.²⁶ This is China's concession on this issue because China scarcely included labour clauses in its recent trade agreements – including those with South Korea (2015) and Australia (2015).

3. Multilateral level: common ground and different perspectives

The commonalities and differences between the EU and China also condition their interactions at multilateral level. Both are involved in dialogues at various platforms including the Asian Europe Meeting (ASEM), G20, ILO and WHO. To address global challenges around sustainable development, both sides pledged to reinforce the existing bilateral dialogue and cooperation in the social field, enhance cooperation with the ILO to promote the decent work agenda, and expand dialogue and cooperation on health (through cooperation with the WHO) and the rights of persons with disabilities.²⁷ Meanwhile, their different expectations of each other are also noticeable. While the EU encourages China to support international rules and norms, the latter is trying to play a more active role in global social governance.

The EU claimed to practise 'principled pragmatism' in global governance.²⁸ This combines its normative motivation and flexibility in the 'realistic assessment' of the environment. The EU intends to coordinate with its core partners like the US or Japan to address global social challenges. Against this background, the EU officials expect China to 'support a rules-based, transparent and accountable system of global governance'.²⁹ In its latest China policy

paper, the Commission claimed to 'seek common ground with China' in areas including economic and social rights, and health, and to 'build up EU-China cooperation in such areas as women's rights, labour rights, social standards'.³⁰ The Council also stressed its intention to 'support China's transition to a more sustainable and inclusive social and economic model'.³¹

To what extent the EU may influence China remains subject to debate. The initiatives of the European Pillar of Social Rights may encourage the EU's momentum to stress social rights in its external relations. Yet, the current Brexit process and controversial labour law reform in France may undermine the EU's credibility in promoting its social model to the rest of the world. Furthermore, fragile economic recovery and the migrant/refugee crisis in EU member states may limit the EU's capability to influence a rising China.

China has recently revealed its ambition to participate in setting international rules and standards and to provide a Chinese voice and solutions to global challenges.³² In joint dialogue with six major international organisations, Chinese Premier Li pledged that China will cooperate with the international community and 'play an even bigger role in realising inclusive growth and decent work for all'.³³ In fact, China is attempting to formulate Chinese approaches and solutions. For instance, it plans to expand and improve its development aid to developing countries in poverty reduction, education, health, disaster relief as well as humanitarian assistance.³⁴ China calls on enterprises that are participating in the One Belt One Road (OBOR) Plan to 'take social responsibilities in protecting local biodiversity and eco-environment' and seeks to enhance cooperation with the OBOR related countries 'on youth employment, entrepreneurship training, vocational skill development, social security management, public administration and management'.³⁵ China's Silk Road Fund also claims its social responsibility for environmental protection and sustainable development.³⁶

Furthermore, China encourages developing and emerging countries to play more important roles in global social governance through new forms of cooperation. Social issues have appeared in the agenda of BRICS cooperation mechanism and Asia Infrastructure Investment Bank (AIIB). In 2013 China began to share its experience in the extension of social security with BRICS members.³⁷ BRICS Summits and BRICS Labour and Employment Ministers Meetings have incorporated a wide range of social issues into the coordination schedule, including employment, labour relations, social welfare and security, gender equality, health

CHINA ENCOURAGES DEVELOPING AND EMERGING COUNTRIES TO PLAY MORE IMPORTANT ROLES IN GLOBAL SOCIAL GOVERNANCE THROUGH NEW FORMS OF COOPERATION.

and poverty reduction.³⁸ Chinese officials said that the AIIB's social security policy would follow a new approach: 'lean, clean, green', which partially draws on the existing practice by multilateral institutions but aims to improve efficiency and lower costs.³⁹

Yet, to what extent China could translate its ambition to exert a substantial impact on global social governance is still uncertain. China's discourse on international social issues remains limited, implicit and preliminary. Compared with the EU, China is a learner and explorer in addressing social challenges. Although China stresses its own situation and insists on its own policy positions on some issues such as the labour-trade linkage, it also acknowledges the importance of dialogue and cooperation with other international actors.

Conclusion

It is possible for the EU and China to cooperate in global social governance. Their cooperation will be conditioned by their differences in goals, priorities, and approaches which in turn lead to the gaps in their expectations for each other. While the EU encourages China to follow international rules, China views itself as a combination of independent learner, participant and would-be creator in seeking solutions to international social challenges. The two may continue to engage in competition and contestation when setting priorities and approaches to global social governance. Meanwhile, they may also develop common grounds to address common social challenges. The EU's 'principled pragmatism' in global governance will foster its flexibility to work with influential actors including China. The latter also stresses cooperation with the international community. Their bilateral cooperation has facilitated their consensus building on certain issues such as employment, decent work, social security and social inclusion. Therefore, they may have more dialogue and coordination on international social issues. ©

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AIIB AND EU – MOVING FROM INTERNATIONAL COMPETITION TO PRACTICAL COOPERATION WITH THE EUROPEAN INVESTMENT BANK

Olivia GIPPNER ¹

Introduction

The Chinese directed initiative of setting up a new multilateral development bank for Asia has captured media headlines since 2015. Initially seen by many, in particular in the United States, as a threat to the established Bretton Woods system, the Asian Infrastructure Investment Bank (AIIB) has established itself institutionally and has started its lending operations.² The AIIB began to gain more international support after the UK joined as a prospective member and triggered an increasing endorsement by western countries. Since April 2016 it has also entered into partnership agreements with other multilateral development banks, such as the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and Asian Development Bank (ADB).

Thus the debate has shifted from one about geopolitical competition to one of cooperation, acknowledging the additional needs for infrastructure investment in Asia. Accordingly, this article argues that the AIIB, while initially divisive between EU member states, is an area for cooperation and learning between the EU and China, and in particular between its two biggest investment banks, the AIIB and the EIB. Climate change and environment projects are low-hanging fruit for both sides to cooperate on.

Drawing on interviews conducted with EIB staff, EU Commission officials and experts based in Beijing between April and July 2016, the article is split in two parts. The first will look at the AIIB's initial evolution and the reaction of the European Union member states – most notably the EU's failure to arrive

at a cohesive approach. The second part will reflect on the bilateral relationship and its cooperative potential.

Competition or cooperation? The evolution of the AIIB seen from Europe

The Asian Infrastructure Investment Bank (AIIB) was first announced in 2013 and on 1 October 2014 22 Asian states signed a Memorandum of Understanding to establish the AIIB. On 29 June 2015, 57 Prospective Founding Members, including several European member states, signed the Articles of Agreement at the Great Hall of the People in Beijing. The AIIB is a multilateral development bank, similar to the World Bank, the International Monetary Fund and the European Investment Bank. Its focus lies on infrastructure investments, particularly in developing Asian countries. In its constitution the AIIB has committed itself to invest only outside of China (while retaining the right to be a borrower), as China is the biggest shareholder of the bank.

Besides its focus on infrastructure investments, the creation of the bank is also the result of China's frustration about a failure to reform the existing Bretton Woods institutions. China and the developing world are still underrepresented, while European economies have a disproportionate share of voting rights in the IMF and the World Bank Group.³ While a change in the proportion of voting weights (drawing rights) was agreed in 2010, the US Congress failed to ratify the reform until 19 December 2015 – after the AIIB was set up.⁴

When announcing the initiative in 2013, President Xi also invited other countries to join the initiative as Prospective

Founding Members. This announcement sparked a divisive debate on whether in particular western countries should join the Chinese initiative. The United Kingdom was the first European country to join the AIIB in March 2015.

The main opponent of western countries joining the AIIB was the United States. In official statements the United States expressed its concern about China's ability to uphold 'the high standards that the international community has collectively built'.⁵ The US actively pressured its allies, for instance Australia, to collectively stay outside the AIIB and in this way push for higher standards. The move by the UK to join the AIIB was criticised publicly by the Obama Administration. Ely Ratner of the Center for a New American Security interpreted these moves as signs of a growing competition between the US and China about who will write the 'rules, norms and institutions that will govern economics and politics in Asia'.⁶

The proponents of joining the AIIB argued that it was better to be part of the institution as it develops and in that way retain the ability to shape it as well. As the German Ministry of Finance announced together with its Italian and French counterparts, the decision to become founding members had been driven by a wish to cooperate in the creation of 'an institution that follows the best standards and practices in terms of governance, safeguards, debt and procurement policies.'⁷ This might be particularly relevant for the environmental standards to which the AIIB plans to adhere. By making environmental sustainability the second criteria for providing loans, the AIIB has set a high target and other countries have an interest to maintain environmental standards used in other development banks. Engaging cooperatively with the AIIB is thus their preferred way forward. Besides, several European countries are sympathetic to the demand for a more just and representative global financial and development infrastructure. According to Mogens Jensen, Danish minister of Trade and Development, the establishment of the AIIB is 'a significant and exciting development in the world order'.⁸

The first analyses of the AIIB echo the views of its proponents. Taking a historical perspective of multilateral development banks amongst others, the AIIB will more likely lead to integration into the international order rather than present a wholesale challenge. As Ming Wan argues, 'the more members the Chinese government is able to attract to this international financial organization, the more pressure there is on Beijing to follow the existing international practices'.⁹

The EU's engagement with the AIIB

Fourteen European member states had joined the AIIB by April 2015 in a wholly uncoordinated fashion. This clearly

frustrated the European Commission. In a report by its European Political Strategy Centre the Commission described the AIIB as having the 'potential to be a game changer' and expressed the wish to 'lead in facilitating a loose coordination of EU Member States that are joining the AIIB, while also ensuring that European institutions are represented and an "early warning mechanism" is launched to prevent slow and uncoordinated decision making in the future'.¹⁰

The AIIB has signed two cooperation agreements with European development banks, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). The EBRD's 2015 annual investment was €9.4 billion and it is the smaller of the two European banks. After signing a bilateral cooperation agreement on 11 May 2016, EBRD and the AIIB started cooperating on their first project, a road linking Dushanbe, Tajikistan and Uzbekistan. This road will form part of the east-west highway in Central Asia.

On 30 May 2016 the AIIB signed a similar framework of cooperation with the European Investment Bank, the European Union's policy bank. While more of 90 per cent of its activities are focused on Europe, the EIB also supports the EU's external and development policies. Its annual lending in 2015 was €84.5 billion. While the two organisations have not yet worked on a project together they have shared technical and financial experience during the setting up of the AIIB.

China Daily reveals that while the two presidents did not provide further details, 'it is believed the first investment project on which the banks are going to cooperate will be located in India'.¹¹ Building on an existing investment that the EIB has decided on this year, it will provide a 450 million euro (\$501 million) long-term loan to finance the first metro line in Lucknow, the capital of Uttar Pradesh. Cooperation on this project or on similar projects would fit both banks' criteria of focusing on infrastructure in 'economically, socially, and ecologically sustainable projects', as EIB President Hoyer put it.¹²

This arrangement is symbolic for the positive perception of the AIIB by other multilateral development banks. First of all, Asia's infrastructure needs exceed what a single multilateral

SEVERAL EUROPEAN COUNTRIES ARE SYMPATHETIC TO THE DEMAND FOR A MORE JUST AND REPRESENTATIVE GLOBAL FINANCIAL AND DEVELOPMENT INFRASTRUCTURE.

bank can do. According to an EIB employee the AIIB is not considered a threat or a competitor, in particular during the initial build up phase.¹³

Since 2015 the EIB seconded an official to the AIIB secretariat in Beijing to help in the setting up of the institution. The AIIB will furthermore be likely to attract staff from the EIB as it is enlarging its human resource base. In particular during the build-up of the institution, the first round of staff was drawn from the Chinese Ministry of Finance. However, the needs for different kinds of expertise could not be met domestically only. Hence a diversification of backgrounds and the recruitment of former employees of other multilateral banks, in particular the World Bank, has been on the rise. Furthermore, the AIIB's president, Jin Liqun, has himself worked for both the World Bank and the ADB and will undoubtedly harness the experience he gleaned as operations at the AIIB begin in earnest.¹⁴ While this also applies to the EIB to some extent, the contact between the World Bank and the AIIB is more established, since China is a member of the World Bank, while it is not a member of the European Investment Bank (only EU member states can be shareholders).

Opportunities for the EIB and the AIIB: climate cooperation
Given the two institutions' mandate, climate finance is low-hanging fruit for cooperation. In 2015, the EIB set itself a new target of dedicating 35 per cent of its lending projects in developing countries to climate change. Similarly, the AIIB has repeatedly emphasised how important environmental aspects are for decisions on AIIB loans. The AIIB's president Jin Liqun has made a point of saying that ecological soundness is the second most important criteria.¹⁵

The EIB is already the 'largest lender for climate-related investment and global leader in issuing green bonds' ¹⁶. For instance, the EIB's investment in China since 2007 moved from a broader infrastructure focus on water, energy, and transport

to climate change projects. In a seven-year cycle the EIB has provided around € 1.25 billion to Chinese climate-change related projects, given in the context of large framework loans (see Table 1). Besides the rise of climate change action on the EIB's agenda this also reflects the EIB's perception that China has graduated from being a developing country to being a middle-income country.¹⁷

The EIB and the AIIB cooperation on climate change could start with mutual learning on how to restructure climate and environment-related loans. In China the EIB has, during the twenty years of activity in the country, been able to add value in terms of knowledge on how to structure climate change projects. Its second value added is in financial terms: projects that were funded by the EIB, for instance in the forestry sector, have a demonstration character.¹⁸

Conclusion

The creation of the AIIB has divided European countries. However, as the bank begins its lending operations the European discourse has increasingly become one of practical cooperation, at first limited to their shared neighbourhood. While the AIIB was initially portrayed as a challenge to western standards and institutions, it is now seen much more in terms of shaping lending standards in Asia and being part of this Chinese-led development bank. For the EIB, very practically cooperation has become about projects – in particular on climate change, building capacity and training staff of the new institution.

The outcome of the British referendum on EU membership of 23 June 2016 dealt a serious blow to the China-EU relationship more broadly and concerning infrastructure lending in particular. The UK owns a 16.11 per cent share in the EIB, is one of the four main shareholders and nominates a member of the EIB management committee – thus directly influencing the EIB's strategic agenda.¹⁹ The UK has been China's

Table 1: EIB Framework Loans to China (selection by author)

| Project | Date | EIB Finance |
|--|------|-----------------------------|
| Climate Change Framework Loan I | 2007 | EUR 500 million |
| Climate Change Framework Loan II | 2010 | EUR 500 million |
| China Forestry Framework Loan | 2012 | EUR 250 million |
| CCCFL – Forests in Heilongjiang, Jiangxi, Hubei, Guizhou and other regions | 2015 | EUR 25 million per province |
| CFFL – Regional Forestry Programme | 2015 | Eur 100 million |

main European ally on the question of market economy status and it was the first western country to join the AIIB. The UK is also active in proposing a free trade deal between the EU and China and lobbied against increasing tariffs on Chinese steel imports.²⁰ Vice-versa the UK was the biggest European recipient of Chinese foreign direct investment in the period of 2002-2014.²¹ As a consequence observers expect a destabilisation and de-legitimisation of the EU from a Chinese perspective. Yet, while this affects the general cooperation environment, one cannot expect the partnership between the EIB and the AIIB to suffer. As the AIIB is growing and building its own institutional capacity, in the short run it will continue to seek global partnerships. Brexit has further compounded the future of the AIIB and the bilateral relationship with it.

Looking at EU-China relations more broadly, the establishment of the AIIB has on the one hand exposed internal divisions between member states. On the other hand the

decisive cooperation by the EIB and EBRD gearing up for common projects shows a determination to achieve progress on concrete bilateral cooperation. This also mirrors the publication of the new EU-China document in June 2016. In 'Elements for a new EU strategy on China' the High Representative of the EU, Federica Mogherini, asks EU member states for more cohesion and awareness of EU interests in the bilateral relationship. According to the strategic document, this new relationship takes place at eye level and emphasises 'reciprocity'. This also means narrowing down the areas for concrete cooperation between China and the EU and identifying priorities such as 'connectivity'. The cooperation with the AIIB might well emerge as one of these priority areas in order to 'seek a dialogue with China on best practice in terms of lending to developing countries, including aspects such as debt sustainability, environmental and labour standards, and fighting bribery and corruption.'²² ©

¹ The research for this article was supported by a Visiting Fellowship at the EU-China Research Centre and Baillet Latour Chair of European Union-China Relations, College of Europe, Department of EU International Relations and Diplomacy Studies, in July 2016. ² US President Barack Obama and Japan's Prime Minister Shinzo Abe were prominent opponents of the AIIB until a 'truce' was called in September 2015 (S. Donnan, 'White House declares truce with China over AIIB', Financial Times, 27 September 2015, retrieved 20 August 2016, <http://www.ft.com/cms/s/0/23c51438-64ca-11e5-a28b-50226830d644.html>). This Foreign Policy article provided an expert view on the issue: P. Subacchi, 'The AIIB is a Threat to Global Economic Governance', Foreign Policy, 31 March 2015, retrieved 20 August 2016, <http://foreignpolicy.com/2015/03/31/the-aiib-is-a-threat-to-global-economic-governance-china/>. ³ Until 2015 China had 3.8 per cent of total voting power in the IMF. This percentage in voting rights jumped to 6 per cent after the US Congress adopted reforms to give emerging powers a greater say on 19 December 2015. ⁴ 'China's IMF Voting Rights Soar by 60 percent', Asia Unhedged, 29 December 2015, retrieved 20 July 2016, <http://atimes.com/2015/12/chinas-imf-voting-rights-soar-nearly-60/>. ⁵ 'Europeans defy US to join China-led development bank', Financial Times, 16 March 2015, retrieved 18 July 2016, <http://www.ft.com/intl/cms/s/0/0655b342-cc29-11e4-beca-00144feab7de.html?fcamp=crm/email/2015317/nbe/USMorningHeadlines/product&siteedition=intl#axzz4EmGvE1kQ>. ⁶ 'Superpowers circle each other in contest to control Asia's future', Financial Times, 13 March 2015, retrieved 18 July 2016, <http://www.ft.com/intl/cms/s/0/f59ed7d4-c90a-11e4-bc64-00144feab7de.html#axzz3UZ7B8bd5>. ⁷ 'Asian Infrastructure Investment Bank', German Federal Ministry of Finance, 17 March 2015, retrieved 18 July 2016, <http://www.bundesfinanzministerium.de/Content/EN/Pressemitteilungen/2015/2015-03-17-PM12.html>. ⁸ J. Mathew, 'Denmark becomes latest European nation to apply for AIIB membership', 30 March 2015, retrieved 20 July 2016, <http://www.ibtimes.co.uk/denmark-becomes-latest-european-nation-apply-aiib-membership-1494083>. ⁹ M. Wan, 'The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order', Basingstoke, Palgrave Macmillan, 2016, p. 43. ¹⁰ 'The Asian Infrastructure Investment Bank', European Political Strategy Center, 24 April 2015, retrieved 18 July 2016, http://ec.europa.eu/epsc/publications/notes/sn1_en.htm. ¹¹ Wang J., 'AIIB, EIB sign a pact to finance infrastructure', China Daily, 31 May 2016, retrieved 27 August 2016, http://www.chinadaily.com.cn/business/2016-05/31/content_25544988.htm. ¹² Ibid. ¹³ Interview, EIB, 19 April 2016. ¹⁴ 'AIIB Staff Hopefuls Share Their Views', Devex, 18 January 2016, retrieved 15 July 2016, <https://www.devex.com/news/aiib-staff-hopefuls-share-their-views-87601>. ¹⁵ Jin Liqun speaking at Boao Forum, London, 9 November 2015. ¹⁶ 'EIB President's Visit to China to Strengthen Partnership and Increase Climate Engagement', 26 May 2016, retrieved 11 July 2016, <http://www.eib.org/infocentre/press/releases/all/2016/2016-125-european-investment-bank-presidents-visit-to-china-to-strengthen-partnership-and-increase-climate-engagement.htm?lang=en>. ¹⁷ 'Economic Report on Partner Countries 2016', European Investment Bank, July 2016, retrieved 15 July 2016, http://www.eib.org/attachments/strategies/deas_report_2006_en.pdf. ¹⁸ Interview, EIB, 15 July 2016. ¹⁹ 'European Investment Bank statement following UK referendum on EU membership', European Investment Bank, 24 June 2016, retrieved 13 July 2016, <http://www.eib.org/infocentre/press/news/all/european-investment-bank-statement-following-uk-referendum-on-eu-membership.htm>. ²⁰ J. Gaspers, 'China's High Stakes in the British EU Referendum', EUObserver, 22 June 2016, retrieved 30 June 2016, <https://euobserver.com/opinion/133930>. ²¹ J. Anderlini, 'China to become one of the world's biggest overseas investors by 2020', Financial Times, 25 June 2015, retrieved 20 August, <http://www.ft.com/cms/s/0/5136953a-1b3d-11e5-8201-cbdb03d71480.html?siteedition=intl#axzz4lu9a5Z6G>. ²² European Commission and High Representative for Foreign Affairs and Security Policy, 'Joint Communication to the European Parliament and the Council: Elements for a new EU Strategy on China', 22 June 2016, retrieved 22 July 2016, http://eeas.europa.eu/china/docs/joint_communication_to_the_european_parliament_and_the_council_elements_for_a_new_eu_strategy_on_china.pdf



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