

EU-CHINA OBSERVER

DEPARTMENT OF EU INTERNATIONAL RELATIONS AND DIPLOMACY STUDIES



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

College of Europe
Collège d'Europe



DEPARTMENT OF EU INTERNATIONAL
RELATIONS AND DIPLOMACY STUDIES

Baillet Latour Chair of
European Union-China Relations



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Dear Reader,

This is the last edition of the **EU-China Observer**.

Since 2009 the **Baillet Latour Chair of European Union-China Relations** has published 55 editions of this electronic journal. Issue #2.20 brings this successful project – with almost 2000 subscribers – to an end. It does so by giving a voice to students of the College of Europe to present their perspectives on the relations between China and the European Union. This relationship has undergone important changes over the past decade and the **EU-China Observer** has provided a platform for scholars and practitioners from Europe, China and beyond to accompany these changes with an exchange of ideas and interdisciplinary analyses.

The **EU-China Observer** was launched at the initiative of the Chairholder, Professor Jing Men. We would like to warmly thank her and her Research Assistants for their remarkable work over so many years.

Located in the Department of EU International Relations and Diplomacy Studies, the **Baillet Latour Chair of European Union-China Relations** (2008-20), to which later the **EU-China Research Centre** was added (2014-20), developed an impressive range of activities that has enriched the academic life at the College and reached out to partners at other universities, the EU institutions and the private sector. These activities included a course on EU-China relations, numerous international public conferences, seminars and lectures as well as research output in the form of academic publications, think tank contributions, the hosting of distinguished visiting scholars in Bruges, a scholarship for a Chinese student to study at the College of Europe, and numerous media interviews.

The work of the Chair and of the Centre was only made possible by the generous financial support of the Baillet Latour Fund over the unprecedented period of 12 years, a support which is coming this month to its foreseen end.

We are most grateful to the Fund for this exceptional sponsorship which has helped to bring the College 'on the map' as a centre exploring the multiple dimensions of EU-China relations in invariably constructive and innovative ways. Together, Professor Men, her team, and the Baillet Latour Fund have made a significant contribution to a better understanding of these relations which are of strategic importance to the EU.

Last but not least, we thank you as reader for your interest in the **EU-China Observer** and hope that you will by other means continue to follow the activities of the College of Europe.

Bruges, August 2020.

Prof. Dr. Dr. Jörg Monar

Rector of the College of Europe

Prof. Dr. Sieglinde Gstöhl

Director, Department of EU International Relations and Diplomacy Studies

BETWEEN THE POLES OF NORMS AND THE ECONOMY – DETERMINANTS OF GERMANY'S CHINA POLICY IN THE MERKEL ERA

JONATHAN SCHNOCK

Introduction

Germany's China policy has undergone significant changes over the years. However, one conflict has remained central: the dilemma of being economically interdependent while disagreeing on political values such as democracy and human rights. While it is often assumed that the mutually beneficial economic relations prevail over norm-based considerations, the reality is more nuanced. When political decisions are taken in Germany, human rights and the rule of law arguably play a crucial role. For this reason, it is important to understand the underlying determinants of the value-led approach by the German government vis-à-vis China and its trends.

This paper will focus on Germany's China policy in the Merkel era, that is from 2005, when Angela Merkel was first elected as chancellor, until 2018, when her third term ended. In order to underscore the persisting relevance of this topic, an outlook is given on the 2020 EU-China summit in Leipzig and the German presidency in the Council. These are pertinent to the future of Sino-German relations and the predominant rationale guiding the interaction with China. The analysis is focused on a single chancellor which mitigates the policy variation based on continuous party lines, thus allowing for a better understanding of structural drivers behind changing policies. Despite Merkel and the Christian Democrats being in coalition with the Social Democrats in the first and third legislative terms and with the liberals in the second, they were always senior partner and, thus, had ample opportunity to shape the foreign policy.

Our two main fields of inquiry are the actions taken on human rights, such as political statements and institutionalisation in the form of dialogue, and the economic interlinkages between Germany and China.

It will be argued that despite proclaiming the primacy of values in the start of her first legislative period, Merkel ultimately had to succumb to considerations of the political economy of Germany, which strongly relies on exports to China as one of its most important partners, and to abandon the value-led approach. It can also be argued that in times of prosperity and lower interdependence, it was more feasible for Germany to pursue a foreign policy that openly addressed human rights concerns vis-à-vis China.

The paper is structured as follows: after historically situating the Sino-German economic and political relations and their institutionalisation, Germany's China policy since 2005 is scrutinised. A third section considers the development in terms of human rights in bilateral relations between Germany and China, while a fourth focuses on economic relations and their evolution. Finally, conclusions and a brief outlook are presented.

Historical background

Diplomatic relations between the Federal Republic of Germany and China were first established in 1972. Up until the 1990s, political interaction between these countries was dormant and only economic relations flourished in the form of German companies seizing opportunities offered

by China's special economic zones.¹ This changed with the 1993 Asia strategy under Chancellor Helmut Kohl, placing a new emphasis on cooperation with Asia, in particular China.² It was not merely meant to strengthen economic ties, but it underlined the importance of human rights and the rule of law.³ As an economic opportunity, greater exposure to Asian markets was particularly important against the backdrop of the German reunification, which made a strong economic impetus necessary, as the former German Democratic Republic was economically weaker than the rest of the country.

Under the Schröder government the paradigm was that of 'change through trade'. Rather than seeking confrontation, it was assumed that economic cooperation would eventually lead China to adopt more Western policies, an approach that arguably did not yield the expected results.⁴ This government was mainly concerned with pragmatically increasing trade and was not too focused on the norms and values which they allegedly sought to change.⁵ However, in 2002 a bilateral dialogue on human rights was established within the greater framework of the dialogue on the rule of law. While this seems to contradict an approach driven by a purely economic rationale, it can be argued that it was aimed at side-lining political issues. Put differently, the government preferred "to corral the vexing issues of law and human rights to specific forums in what has been called 'Dialogkultur'".⁶ This established a tendency to discuss human rights issues behind closed doors.

Human Rights in EU-China Relations

When the first Merkel government assumed office, it sought a clear break with the previous government's approach. This is best epitomised in a 2006 public statement by Merkel, saying that Germany needs to "have the courage to raise critical issues" when it came to its relationship with China.⁷ This statement is to be seen in the context of a new approach to Asia by the Christian Democrats, which put an

emphasis on the importance of norms and values.⁸ This entailed a focus on the respect for human rights and the rule of law. Putting this rhetoric into practice, Merkel met with the Dalai Lama in 2007. Another case in point in the same year was Germany – then holding the Council presidency – defending the invitation of two NGOs to an EU conference, against the express wish of China.⁹ These decisions show a strong commitment to a value-guided approach to China in the first years of Merkel's chancellorship.

Despite the fact that the first few years were conflictual, the institutional dialogue continued. The latter aspect followed the established rationale of Germany's China policy, which is based on "formal dialogue and quiet diplomacy to promote human rights".¹⁰ However, this faces a long-standing criticism of not producing tangible results.¹¹

From around 2009 onwards, there was a shift in the government's approach to China, turning away from the initial confrontational stance. Instead of bringing up critical issues in human rights, there was an increasing

rhetoric which stressed the differences between the two states. This is particularly visible in a general statement on China published on the website of the German Ministry of Foreign Affairs, where it states: "Although bilateral relations are developing positively overall, fundamental differences remain. This is true in particular with regard to human rights, above all individual freedoms."¹² Yet, the discourse of difference implies a certain relativism, which in practice meant that despite the German government being concerned about the human rights infringements, these concerns were not voiced publicly.¹³ Another factor signifying the decline of importance of human rights is that they were no longer a topic of discussion on the ministerial level during Merkel's third term (2013-2018).¹⁴ This overall development begs the question, what reasons

1 F. Heiduk, "What is in a name? Germany's strategic partnerships with Asia's rising powers", *Asia Europe Journal*, vol. 13, 2015, p. 135.

2 Y. Huang, *Die Chinapolitik der Bundesrepublik Deutschland nach der Wiedervereinigung*, Wiesbaden, Springer VS, 2018, pp. 64-66.

3 Ibid.

4 H. Kundnai & J. Parello-Plesner, "China and Germany: Why the emerging Special Relationship matters for Europe", Policy Brief, Brussels, European Council on Foreign Relations, 2012, p. 3.

5 Huang, op cit., p. 129.

6 Schnellbach & Man, op cit., p. 10.

7 "Mut zu kritischen Tönen" *Frankfurter Allgemeine Zeitung*, 23 May 2006, retrieved 18 March 2020, <https://www.faz.net/aktuell/politik/ausland/merkel-in-china-mut-zu-kritischen-toenen-1327483.html?mobileVersion=no>

8 CDU/CSU-Fraktion, *Asien als strategische Herausforderung und Chance für Deutschland und Europa*, Berlin, 2007, p. 3.

9 Schnellbach & Man, op cit., p. 8.

10 L. Pogetti & K. Shi-Kupfer, "Germany's promotion of liberal values vis-à-vis China: Adapting to new realities in political relations", in T. Rühling et al. (eds.), *Political Values in Europe-China relations*, European Think-tank Network on China, December 2018, p. 39.

11 Heiduk, op cit., p. 138.

12 Auswärtiges Amt, *Germany and China: Bilateral relations*, Berlin, 5 March 2020, retrieved 18 March 2020, <https://www.auswaertiges-amt.de/en/aussenpolitik/laenderinformationen/china-node/china/228916>.

13 Huang, op cit., pp. 222-223.

14 Ibid., p. 232.

led to this change in German foreign policy towards China? To understand this, it is relevant to take the economic interdependence of China and Germany into consideration.

Economic considerations

The political economy of Germany is an important determinant in Germany's China policy. After joining the European Monetary Union, Germany's exports and their importance for a prosperous economy increased substantially.¹⁵ This applied not only to neighbouring countries sharing a common currency, but also to China. There was a structural complementarity, which was particularly strong in the first decade of the 21st century.¹⁶ China offered a market and Germany technology, leading to temporary economic symbiosis. However, in years when human rights issues were openly addressed, China as an export destination ranked only 11th for German goods.¹⁷ This left China without the tools for economic retaliation, hence the limited risk for the Merkel administration in taking a strong stance.

The global financial crisis and the ensuing Euro-crisis changed the picture. As intra-EU demand shrank because of recession, China grew as an export destination for German goods and services. Between early 2009 and mid-2010, German exports to China increased by 70 per cent, making it the 6th most important export destination for Germany.¹⁸ This trajectory continued rendering it the 3rd most important country for exports in 2018.¹⁹ Cars in particular were in high demand in China, as its middle class grew and thereby allowed Germany's car-making industry to weather the storm of the Euro-crisis by having a reliable export market.²⁰ Based on this, it can be concluded that Germany had become "structurally reliant on foreign demand for its growth."²¹ As a result, it faced more pressure

to maintain good political relations with China in order not to endanger its growth. This tendency had very practical implications and displayed the susceptibility of Germany to pressure from China.

The solar panel dispute can be seen as a prime example of this susceptibility. Due to the claims by EU ProSun, a group of solar panel producers, that solar panels from Chinese producers were subsidised and therefore unfairly distorted the market, the European Commission launched an anti-subsidy and anti-dumping investigation in 2012.

This evoked a response from China, which countered with an investigation into wine and a threat to include luxury cars.²² The threat of an investigation also included polysilicon, a good that is needed to construct solar panels and that Germany exports to China.²³ The Chinese counter-investigations were specifically aimed at Germany and elicited a response by Merkel, who stated that permanent tariffs on solar panels would not come into place.²⁴ This shows how China

was able to exert pressure on Germany, among other EU countries, to vote against the introduction of tariffs on solar panels in the Council. Against this background, the special German-Sino relationship was reinforced on a political level during the 2013 visit of Premier Li Keqiang, notably the only visit he conducted in the EU.²⁵ The weaponisation of economic ties, as evidenced throughout this period of Sino-German relations, is characteristic of China's policy on the EU.

However, there is a second dimension to economic overreliance. That is, big German corporations which have a high exposure to China due to significant investments, such as Siemens, VW and the chemical giant BASF, are interested in maintaining good political relations. Based on Germany's

AFTER JOINING THE EUROPEAN MONETARY UNION, GERMANY'S EXPORTS AND THEIR IMPORTANCE FOR A PROSPEROUS ECONOMY INCREASED SUBSTANTIALLY.

15 L. Baccaro, J. Pontusson, "Rethinking Comparative Political Economy: The Growth Model Perspective", *Politics & Society*, vol. 44, no. 2, 2016, p. 3.

16 H. Kundnani & J. Parella-Plesner, op cit., p. 2.

17 World Bank, Germany exports, imports and trade balance By Country 2007, retrieved 29 July 2020, <https://wits.worldbank.org/CountryProfile/en/Country/DEU/Year/2007/Trade-Flow/EXPIMP/Partner/by-country>.

18 H. Kundnani, "Germany as a Geo-economic Power", *Washington Quarterly*, vol. 34, no. 3, 2011, p. 36; World Bank, op. cit.

19 World Bank, Germany exports, imports and trade balance By Country 2018, retrieved 29 July 2020, <https://wits.worldbank.org/CountryProfile/en/Country/DEU/Year/2018/Trade-Flow/EXPIMP/Partner/by-country>.

20 Schnellbach & Man, op cit., pp. 14-15.

21 S. Tilford, "How to save the Euro", *Essays*, London, Centre for European Reform, September 2010, p. 6.

22 Y. Chen, "EU-China Solar Panels Trade Dispute: Settlement and challenges to the EU", *Asia at a Glance*, Brussels, European Institute for Asian Studies, June 2015, p. 2.

23 A. Pepermanns, "The Sino-European Solar Panel Dispute: China's Successful Carrot and Stick Approach Towards Europe", *Journal of Contemporary European Research*, vol. 13, no. 4, 2017, p. 1401.

24 Ibid., p. 6.

25 "Chinese premier Li Keqiang arrives in Berlin", *Deutsche Welle*, 26.05.2013, retrieved 29 July 2020, <https://www.dw.com/en/chinese-premier-li-keqiang-arrives-in-berlin/a-16836665>.



corporatist culture, these corporations wield significant political influence, which is used to that end by relativising deteriorating standards of human rights.²⁶ In response to the mounting public pressure of China's treatment of Uighurs in Xinjiang, Joe Kaeser, the CEO of Siemens, remarked "[i]f jobs in Germany depend on how we deal with controversial topics, then we shouldn't add to indignation, but rather carefully consider all positions and actions."²⁷ What comes to the fore in this quote is a more indirect form of pressure that emanates from firm overreliance on China, discouraging the public politicisation of human rights for fear of economic loss.

This anecdotal evidence does not capture the entirety of the economic relations between China and Germany, but it shows a general trend that Germany is increasingly exposed to pressure from China as its export reliance grows. While this is not inherently related to the issue of human rights, the argument of Germany abstaining more and more from openly criticising China on human rights is plausible, as seen in the years following the Euro-crisis. This originates both in the external political and the internal economic realm. The former became obvious in China's

threats against German producers while the latter can be seen in German corporations speaking up against public criticism of China. Therefore, as export reliance rises, the public discourse addressing conflictual topics with China tends to fade.

Conclusion

There is a history of Germany's policy towards China dating back almost 50 years. For the most part, it was purely related to economic exchange. However, from the 1990s, human rights became a topic of political discussion and eventually took the form of an institutionalised dialogue. In 2007 especially, human rights appeared to be a driving determinant of Merkel's China policy. Yet, once the economic crisis started, these concerns receded behind economic considerations which can be explained by an overreliance of Germany on China as a vehicle for growth through exports. This can be seen in, among others, the unwillingness of the German government to impose tariffs on solar panels from China, out of fear of economic retaliation. Therefore, a primacy of economic considerations over value-based ones can be observed. Put differently, there is a correlation between increasing economic interlinkages and the

26 A. Fulda, "Germany's China Policy of 'Change Through Trade' Has Failed, Royal United Services Institute, 1 June 2020, retrieved 29 July 2020, <https://www.rusi.org/commentary/germanys-china-policy-change-through-trade-has-failed>.

27 "Why is Germany silent on China's human right abuses?", 5 December 2019, retrieved 29 July 2020, <https://www.dw.com/en/why-is-germany-silent-on-chinas-human-rights-abuses/a-51545962>.

relegation of human rights on the agenda, as seen in its demotion from the ministerial level. While the Merkel government wanted to distinguish itself from the previous one, in the later stages its pragmatism bears a strong resemblance to Schröder's approach, resorting to the quiet forms of diplomacy and human rights concerns that Germany has traditionally pursued. The bilateral discussion formats were put in place in order to politically justify strengthening economic ties with a country that does not adhere to the same human rights standards.

Due to the scope of this paper, there are limitations to the approach, as internal politics and party politics cannot be fully accounted for. The arguments presented are not exhaustive due to the limits imposed, but do go some way towards proving an economy-oriented trajectory in Germany's recent policies vis-à-vis China.

The future primacy of determinants in Germany's China policy remains uncertain as the countries increasingly lose their complementarity and move towards competition. This leads to the question if, in the long run, human rights will become a topic of discussion again, as they can be used as a political tool to exert pressure. Recent developments such as the FDI screening mechanism indicate a greater willingness by the Merkel government to take a more confrontational stance towards China in the economic sphere. The German presidency in the Council will be a window of opportunity to seek a more value-based approach to China. This is particularly relevant against the

THE FUTURE PRIMACY OF DETERMINANTS IN GERMANY'S CHINA POLICY REMAINS UNCERTAIN AS THE COUNTRIES INCREASINGLY LOSE THEIR COMPLEMENTARITY AND MOVE TOWARDS COMPETITION.

backdrop of the EU-China summit in Leipzig this year. If the EU manages to act coherently with the help of Germany, human rights may be put higher on the agenda in the long run. Choosing the EU as a channel to give new impetus to the topic of human rights bears less economic risk for Germany compared to addressing it bilaterally. For now, the high levels of economic interdependence remain in place and human rights are unlikely to dominate the bilateral relationship in the near future. ©



Jonathan SCHNOCK

BIO

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NAVIGATING CHINA-US RELATIONS FROM BRUSSELS: DOES THE EUROPEAN UNION NEED TO 'PICK A SIDE'?

JONATHAN MISK

Introduction

European Union High Representative Josep Borrell's stance is clear: "Europe has to position itself among the growing confrontation between [the United States] and China."¹ President Donald Trump's shift away from his predecessor's 'Pivot to Asia'² and towards a protectionist 'America First' policy³ has been conspicuous, culminating in a series of well-publicised tariffs and a trade war.⁴ Looking on as the conflict has escalated, the European Union ("EU") has largely remained neutral, debating how best to protect its interests amidst geopolitical drama. Former French Prime Minister Jean-Pierre Raffarin described the EU's dilemma: "We have two main worries now. Are we still allies with the US? And where is China heading with its authoritarian turn? . . . [W]e don't [want to] turn into a ping-pong ball hit by the American and Chinese rackets."⁵ This dilemma has led many observers to argue that the EU needs to 'pick a side.'

In order to protect its foreign and domestic interests, does the EU need to come down firmly on the side of either the United States or China? Or can it thread a more nuanced needle? Stated differently, how should the EU approach its immediate future relations with the United States and China? This paper argues that the EU can and should take a more nuanced approach, preferably by strengthening its

longstanding transatlantic alliance with the United States and engaging China together.

After discussing relevant theories underpinning tripartite relationships, we provide a brief review of the current status of the bilateral relationships among the EU, the United States, and China. We then explore the EU's best options for navigating the ongoing confrontation between the United States and China, arguing for a strengthened transatlantic approach.

The Strategic Triangle: Theoretical Underpinnings of EU-US-China Relations

Cold War theorists — notably Lowell DITTMER — described US-Soviet-Chinese relations as a "strategic triangle" characterised by a "transactional game" of exchanges.⁶ Within the "strategic triangle," the three primary tripartite "exchange relationships" are:

- Ménage à trois: symmetrical alliances between all players;
- Romantic triangle: strong relationship between a single "pivot" player and each of the other two players, but antagonism between the non-pivot players; and
- Stable marriage: strong relationship between two players, but antagonism between each of those players and the third.⁷

1 J. Borrell Fontelles, High Representative/Vice President-designate of the European Commission, "Opening statement," Brussels, 7 October 2019.

2 B. Obama, President of the United States, "Remarks by President Barack Obama at Suntory Hall," speech, Tokyo, 14 November 2009.

3 D. Dollar, "Assessing U.S.-China relations 2 years into the Trump presidency," Brookings: Order from Chaos Blog, 15 January 2019.

4 A. Swanson & A. Rappeport, "Trump Signs China Trade Deal, Putting Economic Conflict on Pause," The New York Times, 15 January 2020; D. Sevastopulo, "Trump labels China a strategic 'competitor,'" Financial Times, 18 December 2017.

5 Quoted in Y. Trofimov, "Europe's Face-Off With China," The Wall Street Journal, 28 February 2020.

6 L. Dittmer, "The Strategic Triangle: An Elementary Game-Theoretical Analysis," World Politics, vol. 33, no. 4, July 1981, p. 486.

7 Ibid., p. 489.

The “strategic triangle” theory applies well to the current tripartite relationship between the EU, the United States, and China. While the EU is not a single state,⁸ the “strategic triangle” is still instructive — especially in view of the EU’s trade competences. Some diplomats, for example, see the EU emerging as a strong “pivot” player in a “romantic triangle” fraught with animosity between the United States and China.⁹ One could also see the EU and the United States maintaining a “stable marriage” defined by shared values. Whatever the analysis, it is clear that the EU, the United States, and China are embroiled in a complicated “transactional game”.

Current Status of Bilateral Relations

EU–US Relations

The EU and the United States maintain one of the world’s strongest relationships. Forged in the aftermath of World War II, and strengthened further with the fall of the Berlin Wall, the transatlantic alliance has preserved peace for over seventy years.¹⁰ Despite periodic turbulence (e.g., during the Iraq War), the underlying shared commitment to liberal democratic values endures today.¹¹

In the short term, however, EU-US relations face new challenges. On both sides of the Atlantic, segments of the population feel ‘left behind,’ allowing populism and nationalism to flourish. In the United States, these forces contributed significantly to the election of Donald Trump.¹² Unlike his predecessor, who supported a robust transatlantic alliance, President Trump has espoused an ‘America First’ approach across all policy areas, brashly criticising European countries’ contributions to NATO¹³ and announcing his intent to withdraw from the Paris Agreement.¹⁴ Applying DITMER’s terminology, the transatlantic alliance — formerly a relatively stable marriage in the “strategic triangle” — is teetering on the brink of extinction.

US–China Relations

The United States’ general retreat from the international stage has equally affected its relations with China. Prior to President Trump’s election, the Obama Administration pursued a policy toward China defined by the idea that “pragmatic cooperation” was most likely to lead to a “prosperous China [that could] be a source of strength for the community of nations.”¹⁵ This resulted in increased economic and investment cooperation¹⁶ and a joint commitment to climate action.¹⁷

President Trump’s election marked a drastic shift in US attitude and policy. He quickly labelled China a “strategic competitor”¹⁸ and announced steel and aluminium tariffs; this resulted in a full-blown trade-war, with tariffs affecting over \$350 billion worth of goods.¹⁹ Subsequent trade talks broke down in May 2019, resulting in additional US and Chinese tariffs.²⁰ While most tariffs endure, the United States and China signed in January 2020 an initial trade pact that should help address many of the United States’ complaints about China’s economic practices.²¹ The United States also remains concerned with other elements of Chinese policy, including security (e.g., the South China Sea),²² human rights and the rule of law (e.g., Uyghurs and Hong Kong protestors),²³ and technology (e.g., 5G and cybersecurity concerns).²⁴

The future of US–China relations remains in flux, but the outcome of the trade deal should play a major role. On other issues, it seems unlikely — at least under President Trump — that there will be a major shift from the United States. Invoking DITMER, there is certainly no marriage, and the parties are closer to acrimony than amity.

8 A. Kendall-Taylor & R. Rizzo, “The U.S. or China? Europe Needs to Pick a Side,” *Politico Magazine*, 12 August 2019.

9 A. Martirosyan, “Letter: ‘Romantic triangle’ between the EU, the US and China looms,” 15 December 2019.

10 K. Schake, “The Trump Doctrine is Winning and the World is Losing,” *The New York Times*, 15 June 2018.

11 Trofimov, *op. cit.*

12 J. Shattuck, “The Populist-Nationalist Rebellion: Challenge to Transatlantic Democracy,” *College of Europe Policy Brief*, April 2019.

13 J. Goldgeier, “When President Trump heads to Europe, discussion turns to burden-sharing,” *The New York Times*, 14 November 2018.

14 L. Friedman, “Trump Serves Notice to Quit Paris Climate Agreement,” *The New York Times*, 4 November 2019.

15 Obama, “Remarks at Suntory Hall,” *op. cit.*

16 C. Li, “Assessing U.S.-China relations under the Obama administration,” *Brookings*, 30 August 2016.

17 M. Landler, Mark, “U.S. and China Reach Climate Accord After Months of Talks,” *The New York Times*, 11 November 2014.

18 Sevastopulo, *op. cit.*

19 Council on Foreign Relations, *Trump’s Foreign Policy Moments: 2017-2020*, 2020, retrieved 21 August 2020, <https://www.cfr.org/timeline/trumps-foreign-policy-moments>.

20 *Ibid.*

21 Swanson & Rappeport, *op. cit.*

22 Council on Foreign Relations, *Global Conflicts Tracker: Territorial Disputes in the South China Sea*, 3 April 2020, retrieved 21 August 2020, <https://www.cfr.org/interactive/global-conflict-tracker/conflict/territorial-disputes-south-china-sea>.

23 A. Ramzy, “U.S. Lawmakers Propose Tough Limits on Imports from Xinjiang,” *The New York Times*, 11 March 2020.

24 L. Gorman, “5G Is Where China and the West Finally Diverge,” *The Atlantic*, 5 January 2020.

EU–China Relations

The EU and China have pursued stronger relations in recent years, buoyed by China's opportunism as the United States steps back.²⁵ The two countries now hold annual bilateral summits.²⁶ China is the EU's second-largest trading partner, and the EU is China's largest.²⁷ China is also a crucial partner for the EU on climate change, recently reaffirming its commitment to the Paris Agreement²⁸ and renewable energy.²⁹ China further provides key infrastructure solutions for the EU, including through the Belt and Road Initiative.³⁰ Some EU countries have similarly been receptive to purchasing Chinese 5G technologies.³¹ And later this year, the EU and China intend to replace an expiring strategic cooperation agreement with a new Strategic Agenda for Cooperation.³²

Despite this progress, many in the EU remain apprehensive about what they view as an "authoritarian sway."³³ In 2019, the European Commission defined China as "systemic rival promoting alternative models of governance."³⁴ More recently, the EU's official stance toward China has toughened, as reflected in the recent June 2020 EU-China Summit.³⁵ Overall, the EU is moving closer to the United States' tough stance on China while individual European governments continue to focus on their own interests.³⁶ This has led Europe to "emphasiz[e] [both] cooperation and partnership with China along with vigorous competition and criticism."³⁷

Turning again to DITTMER's terminology, the EU and China are engaged in flirtation — not yet a marriage but far from enmity — as EU leaders weigh China's immense economic significance against possible risks.

Next Steps for the EU: Navigating the Complex Web of US–China Relations

Emerging Narrative: The EU Must Pick a Side

The continuing US–China confrontation and the EU's struggle to decide how to address its concerns with China while maintaining important economic relations has led many observers to argue that the EU needs to 'pick a side' in the ongoing global stand-off.³⁸ The argument goes something like this:

First, the EU has failed to adopt a unified message (against China, specifically) due to "an absence of a European-wide consensus about the threat that China poses"³⁹ — especially since certain European countries depend heavily on China.⁴⁰

Second, the EU has only a binary choice vis-à-vis its relations with traditional partner the United States and emerging power China.

Third, if Europe refuses to choose a side—specifically, the United States' side—it will play directly into China's plan to spread its authoritarian values and put liberal democracy at risk.⁴¹

For the reasons set out more fully in the following section, this emerging narrative could be equally or more dangerous to foundational European ideals. A more balanced approach is necessary.

Alternative Approach: Threading the Needle

General Discussion

The EU should be hesitant to heed advice to 'pick a side.' Instead, a nuanced approach would best allow the EU to protect its future economic interests and commitment to

25 C. Lynch & E. Groll, "As U.S. Retreats From World Organizations, China Steps in to Fill Void," *Foreign Policy*, 6 October 2017.

26 European External Action Service, EU-China Relations factsheet, 18 October 2019, retrieved 21 August 2020, https://eeas.europa.eu/headquarters/headquarters-homepage/34728/eu-china-relations-factsheet_en.

27 European Commission, Countries and regions, "China," 14 February 2020, retrieved 21 August 2020, <https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/>.

28 "China, EU Reaffirm Strong Commitment to Paris Agreement," *United Nations Climate Change News*, 17 July 2018.

29 R. Smith, "Three countries are leading the renewable energy revolution," *World Economic Forum*, 26 February 2018.

30 Trofimov, op. cit.; E. Brattberg & E. Soula, "Europe's Emerging Approach to China's Belt and Road Initiative," *Carnegie Endowment for International Peace*, 19 October 2018.

31 D. Sanger & D. McCabe, "Huawei Is Winning the Argument in Europe, as the U.S. Fumbles to Develop Alternatives," *The New York Times*, 17 February 2020.

32 EEAS, op. cit.

33 Trofimov, op. cit.

34 European Commission, Joint Communication: EU-China — A strategic outlook, JOIN(2019) 5 final, Strasbourg, 12 March 2019.

35 P. Gewirtz, "The future of trans-Atlantic collaboration on China: What the EU-China summit showed," *Brookings: Order from Chaos Blog*, 26 June 2020, retrieved 21 August 2020, <https://www.brookings.edu/blog/order-from-chaos/2020/06/26/the-future-of-trans-atlantic-collaboration-on-china-what-the-eu-china-summit-showed/>.

36 Ibid.

37 Ibid.

38 Kendall-Taylor & Rizzo, op. cit.; H. Brands, "Europe has to choose a side in the US-China rivalry," *Bloomberg*, 27 September 2019; T. Ng, "Why Europe is not ready to take sides in the US-China trade war," *South China Morning Post*, 11 August 2018.

39 Kendall-Taylor, op. cit.

40 Trofimov, op. cit.; Brands, op. cit.

41 Kendall-Taylor, op. cit.

liberal democratic values. The emerging narrative assumes that Europe cannot “uphold the values and norms [it] share[s] with Washington while benefitting economically from greater engagement with China.”⁴² It is not evident that this is true, as it risks alienating Beijing entirely.

An alternative approach rests on the idea that, “[w]here economic influence goes, political and diplomatic influence will follow.”⁴³ While China has significant trade influence, it also relies heavily on the US and the EU. Furthermore, the EU is the second-largest global economy and “most coherent group of democracies in the world.”⁴⁴ In sum, the EU — especially if acting in coordination with the United States — should be able to exert significant political and diplomatic influence on China.

The EU appears to have two options for continued relations with China: (i) bolster its own “strategic autonomy” to become a symmetrical player in a tripartite relationship⁴⁵; or (ii) refresh the transatlantic alliance for joint action towards China.⁴⁶ Given significant hurdles to the first option, notably the difficulty reaching consensus on a cohesive policy toward China (let alone toward the United States) among all 27 EU Member States, the remainder of this paper explores the latter option.

Strengthening Transatlantic Cooperation Towards China

To achieve its goals, the EU should enhance existing transatlantic efforts towards China, seeking to work intimately with China where helpful while also applying diplomatic pressure where appropriate to influence Chinese policy. This is not to say that the EU is picking the United States’ side. Like any good ally, the EU must not only work with the United States but also offer constructive criticism where necessary; by the same token, the transatlantic alliance should be equally honest with China, using diplomatic pressure where appropriate to influence Chinese policy. This is easier said than done — especially in the Trump Era, where EU-US relations have suffered. But in order to formulate the “conditions” IKENBERRY referenced, the transatlantic alliance must strengthen its

ON SECURITY POLICY, THE EU AND THE UNITED STATES HAVE SHOWN A READINESS TO COLLABORATE CONCERNING THE SOUTH CHINA SEA AND HYBRID THREATS.

foundations to provide “incentives for integration [rather] than for opposition.”⁴⁷ This section thus outlines the most important topics on which the EU and United States could cooperate with respect to China, under either a continuing Trump Administration or under a more multilateral Biden presidency.

First, on security policy, the EU and the United States have shown a readiness to collaborate concerning the South China Sea and hybrid threats. Both parties have expressed concern over China’s efforts to build artificial islands for military use in disputed waters in the South China Sea.⁴⁸ Individual European countries have themselves run patrols in the territory.⁴⁹ Through NATO, the United States and Europe could explore joint freedom of navigation operations to demonstrate common support for ‘free and open access’ to the region. The United States could also consider engagement with France, the only European country with territories in the Indo-Pacific that could provide a convenient security structure.⁵⁰ On hybrid threats, both NATO and the EU have recently developed specific and concrete tools for countering such non-conventional security threats, including disinformation.⁵¹

Second, on economic and trade issues, while the United States and the EU must recognise the importance of China to their financial security, they must also push back against some of the Chinese government’s harmful economic practices, such as “giving subsidies and preferential treatment to state-owned enterprises while restricting the access of foreign companies to China’s market.”⁵² In order

42 Ibid.

43 Brands, op. cit.; J. Ikenberry, “The Rise of China and the Future of the West,” *Foreign Affairs*, vol. 87, no. 1, January-February 2008.

44 Brands, op. cit.

45 Trofimov, op. cit.

46 Kendall-Taylor, op. cit.

47 Ikenberry, op. cit.

48 CFR, Global Conflict Tracker, op. cit.

49 L. Zhen, “France, Britain to sail warships in contested South China Sea to challenge Beijing,” *South China Morning Post*, 4 June 2018.

50 E. Pejsova, “Europe: A New Player in the Indo-Pacific,” *The Diplomat*, 19 January 2019.

51 Council of the European Union, Complementary efforts to enhance resilience and counter hybrid threats – Council Conclusions, 14972/19, Brussels, 10 December 2019, § 35;

North Atlantic Treaty Organization, NATO’s response to hybrid threats, 8 August 2019.

52 Ng, op. cit.; S. Jiangtao, Shi, “China or the US? Europe’s ‘impossible choice’ in the trade war,” *South China Morning Post*, 29 May 2019.

to build their own financial strength while also balancing China's influence, the United States and the EU must (i) promoting domestic corporations competing against similar Chinese entities (e.g., in the clean technology and green energy industries)⁵³; and (ii) strengthening existing international trade protections — especially the World Trade Organisation, where the United States must allow the appointment of justices in order to ensure that the EU and China do not form a replacement body, and where the transatlantic allies must push China to uphold its commitments.⁵⁴

Third, on digital policy, the EU and the United States must recognise their own failings, China's strength, and cybersecurity risks posed by certain Chinese vendors.⁵⁵

The transatlantic allies must commit additional resources to research and development of future internet and connectivity technologies such as 6G,⁵⁶ develop a common approach to assessing risks and regulating non-compliant vendors of those technologies, and consider formalising strategic digital summits involving China. A transatlantic approach can help “reduce geopolitical dependence on China and protect privacy and human rights in a data-centred age.”⁵⁷

Fourth, on human rights and the rule of law, the United States and the EU must refuse to compromise the liberal democratic values that have underpinned their societies for years and provide the basis for the transatlantic alliance. Among other things, the allies should push for reforms related especially treatment of Uyghur minorities and protestors in Hong Kong. One approach could employ economic and trade pressures, including (i) making any future comprehensive trade deals contingent on specific human rights and rule of law guarantees; and (ii) invoking targeted economic against responsible individuals.⁵⁸ More traditionally diplomatic approaches might include

EU pressure during its annual summits or United Nations Human Rights Council meetings.⁵⁹

Finally, on climate change, while transatlantic cooperation would likely be more limited during the Trump Administration, the United States and EU could still explore important partnerships at the subnational governmental and private sector levels⁶⁹; in turn, the EU could take the lead on engaging China in the framework of the Paris Agreement and the United States on exporting clean energy technologies.⁷⁰ Later, should the United States re-join the Paris Agreement, the transatlantic could work together to help countries like China — the world's largest polluter — meet and enhance their nationally-determined emissions commitments.

**ON DIGITAL POLICY, THE
EU AND THE UNITED
STATES MUST RECOGNISE
THEIR OWN FAILINGS,
CHINA'S STRENGTH, AND
CYBERSECURITY RISKS
POSED BY CERTAIN CHINESE
VENDORS.**

In sum, the EU should not rashly “pick a side” in the ongoing US–China confrontation, which would actually move it

further away from achieving its geostrategic political and economic goals. Instead, the EU should reengage the United States — its most consistent traditional ally — in developing a strategy that

continues to engage China deeply on economic and trade issues while simultaneously using its financial influence to balance China's illiberal governance model, check its digital dominance, and squarely address human rights concerns. Should the EU and the United States find a way to engage constructively on China, they may be able to achieve a “stable marriage” between two global players as well as positive relationships between all players.

53 E. Peker, “U.S. Companies Fuel Europe's Green-Energy Push,” *The Wall Street Journal*, 19 January 2020.

54 B. Rios, “China, WTO members join EU's ad-hoc appellate body in Davos,” *Euractiv*, 24 Jan. 2020; European Commission, “China,” op. cit.

55 E. Brattberg, “Time for NATO to Talk About China,” *Carnegie Europe*: Judy Dempsey's Strategic Europe, 26 March 2019.

56 Sanger & McCabe, op. cit.

57 Gorman, op. cit.

58 D. Marques, “The EU, China, and human rights in Xinjiang: Time for a new approach,” *European Council on Foreign Relations*, 2 April 2019.

59 Ibid.

Conclusion

It could be argued that diplomacy is not a spectator sport. Advocating for major global powers to “pick a side” is dangerous where a more nuanced approach can accomplish the same goals without sacrificing principles. Indeed, the United States learned first-hand the dangers of advocating for a “you’re with us or you’re against us” policy.⁶⁰

This paper has offered a theoretical approach to understanding the EU’s possible role in the current US–China power struggle, briefly explored the current status of bilateral relations between the three powers, and offered some foundational ideas for a transatlantic approach toward constructive engagement of China. In so doing, it also rejected an emerging idea that the EU must “pick a side” in the ongoing confrontation between the United States and China.

Areas for further development that this paper did not address include (i) how the EU and United States can best repair their own relationship before engaging China; and

(ii) the effects of the varying state-by-state approaches to China throughout Europe on this more EU-level analysis.

In sum, the EU should be wary of rashly “picking a side.” Such an approach would risk alienating Beijing and torpedoing the EU’s ability to achieve its goals. Instead, the EU should reengage the United States, its most reliable ally, in developing a strategy that deeply engages China on areas of agreement and mutual benefit while countering elements of China’s illiberal governance model — an approach that seeks the greatest benefit for all. ©

60 J. Heer, “Liberals, Stop Applauding George W. Bush,” *New Republic*, 23 October 2017.



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HOW TO TRAIN A DRAGON? THE EU'S INFLUENCE IN THE ADOPTION OF CHINA'S EMISSIONS TRADING SYSTEM

IGNACIO ARRONIZ VELASCO

Introduction

China has developed the world's biggest Emissions Trading System (ETS), which starts operating in 2020. The EU, who pioneered the use of market mechanisms to fight climate change in 2005, has assisted China in this process. However, the extent to which this assistance was influential remains questionable. This paper will engage with this question and argue that the EU made important contributions but was far from being decisive. Chinese authorities benefited from European lessons, but domestic political and economic interests remained the key driving factors. The paper will first briefly discuss the EU's interests in promoting an ETS in China. Then, it will situate the analysis of capacity-building programs within the policy diffusion literature and develop some key concepts. The third section will apply a sequential analysis to the development of China's ETS to assess the EU's influence in it, drawing some final conclusions.

The EU's 'ETS diplomacy'

The EU implicitly seeks to create a global carbon market gravitating around the EU ETS.¹ Such a goal was especially

prominent in the Union's pre-Copenhagen strategy,² but it still plays a role in its current climate diplomacy. To construct this market, the EU has adopted a 'pincer' approach. Top-down, it has sought to establish its legal basis within the UNFCCC framework, now provided by Article 6 of the Paris Agreement.³ Bottom-up, it has bilaterally promoted the adoption of market mechanisms abroad and their linking to the EU ETS, such as with Switzerland and Australia.⁴ Little to no attention is dedicated in EU official documents to justify this strategic long-term goal.⁵ The ETS has been the EU's flagship mitigation policy since 2005, and thus the Commission is strongly convinced of its environmental effectiveness.⁶ Moreover, some scholars consider the EU's "linking diplomacy" simply seeks to "extend European governance" extraterritorially.⁷ Others instead understand it as an attempt to regain authority after the Copenhagen fiasco.⁸ Certainly, the Commission's ideological commitment to neo-liberal economic rationalism and the pressure to 'level the international playing field' are also influential drivers.⁹ What remains clear is that the failure of market mechanisms in China would complicate "the adoption of new GHG ETSs elsewhere".¹⁰

1 P. Müller & P. Slominski, "Theorizing third country agency in EU rule transfer", *Journal of European Public Policy*, vol. 23, no. 6, 2016, p. 814.

2 European Commission, Communication from the Commission: Towards a Comprehensive climate change agreement in Copenhagen, COM(2009) 39 Final, 28 January 2009, p. 11.

3 G. Heggelund, et al., "China's Development of ETS as a GHG Mitigating Policy Tool: A Case of Policy Diffusion or Domestic Drivers?", *Review of Policy Research*, vol. 36, no. 2, 2019, p. 168.

4 Müller, op. cit., p. 815.

5 Directorate-General Climate Action, International Carbon Market, European Commission.

6 Directorate-General Climate Action, EU Emissions Trading System (EU ETS), European Commission.

7 Müller, op. cit., p. 814.

8 A. Boute, "The Impossible Transplant of the EU Emissions Trading Scheme", *Transnational Environmental Law*, 2016, p. 1-2.

9 A. Lo & M. Howes, "Power and Carbon Sovereignty of a Non-Traditional Capitalist State", *Global Environmental Politics*, vol. 15, no. 1, 2015, p. 62.

10 K. Biedenkopf, S. Eynde, & H. Walker, "Policy Infusion Through Capacity Building and Project Interaction: Greenhouse Gas Emissions Trading in China", *Global Environmental Politics*, vol. 17, no. 3, 2017, p. 111.

Conceptual framework

Certain core concepts must be defined to analyse the EU's influence in the development of China's ETS. First, policy diffusion refers to the uncoordinated but interdependent adoption of a policy "without cooperation or coercion" but "in light of the other government's choices".¹¹ Namely, a policy would be considered to have diffused from one government to another only if there was no mediating agreement by which such policy was transferred to the receiving jurisdiction. Nonetheless, the 'diffusing' government can instigate the adoption of a policy in other jurisdictions through several means such as material incentives, including competitive and coercive pressures, or via normative and cognitive pathways, such as learning.¹² The extent to which such instigations are influential is greatly dependent on the level of interdependence between both jurisdictions, but also upon other factors such as their cultural compatibility, power asymmetry, etc.

A KEY FACTOR IS THE GROWING POLITICAL IMPORTANCE OF ENVIRONMENTAL PROTECTION IN CHINA, AS EPITOMIZED BY THE 11TH FIVE-YEAR PLAN.

Second, the EU often recurs to capacity-building programs to entice other jurisdictions to adopt similar policies to its own.¹³ These programs entail providing "expertise, technology, and finance" to enhance partners' "capabilities to pursue a certain policy objective". They differ from "policy dialogues and regulatory cooperation (...) in [their] unidirectional character, aimed at (policy) change in one target jurisdiction."¹⁴ That is, unlike other form of regulatory cooperation capacity-building programs do not entail any disposition from the diffusing government to change their own policies. Thus, they represent a rather hierarchical relationship in which the distinction between the teaching and the taught is rather stark.

Third, the issue of agency is crucial to evaluate processes of policy diffusion. In capacity-building programs, four different kinds of actors are involved: the external financiers, the implementing agents, the local coordinators and the actual addressees of the program. Local actors play a crucial role "as initiators and drivers of policy transfer"; their agency is determined by how (a)symmetrical and (de) institutionalized their relationship with the financiers is.¹⁵ Depending on their centrality in the network of interactions local agents act as gatekeepers or as brokers.¹⁶

Analysis

With this framework in mind, the following section will analyse the nature and dimension of the EU's influence in the adoption of China's ETS. The adoption of China's ETS can be divided into three rather distinct phases: one of policy initiation, then a piloting phase and a final stage during which the national ETS is implemented.

Policy initiation phase

During the first phase, running from 2000-2011, the EU only had an indirect influence in the Chinese decision to adopt an ETS. Before 2010, the EU had at most suggested the idea in meetings with Chinese officials, but the issue was not included in their bilateral agenda.¹⁷ Only after the presentation of the 12th Five-Year Plan in October 2010, which included the adoption of a national ETS, did the Commission engage in formalized exploratory discussions with China.¹⁸ Thus, other factors must be considered when explaining the Chinese decision to adopt an ETS.

A key factor is the growing political importance of environmental protection in China, as epitomized by the 11th Five-year Plan. Another factor is the CPC's recognition that command-and-control policies had been ineffective at lowering emissions: it is widely reported that local governments resorted to cutting electricity supply at the end of 2010 to reach their efficiency targets.¹⁹ Some authors point at the political influence of the NDRC, which supported emissions trading to enhance its influence vis-à-vis the Ministry of Finance, which instead supported a carbon tax.²⁰ The leadership of NDRC Vice Chairman Xie Zhenhua may have been essential: as head of the

11 Z. Elkins & B. Simmons, "On waves, clusters and diffusion: A conceptual framework", *Annals of the American Academy of Political and Social Science*, vol. 598, 2005, p. 35.

12 Heggelund, op. cit., p. 172.

13 T. Börzel & T. Risse, "From Europeanisation to Diffusion: Introduction", *West European Politics*, vol. 35, no. 1, 2012, pp. 1–19.

14 Biedenkopf, op. cit., pp. 97–98.

15 Müller, op. cit., p. 815.

16 Biedenkopf, op. cit., p. 100.

17 Heggelund, op. cit., p. 178.

18 J. Enzmann, *Achievements and Planned Activities in Supporting a National ETS in China*, European Commission, 8th Compliance Conference on EU ETS, 7 November 2017.

19 K. Biedenkopf & D. Torney, "Cooperation on Greenhouse Gas Emissions Trading in EU-China Climate Diplomacy", in R. Etienne & J. Men (eds.), *China-EU Green Cooperation*, Hackensack, World Scientific Publishing, 2015, p. 32.

20 Heggelund, op. cit., p. 179.



environmental administration (SEPA) in the early 2000s he had been responsible for the SO₂ trading pilot.²¹

Most authors highlight the importance of China's experience with the Clean Development Mechanism (CDM) in its decision to adopt an ETS. The CDM fostered an understanding of carbon markets among thousands of Chinese government officials, private companies and SOEs in major emitting sectors.²² China produced over 60% of global CDM credits, with European companies becoming their main 'importers'.²³ This 'indirect' EU impact was enhanced by the EU-China CDM Facilitation Project launched in 2007 with €2.4 million from the Commission.²⁴ Yet, other authors point to the traumatic effect of the CDM in Chinese politics. The experience of being "price-takers" within a 'western' institutional framework, the Kyoto Protocol, sparked a debate to recover "carbon sovereignty" by creating a national ETS.²⁵

Piloting phase

The EU had a slightly more substantial influence during the second phase, which ran from 2011 to 2017, in which several regions "rushed" to implement pilot projects.²⁶ This is consistent with the Chinese approach of "crossing the river

THE EXPERIENCE OF BEING "PRICE-TAKERS" WITHIN A 'WESTERN' INSTITUTIONAL FRAMEWORK, THE KYOTO PROTOCOL, SPARKED A DEBATE TO RECOVER "CARBON SOVEREIGNTY" BY CREATING A NATIONAL ETS.

by feeling the stones", allowing the NDRC to test and assess different design options before adopting the national ETS.²⁷ At the 2012 EU-China Summit the two parties agreed to enhance their "practical cooperation on ETS" with a €5 million capacity-building project.²⁸ However, the process of regional piloting complicated the EU's influence because the funding was insufficient to engage all seven pilots.²⁹ Such influence was greater at the beginning of the phase since "the most studied existing market mechanism" by Chinese officials was the European. Indeed, the EU ETS Directive and Guidelines were translated into Chinese and some of their most technical aspects were emulated by all pilots.³⁰

21 L. Jing, "The legacy of Xie Zhenhua, minister who transformed China's climate policy", Climate Home News, 11 December 2019.

22 J. Lewis, "The evolving role of carbon finance in promoting renewable energy development in China", *Energy Policy*, vol. 38, 2010, p. 2882.

23 Heggelund, op. cit., p. 178.

24 European Commission, EU and China Partnership on Climate Change, European Commission, Brussels, 2 September 2005.

25 Lo, op. cit. pp. 68-72.

26 Biedenkopf & Torney, op. cit., p. 28.

27 M. Duan, "From Carbon Emissions Trading Pilots to National System: The Road Map for China", *Carbon & Climate Law Review*, vol. 3, 2015, p. 232.

28 Council of the European Union, Joint Press Communiqué - Towards a stronger EU-China Comprehensive Strategic Partnership, 15th EU-China Summit, Brussels, 20 September 2012.

29 Biedenkopf & Torney, op. cit., p. 35.

30 Ibid, pp. 183-185.

Nonetheless, once project implementers had gained enough experience the regional pilots developed independently, driven by their disparate socioeconomic conditions. For instance, in Shanghai a growth factor was introduced in the allocation of allowances to make room for its rapidly growing economy, while detailed benchmarking favoured companies that had invested heavily in energy efficiency measures.³¹ Similarly, the Wuhan Iron and Steel Company successfully lobbied the Hubei authorities to shift all legal obligations to the parent company, allowing it to balance allowance deficits among its different enterprises.³² A second driving factor was the implicit competition among pilots to influence the national ETS's design. If successful, their industries would earn a competitive advantage against national rivals and their jurisdictions would host national "carbon financial centres".³³

The EU's influence in the pilots was partially enhanced by its interaction with other external financiers. Firstly, by participating as trainers in the International Carbon Action Partnership (ICAP)'s courses, Commission officials influenced numerous Chinese decision-makers before 2012.³⁴ Secondly, Germany, the UK and Norway, all subject to the EU ETS, had already launched capacity-building projects in 2011.³⁵ DG CLIMA and the EU Delegation in Beijing hosted frequent informal coordination meetings with managers of these projects. An implicit division of labour emerged, with smaller financiers reverting to issues or regions not covered by the Commission, but the process lacked a joint strategic vision.³⁶ Third, Europeans financed over 70% of the Partnership for Market Readiness (PMR), a World Bank ETS capacity-building project.³⁷ Moreover, all foreign ETS financiers and implementing consultants in China form a well-connected community that interacts informally in fora

such as the Carbon Market Working Group of the European Chamber of Commerce in China.³⁸

National implementation phase

The third phase, which ran parallel to the piloting process until today, focuses on designing the national system.³⁹ The NDRC's insufficient strategic planning, the EU's renewed capacity-building program and some instances of coercion by the Union made its influence more obvious. First, as abovementioned the NDRC is the central gatekeeper in the design of the national ETS. In 2014, it issued the Interim Management Rules on Emissions Trading, which already indicated the core design features of the ETS: the two-level governance system gives some flexibility to provinces in allocating allowances and verifying emissions while the NDRC retains strong supervisory and regulatory powers.⁴⁰ However, according to many stakeholders the NDRC did not fully utilise its gatekeeping powers. For instance, it could have engaged the multiple financiers jointly to identify

capacity-building needs and allocate resources strategically. However, the NDRC communicated bilaterally with all projects and matched them with local demands on an ad hoc basis.⁴¹ It was informally assisted in steering the projects by implementing consultants acting as brokers, such as Sino-Carbon, Tsinghua University,

Ecofys and ICF International, but this hardly enhanced the NDRC's strategic autonomy vis-à-vis the foreign financiers.

Second, in October 2017 the EU launched a renewed capacity-building project with a €10 million budget, focused on extensive train-the-trainer activities and a wider stakeholder engagement.⁴² Crucially, it introduced a high-level political dialogue between DG CLIMA and the newly created Ministry of Ecology and Environment (MEE).⁴³ This programme has enhanced the EU's influence

THE EU LEVERAGED ITS MARKET POWER TO INFLUENCE CHINA, MOST NOTABLY WHEN IT THREATENED TO INCLUDE FOREIGN AVIATION COMPANIES IN ITS ETS.

31 I. Stensdal, "Towards a typology of pilots: the Shanghai emissions-trading scheme pilot", *Journal of Chinese Governance*, 2019, pp. 10-11.

32 Heggelund, op. cit., p. 182.

33 Lo, op. cit., p. 73.

34 ICAP, Website - ICAP Courses on Emissions Trading, ICAP.

35 Biedenkopf, op. cit., p. 102.

36 Ibid, p. 104.

37 Partnership for Market Readiness, Participants, World Bank, 2019.

38 European Chamber, Carbon Market Working Group.

39 Duan, op. cit., p. 236.

40 National Development and Reform Commission, Interim Measures for the Administration of Carbon Emission Permit Trading, Order No. 17, 12 October 2014.

41 Biedenkopf, op. cit., p. 109.

42 Enzmann, op. cit., p. 6.

43 Directorate-General CLIMA, Emissions Trading: European Commission and China hold first policy dialogue, European Commission, Press Release.

over the national ETS, especially on the most challenging technical issues and the training of accredited independent auditors.⁴⁴ Indeed, many design elements such as the monitoring guidelines and the governance structure can be considered direct emulations of the EU ETS.⁴⁵ The EU's influence over the NDRC has probably been enhanced by the gradual convergence of Chinese and European framing of climate change policies.⁴⁶

Finally, some instances of competitive and coercive pressures influenced the design of the national ETS. As abovementioned, a core Chinese motivation to build an ETS was to assert its sovereignty and “power of saying” in international carbon markets.⁴⁷ This requires strengthening domestic competitiveness and regulatory capacity, which often meant adhering to European standards.⁴⁸ Moreover, the EU leveraged its market power to influence China, most notably when it threatened to include foreign aviation companies in its ETS.⁴⁹ The Chinese Government reacted aggressively against what it perceived as an infringement of its sovereignty, but the Civil Aviation Administration of China (CAAC) and provinces like Guangdong supported the inclusion of aviation to protect Chinese airborne trade and airlines’ competitiveness.⁵⁰

Conclusion

In conclusion, the EU played an important role in the development of China’s ETS, but it was not decisive. Counterfactually, one would imagine that, without the European support and training, Chinese officials would have required more efforts and resources to develop the ETS. However, it was mostly domestic political interests that drove the decision to adopt an ETS. Likewise, local socioeconomic conditions also influenced many of the design choices. Nonetheless, European technical standards and some governance systems were greatly emulated. This may one day prove crucial when negotiating the linking of both ETSs, an achievement which would greatly serve the EU’s strategic goal to establish a global carbon market. ©

44 F. Jotzo & L. Löschel, A., “Emissions Trading in China: Emerging Experiences and International Lessons”, *Energy Policy*, vol. 75, 2014, pp. 3–8.

45 Heggelund, op. cit., p. 185.

46 O. Gippner, “Framing It Right: China-EU Relations and Patterns of Interaction on Climate Change”, *Chinese Journal of Urban and Environmental Studies*, vol. 2, no. 1, 2014, pp. 1–22.

47 Lo, op. cit. pp. 69–70.

48 Heggelund, op. cit., p. 185.

49 V. Birchfield, “Coercion with kid gloves? The European Union’s role in shaping a global regulatory framework for aviation emissions”, *Journal of European Public Policy*, vol. 22, no. 9, 2015, pp. 1276–1294.

50 Heggelund, op. cit., p. 186.



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