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## CHINA IN THE GLOBAL ECONOMY: SIZE MATTERS

David O'Sullivan\*

The economic development of Modern China is a success story unmatched in economic history. China is on the brink of becoming the world's third largest economy after the EU and the US. It runs huge surpluses in trade, and it is accumulating enormous national savings. In a very short space of time, China has established itself as a powerhouse in the global economy.

Size matters. In the aftermath of the global economic crisis, it is crucial that China's behaviour reflects the reality of what China has become. It cannot be a global economic leader if it is not leading the global economy forward – that goes for China internationally, as well as for its national economic policies. This will be vital not only for the global economy, and therefore for Europe, but also as much for China itself. Fortunately, it appears that the Chinese leadership increasingly realises this.

### ***China's economy and WTO membership***

China's accession to the WTO, in December 2001, was arguably one of the most significant modern-day international economic developments. China used the WTO accession preparations, in the nineties, to pursue ambitious economic reforms. It has used the experience gained as a WTO member to significantly increase trade and international economic integration, and to establish itself as a major international economic power. Since its accession to the WTO, China's GDP has tripled.

This development is most significantly reflected in the EU-China economic relationship. Two decades ago, China and Europe's trade was almost nothing. Today, China is the EU's second largest trade partner after the US and its biggest source of imports. Last year, the EU imported €248 billion worth of goods from China with a deficit of €164 billion. The EU's imports from China have grown by 18% per year, for the last five years, although this growth declined in 2008.

China is also the EU's fastest growing export market. The EU exported €78 billion worth of goods to China in 2008 – a rise of 9% compared to 2007. Yet, the absolute level of EU exports remains considerably lower than what the potential of the relationship justifies.

The development of the EU-China economic relationship is remarkable, not only because it has established one of the world's largest economic partnerships in just a few years, but also because, on each side, the path towards this newly shared economic prosperity is made possible thanks to trade liberalisation and economic development. Just as China used WTO membership as a vehicle for economic reform, the EU established itself

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as the world's largest and most open economy, through its internal market, and via EU enlargement.

The EU-China economic relationship is a success story at a time when few in the global economy are standing up for open markets, and where there is decreasing appreciation of the large benefits brought by economic integration and reform. China, for its part, has lifted hundreds of millions of people out of poverty by opening up to the world economy.

### ***The financial crisis***

China is starting to see its way past the economic crisis. Some forecast a global GDP growth around 2% in 2010, and a rebound with a 5-10% increase in world trade, primarily led by China and Asia. Taking this into consideration, many will look increasingly to China for global economic leadership; and rightly so, with success comes responsibility.

For certain critics, China has had a "good crisis". That is of course untrue as the economic crisis shook the foundations of our shared prosperity. This impacted China's economy as well – and on the global scene, the crisis caused severe damage to the WTO rules-based system.

But as we are coming to terms with the aftermath of the crisis, it seems that there are two developments that are shaping China's future, and that will in turn guide our future interactions with post-crisis China.

Firstly, it is true that China had a "good crisis" in the sense that the economic changes lead to a global economic shift away from Europe and the US, and towards China and Asia. That is an economic reality, and a situation that had been developing since the rapid economic rise of China took off.

Secondly, both the EU and China have dealt with the crisis from a strong and common interest in strengthening the trade system. Excessive global liquidity and weak financial regulation are widely seen as causes behind the crisis. But where trade was not seen as a cause of the crisis, both the EU and China have had a keen interest in ensuring it does not become the victim of it.

The role of the G20 in the aftermath of the crisis symbolises this new reality. As a major economic power, China is expected to act as a "responsible international stakeholder", as cited by then-USTR, Bob Zoellick. This means sharing responsibility for resolving issues of global concern and adopting policies that take important systemic effects into consideration. It is encouraging that there are many signs showing that China's leadership increasingly wants to move in this direction.

### ***Global economic governance and crisis response***

China has played an important role in getting this far in the crisis, without causing major protectionist damage to the global economy. This is undoubtedly in large part due to China's over-reliance on exports. But still, it has significantly shaped the global crisis responses – the EU and China



together have pushed for a free trade agenda in G20 meetings and elsewhere. Last November in Washington, this resulted in a G20 commitment to a self-imposed standstill on any trade-restrictive measures.

Global responsibility is not limited to ensuring stability in times of crisis. Responsibility also signifies playing a positive role in securing a harmonious development for the world economy. This entails re-thinking national economic policies that take into account potential impacts on partners abroad. As China has risen to the challenge in combating global protectionism, China must now think twice before pursuing national economic agendas solely focused on its own interest.

Beijing's raw materials policies have increasingly become a cause for international concern. Its rush for resources, particularly in Africa, has made others wonder whether China lacks faith in global commodity markets. It also seems that China is violating WTO obligations by privileging access to Chinese raw materials for its national industries, leaving international competitors at a critical disadvantage. As a giant in the post-crisis economy, China will have to tread more carefully.

Equally, China needs to look at the wider impact of its policies in public procurement or regarding Chinese subsidies to enterprises affected by the crisis. China has to ensure that even legitimate objectives of national economic policy do not unintentionally become modern day equivalents of the 1930s tariff policies.

### **China in the WTO**

Outside the G20, China's growing influence in a post-crisis global economy means it is expected to play a proactive role in the WTO. In the early membership years, implementing China's accession commitments kept Beijing too busy to play an active role in wider WTO issues. This transition has now elapsed, and it has become clear that China has benefited enormously from the system. China's WTO partners now expect it to play a role that reflects its size and the benefits it draws from membership.

China's more outspoken support for WTO-negotiations in the Doha Round, since July 2008, has been a very welcome sign of such engagement. Last September in New Delhi, a key group of trade ministers including Commissioner Ashton and Minister Chen Deming, discussed the way forward for the Doha WTO-talks and provided them with a renewed impetus. The New Delhi meeting delivered agreement on a common objective to work for a 2010 conclusion of the negotiations. This commitment was later confirmed by the leaders at the Pittsburgh G20 summit.

With the global economy at an impasse, the world urgently needs to harvest the trade fruits from a successful conclusion of the Doha Round. Real differences on thorny issues remain, but with the political support of the largest economies – developed and developing – success can be achieved. Here, China is in a key role as broker and bridge builder between developed and developing countries.



With the Doha negotiations, it is sometimes easy to forget the crucial role the dispute settlement mechanism plays in ensuring the stability of the global trading system. Where possible, trade frictions should be resolved through dialogue, but when that is not possible, it is better to let third parties find a way forward through disputes.

China's approach to the WTO dispute settlement has evolved quickly and positively. In the early years, China appeared to see requests for WTO consultations as hostile acts. But more recently, China has taken constructively part in the process. It now seems that China is taking the commendable approach that when a WTO member has lost, or is about to lose a dispute, it should comply.

Since China joined the WTO in 2001, it has brought forward six complaints to the WTO, including one case against the EU where China has requested consultations. The EU has brought three cases against China. Of these, two have been won – on car parts and on financial information services. The third case, on raw materials, is still at the consultation stage.

There is no reason to believe that trade disputes will not be part of the future relationship. As long as that does not contaminate the overall relationship, this should not be a cause for major concern.

### ***Post crisis reform in China***

As China is starting to see light at the end of the tunnel of the economic crisis, there are also increasing expectations that China should re-engage in economic reform and enhance efforts to open up its economy. Many believe that reforms have been put on hold during the crisis. Recently, the European Chamber of Commerce in China reported that developments may even be backsliding. As crisis pressures start to ease, it is essential that China re-engages in reform.

China's growth outlook for 2009 – at 8.5% according to the IMF – looks robust, and certainly far stronger than Western growth. Yet, China has felt the global crisis as exports have weakened and unemployment worsened. Massive expansionary fiscal and monetary policies have temporarily replaced some of the lost demand. However, leading Chinese economists are voicing concerns that China may lose steam when the credit-fuelled recovery comes to an end.

These voices are a reminder that China's development path is not guaranteed. Nor is it irreversible. Over and above the general challenge of adapting to an uncertain post-crisis world economy, China faces many challenges emanating from the social and economic imbalances that have followed its rapid rise: growing urban-rural and coastal-inland divides, an aging population, and a deteriorating environment. Beijing knows it needs to address these issues to maintain social cohesion and stability.

There are political challenges too: developing more democratic structures, human and minority rights, freedom of speech issues. The world will be watching closely how China manages these issues.



Another equally challenging task will be to find a sustainable balance between savings and consumption. China has to do so, as it is simply too big a part of the global economy to remain a one-sided producer, but not user, without tilting the global production-consumption balance.

With its newly acquired wealth, China has the resources to implement the necessary changes. But even with China's economic capacity, it will still be a gigantic task to channel savings into social safety nets. Pensions, healthcare and unemployment benefits, reforms in the state sector, and not least the implementation of a green economy are among the more pressing concerns for the development to remain sustainable. Furthermore, in China's financial markets, huge economic potentials appear to be held back because of concerns of what may follow from loosening money market control.

### ***Coming out the crisis: the road ahead for the EU-China trade relationship***

Finding the right answers to these challenges will also be essential for the EU-China relationship to remain on an even keel in the long-term. The still increasing economic imbalances between the two parties need to be countered by commitments to effectively deal with its root causes.

In this respect, the EU-China dialogue seems fairly well-equipped. First and foremost, we have the EU-China High Level Economic and Trade Dialogue (HED). The Dialogue was set up last year to provide overall direction for EU-China trade, investment and economic cooperation. This explicitly aims to focus on the trade imbalance. The HED is chaired by EU Trade Commissioner Ashton and China's Vice-Premier Wang Qishan.

The HED has, thus far, been held twice. The next HED will be particularly important as it brings a new Commission together with the Chinese leadership at a time when China may be the first major economy to effectively rebound from the global crisis, and when many will look to China for increased economic leadership. It will also take place at a juncture where it is important that European business regains confidence in trading and investing in China, to be part of its post-crisis economic development.

Against this background, our trade and economic dialogue will face, in particular, a number of issues that are linked to rebalancing China's trade with Europe. In spite of the EU's trade deficit, it is important to stress that the size of China's exports to the EU is not a problem in itself. The real problem is the difficulty of accessing China's markets – both for EU exporters and EU investors.

On the road ahead, key issues will be:

- Restrictions that will limit access of foreign companies to key sectors, often through excessive regulatory requirements or as listed by the Chinese government in its investments rules. Such restrictions exist for services, e.g. in banking and telecommunications.
- Chinese industrial policies with a negative impact on foreign companies. This has been the case in the auto sector (car parts) where



the Commission took the issue to the WTO. In 2008, the WTO confirmed China's breach of WTO rules.

- Government procurement, where "Buy Chinese" and other de facto restrictions limit market access. Unfortunately, China is not yet part of the WTO's agreement on government procurement; although negotiations are underway, albeit at a slow pace.
- Horizontal issues such as transparency in laws and regulations; enforcement of intellectual property rights as copyrights, trademarks and patents are infringed; and subsidies creating overcapacity in difficult sectors such as steel and chemicals.

Europe wants a better trade balance through more trade with China, not less. Relations between the EU and China have already come a very long way since bilateral ties were established just over thirty years ago. Inevitably, a relationship such as ours needs constant attention if we are to maintain and build confidence. Yet, throughout the crisis, our relationship has resisted severe stress.

Coming out of the economic crisis, it is essential that we now take the next steps in the EU-China trade and economic relationship. Even with all the complexities and difficulties this entail, the bottom-line is fairly straightforward: in the medium and longer term, things will simply have to develop to reflect the global power China is becoming, for China's sake, as well as for the global economy that it is such a big part of. As former EU Commissioner Chris Patten once said, "The only thing that should worry us more than a successful China would be an unsuccessful China." With the size of China, this is even more accurate than ever.





## THE INFLUENCE OF THE FINANCIAL CRISIS ON CHINA-EUROPE RELATIONS

Chun Ding \*

The financial crisis that initially broke out in September of 2008 has dealt an enormous blow on both China's economy and that of Europe. Since the second quarter of 2008, the European Union (EU)'s GDP growth rate has continuously decreased from 1.7%, slumping to the level of -2.4% in the first quarter of 2009, and then further stagnating to a slower pace of -0.3% for the second quarter of 2009. Meanwhile, the unemployment rate in the EU has risen from 7.1% in September 2008, to the level of 9.1% in September 2009. The EU's foreign investments, for the whole year of 2008, have decreased by a huge margin of 28% since 2007.<sup>1</sup> At the same time, China's economic growth had also gradually slowed down in the second quarter of 2008. China's GDP growth rate continuously decreased from 11.1% to 6.1%, in the first quarter of 2009, and then recovered to the level of 7.9% in the second quarter of 2009. China's unemployment rate rose from 4%, in the first 3 quarters of 2008, to 4.3% in the second quarter of 2009, which has been regarded as the first upward change in the past five years.<sup>2</sup> At present, although an economic recovery is on the cards for China, and given the fact that the light seems to be appearing at the end of the tunnel for the EU economy, unemployment rates in both China and the EU remain high, and the process of economic recovery will undoubtedly be long for both China and the EU.

### ***The short-term perspective***

In the short term, the bilateral trade and economic relations between China and the EU have inevitably been affected by this financial crisis – perhaps the most serious crisis since the end of World War II.

Firstly, a downward trend has occurred on bilateral trade and investment. In accordance with data issued by the Chinese Ministry of Commerce, China's total volume of trade with the EU, for the first half of 2009, was reduced by 20.9%, including a reduction by 24.5% in exports, and by a reduction of 13.1% in terms of imports compared to those of the same period of last year. The reduction margin of exports exceeded that of imports. At the same time, the total number of the EU's direct investment projects in China decreased by 22.8% compared to the same period of last year.<sup>3</sup>

Secondly, disputes in bilateral trade and economic matters have been greatly intensified, which is mainly reflected by an increase of EU's anti-

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<sup>1</sup> <http://ec.europa.eu/eurostat/euroindicators>

<sup>2</sup> <http://www.stats.gov.cn/tjsj/jidusj/>

<sup>3</sup> <http://www.mofcom.gov.cn/aarticle/ae/ah/200908/20090806489129.html>



dumping cases against China. During 2008, the EU launched 6 new Anti-Dumping Investigations cases against products emanating from China. In the first 9 months of this year, the EU launched altogether 7 Anti-Dumping Investigations cases, 5 of which were targeted at China.<sup>4</sup> Such Anti-Dumping Investigations are mainly concentrated on capital-and-technology-intensive products, exported from China as chemical products, metal-wares, and electronic products in newly-emerging trends, quite different from the EU's traditional practice of Anti-Dumping Investigations against China, in terms of the specific categories of products involved in the EU's Investigation. Meanwhile, a large value is placed on these Anti-Dumping cases and vast numbers of Chinese employees are indirectly involved in the Anti-Dumping cases launched by the EU. For example, the Anti-Dumping Investigation launched by the EU against stainless steel fasteners, exported from China, deals with an area of trade whose value is estimated at 760 million US dollars, and this consequently incurs a total loss of 800,000 jobs, once it is filed as a case.<sup>5</sup>

Thirdly, the economic stimulus plans and measures adopted by both China and the EU actually provide opportunities for the expansion of bilateral trade and investment. In China, a stimulus package plan of 4 trillion yuan has now been put into implementation, including a 1.5 trillion yuan investment in infrastructure construction, a 370 billion yuan investment on upgrading industrial and technical transformation, and an investment of 210 billion yuan on the development of new energy sources, energy-saving, and emissions' reduction. Traditionally, EU exports of transport equipment, high-tech industrial equipment, and technologies for the development of new energy sources and environmental protection, tend to represent the dominant share in these specific areas of the Chinese market – thus, such a stimulus package, adopted by China, will offer tremendous business opportunities for EU companies. At the same time, many EU member states are also placing infrastructure construction into their lists of priorities with regard to their respective economic stimulus policies. For example, Germany plans to make an investment of 50 billion euros on its infrastructure construction, and concurrently France, Poland, and Romania also regard this field as their key focuses of investment. EU countries' concentration on infrastructure offer precious opportunities for Chinese engineering corporations and other relevant companies to expand their business in the EU market.

Besides, Chinese enterprises will benefit from the opportunity offered by the crisis to conduct mergers & acquisitions, and expand their investment in European SMEs.

Finally, as part of the long-term influence imposed by this financial crisis, the demands of the structural adjustment and economic transition are crucial missions facing both China and the EU, which will bring both challenges and opportunities to the bilateral economic and trade relation.

<sup>4</sup> [http://europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/stats.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/stats.htm)

<sup>5</sup> <http://www.jgj163.com/baikeji/maoyidongtai/20090927/1056.html>



The EU member states are faced with such problems as inadequate technological innovations, rigid employment systems, excessive burdens of social welfare, fiscal deficits, and high unemployment rates, which will force the EU into making adjustments on its economic and industrial structures, for the creation of new growth “hot spots”. At the same time, China is confronted with different economic problems, such as its excessive dependency on exports for its economic growth, its over-polluted environment and over-exhausted energy supplies that have been conducive to the tremendously inefficient economic growth, and to its relatively weak educational and scientific research systems. Therefore, China is faced with the need to shift its path towards economic growth from an export-oriented path, to a domestic demand-oriented one, accompanied by the upgrading of its industrial structure, and the acceleration of its industrialization and urbanization processes. Enormous potential for cooperation between China and EU now exists with regard to the development of clean energy sources, transfer of environmentally compatible technologies, and in terms of trade in high-tech equipments. However, in the long-term, it is also unavoidable that both parties will compete against each other in the fields of high-tech products and advanced-level manufacturing, which pose obstacles to the sustained development of bilateral economic and trade relations.

### ***The medium to long-term perspectives***

From the medium and long term perspectives, the current financial crisis also provides more opportunities for the development of China-EU relations on trade and economic cooperation. A prospective survey of post-crisis China-EU trade and economic cooperation highlights the very broad space existent for bilateral cooperation and also many lurking perils obstructing the sustained development of good bilateral relations.

Firstly, excellent conditions were created for the further expansion of China-EU trade and economic cooperation due to the enhanced cooperation between both parties for an active joint response to the crisis: in other words, there existed a consensus for a broader opening of markets, and a common opposition against protectionism. Chinese premier Wen Jiabao made a “Trip of Confidence” to Europe in early 2009, and then attended the China-Europe Summit in the Czech Republic, in May. On the European side, the EU Commissioner for trade, Baroness Catherine Ashton, made her first visit to China as one of the joint chairs of the 2<sup>nd</sup> EU-China High-Level Economic and Trade Dialogue (HED). During these visits, both parties emphasized a joint opposition against protectionism, and a common support for an even broader opening of markets. As a response, China sent out 3 purchasing delegations to Europe in a very short space of time, and the first purchasing delegation spent over 1.5 billion US dollars alone, which reflects China's firm attitude of opposition against protectionism. Such delegations highlight China's desire to perform a re-balancing of the vast trade deficit that construes relations between China and the EU.



Secondly, both parties share a common desire to reform the international financial order and a common wish to enhance the supervision of the international financial architecture. Furthermore, both parties possess a common concern in regards to new energy resources, energy saving, and environmental protection. EU member states enjoy leading roles and apparent advantages on nuclear power technology, photovoltaic solar energy, and wind energy technology, which might become leading economic industries when the current crisis comes to an end. For a planned economic transformation, China decided to insert new energy sources, energy saving and environmental protection into its list of priorities for future investment. Nonetheless, China's renewable energy industries are still faced with the problem of "excess of low-end products and shortage of high-end products". Against such background, a combination of EU member states' technological advantages and China's demand of such technologies, offers the very promising prospect of enhanced cooperation for both parties on this issue.

Thirdly, the rise of potential protectionist policies should be cautioned. The new trend of protectionism is reflected by the concentration of the EU's Anti-Dumping activities against China, towards the capital-and-technology-intensive industries. Such trend shows an intensification of competition between China and the EU in this area of activity. In the long-run, the path towards China's industrial upgrading is inevitable. So the competition between China and the EU in these industries might be intensified and prolonged if European corporations cannot make the successful breakthrough in terms of their industrial upgrading (or if they keep avoiding to kick start this excessively long period of adjustment). Therefore, the problem of protectionism should be cautiously and appropriately handled when disputes become inevitable.

To add to this, another important issue, relevant to the future development of bilateral trade and economic cooperation between China and the EU, is the possibility and practicability of mutual opening of respective markets, mutual lowering of barriers for the entry of investment, and mutual fair treatment of corporations. It is completely unfair for the EU to continue to deny China a Market Economy Status (MES), which places Chinese enterprises in a very inferior and disadvantageous position, when in competition with their European partners. Meanwhile, it was revealed by relative statistics that China's investment in the EU, during the first half of 2009, remained low (only 196 million US dollars<sup>6</sup>), which indicates that the EU should make an effort to more broadly open its market to Chinese enterprises, and lower its barriers for the entry of Chinese investments.

Moreover, as the largest technological exporter to China, the EU exported various technologies with a total contracted value of 123.24 billion US dollars, from the beginning of China's economic reform to June of 2009<sup>7</sup>.

<sup>6</sup> [http://video.mofcom.gov.cn/class\\_onile010671800.html](http://video.mofcom.gov.cn/class_onile010671800.html)

<sup>7</sup> <http://mnc.people.com.cn/GB/9946497.html>



Nevertheless, the EU's restrictions on its high-tech exports to China have limited further development of technological trade between China and the EU. A relaxation on the EU's restrictions over its high-tech exports to China, would not only help China upgrade its industrial structure, but would also contribute to easing the imbalance of trade between China and the EU. Nevertheless, China should strengthen its protection on intellectual property rights and more broadly open its market. In addition, the EU should also remove the barriers on the entry of Chinese enterprises onto the European market, and resolve the problem related to the inadequacy of effective legal protection of Chinese enterprises in the EU.

For example, in the case of the merger & acquisition by the Chinese Ping An Group of Fortis Bank, the restructuring measures adopted by the Dutch and Belgium authorities, with regard to Fortis Bank, seriously damaged the interest of the Chinese Ping An Group. Finally, the problem of climate change brings both challenges and opportunities to the China-EU relations. The disagreement between China and the EU on this problem is firstly related to the problem of responsibility. In China's opinion, developed countries should take the greatest responsibilities for the global climate change dilemma, and offer financial and technological support to developing countries for their implementation of energy saving and emission reduction technologies. This is because "75% of the total increased amount of world greenhouse gas emissions (GHG), since the 1950s has been produced by developed countries."<sup>8</sup> Furthermore, this disagreement is also concentrated on the establishment of emission reduction objectives. In accordance with their own advanced stages of social and economic development, developed countries set up excessively high standards of emission reduction for developing countries, which not only increased the cost of economic growth for these developing countries, but also provided objectives that did not fit the reality of current development stages of developing countries. Proper handling on the aforementioned disagreements between China and the EU, may bring benefits to the deepening of cooperation from parties on energy saving, emission reduction, the Clean Development Mechanism (CDM) etc. However, improper handling of such disagreements may have negative influence on the development of bilateral trade and economic cooperation. In fact, the excessively high standard of environmental protection and emission, set up by the EU countries for China, can be considered as a disguised trade barrier.

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<sup>8</sup> UN Economic & Social Section: *Overview on Economic & Social Affairs of the World in 2009*.



## THE EU AND CHINA: CLIMATE CHANGE AND DEVELOPMENT

Jing Men\*

Climate change has become the top concern of the world leaders in recent years. Compared to the other major issues in international relations, such as anti-terrorism, arms control and disarmament, climate change has rapidly taken priority and this was demonstrated by the first such summit meeting in September 2009. At least two reasons have led climate change to develop into a world concern. First of all, the impact of climate change affects all the countries in the world – rich or poor, big or small – no one can escape from it. It is imperative that joint actions should be taken. Secondly, both developed and developing countries are concerned with sustainable economic development. Measures taken against climate change may have a direct impact on the mode and speed of development. How to maintain a balance between efforts against climate change and development is a challenge for all countries. Joint action can only be taken after consensus is found.

The coming climate conference in Copenhagen in December will be essential for renewing the climate agreement – needless to say, this will depend on how much responsibility both the developed countries and the leading developing countries agree to assume. The EU, as the largest group of industrialised countries, and China, as the largest developing country, and currently the largest greenhouse gas emitter in the world, are two very important participants in the United Nations Framework Convention on Climate Change and the Kyoto Protocol. To a certain degree, whether the efforts to contain climate change will be successful or not in the coming years will be affected by the positions and policies of the EU and China.

### ***China on climate change***

China ratified the Kyoto Protocol in 2002. However, different from developed countries, China, as a developing country, is not required to meet emission reduction targets. In recent years, due to both China's increasing amount of GHG emissions and the rising concerns of the world, China, together with India and other developing countries, face growing pressures to introduce emission reduction targets.

Looking at the international history on the efforts to combat environmental problems, we may find that China was one of the 113 states participating in the first UN Conference on the Human Environment held in Stockholm in 1972. This year marked "the beginning of environment discourse

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at the policy level in China.”<sup>1</sup> The first national conference on the environment issues was held in August 1973 in China, and introduced some regulations aimed at protecting and improving the environment. These regulations were approved by the State Council three months later and served as “the basis for the initial phase of environmental work in China.”<sup>2</sup>

When the economic reform policy was adopted at the end of the 1970s, it was for the first time that the Chinese leaders incorporated the environmental protection into the State Economic and Development Plan, as a separate chapter.<sup>3</sup> In 1979, China passed the Environmental Protection Law for Trial Implementation. The 1982 Constitution included environmental protection provisions. Several years after the United Nations Conference on Environment and Development (1992), China issued its first white paper on “Environmental Protection in China” in 1996. A number of laws on water pollution prevention, water and soil conservation, air pollution prevention, and energy conservation were enacted from the 1980s to the 1990s, but these laws were poorly enforced.<sup>4</sup> Poor enforcement remains a problem in the 21<sup>st</sup> century. Among the 20 environmental goals set for the 10th Five-Year Plan, eight have not been achieved.<sup>5</sup>

When the Hu-Wen government was formed, they started to address the social cost of economic development. Their emphasis on scientific development led to enhanced efforts for environmental protection. The 11th National Five-Year Guidelines (2006-2010) regulated that “energy consumption per unit GDP should be about 20 percent less than before and water consumption per unit industrial added value down by 30 percent.”<sup>6</sup> The National Leading Group on Climate Change was established in 2007, which is directly under the leadership of Wen Jiabao. China’s National Climate Change Program, the first of its global warming policy initiative, was issued in June 2007. It includes “measures ranging from laws, economy, administration and technology which will combine to reduce greenhouse gas emissions and imbue the country with a flexible approach to climate change.”<sup>7</sup>

China regards climate change as an environmental problem as well as a development problem. The efforts against climate change aim at improving the environment and maintaining sustainable development. As a matter of fact, China has been one of the major victims of climate change.

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<sup>1</sup> Gørild Heggelund, *Environment and Resettlement Politics in China: the Three Gorges Project* (Hampshire, UK: Ashgate, 2004), p. 137.

<sup>2</sup> Ibid.

<sup>3</sup> Stewart MacPherson and Yu shuo Zheng, *Economic and Social Development in South China* (Cheltenham: Edward Elgar Publishing, 1996), p. 267.

<sup>4</sup> Gregory C. Chow, *China’s Economic Transformation* (Malden, MA: Blackwell Publishing, 2007), p. 188.

<sup>5</sup> Chinese Government, ‘Energy Consumption Major Environment Concern,’ 13 April 2006, retrieved 15 October 2009, [www.gov.cn/english/2006-04/13/content\\_252597.htm](http://www.gov.cn/english/2006-04/13/content_252597.htm).

<sup>6</sup> People’s Daily Online, ‘China Sets New Targets in Five-Year Plan,’ 8 March 2006, retrieved 15 October 2009, [english.people.com.cn/200603/07/eng20060307\\_248647.html](http://english.people.com.cn/200603/07/eng20060307_248647.html).

<sup>7</sup> Chinese Government, ‘National Emergency Response Mechanism Tackles Climate Change,’ 8 June 2007, retrieved 15 October 2009, [www.china.org.cn/english/environment/213376.htm](http://www.china.org.cn/english/environment/213376.htm).



The snow storm in early 2008 in Southern China led to an economic loss of 151.65 billion yuan. The flood in Southern China in the summer of 2009 led to a loss of 40 billion yuan (till June).<sup>8</sup> In 2009, *China Youth Daily* and *Science and Technology Daily* jointly conducted a survey among 22,000 young Chinese citizens between the ages of 16 and 35. 75 percent of those who participated in the survey believed that China is suffering from the effects of climate change.<sup>9</sup>

The rising attention given to climate change by both the Chinese leadership and Chinese citizens indicates a change in Chinese diplomatic practises in this field. "Environmental diplomacy" has been practised in recent years. On the one hand, the Chinese government maintains that climate change is a problem caused by the development of industrialised countries in the past several hundred years. It is true that China has become the largest GHG emitter this year, but the problem of climate change is a problem that has accumulated over time in history. China's National Climate Change Program stated that developed countries should take the lead in reducing GHG emissions. "For developing countries with less historical emission and current low per capita emission, their priority is to achieve sustainable development."<sup>10</sup> China argues that one of the reasons that it is a major GHG emitter is because of its large population. If China's energy consumption and GHG emissions are calculated on a per capita basis, they are "far lower than those of developed countries, even lower than the world average."<sup>11</sup> The Chinese insists that since "climate change was mainly caused by the developed countries which have been discharging greenhouse gas since the industrial revolution", "the principle of common but differentiated responsibilities" should be pursued and the developed countries should continue to "take the lead in reducing emission after 2012."<sup>12</sup>

On the other hand, China has made noticeable efforts to convince the international community that it is eager to cooperate and it has taken robust measures to cope with problems related to climate change. In October 2008, China published its first white paper on climate change entitled "China's Policies and Actions for Addressing Climate Change." The white paper demonstrates China's active efforts to address climate change.

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<sup>8</sup> China Environment Protection Net, 'Qihou bianhua weiji' [Climate Change Crisis], 18 October 2009, retrieved 20 October 2009, [www.hjbhw.com/TradeNews/ViewTradeInfo.aspx?Infold=17812](http://www.hjbhw.com/TradeNews/ViewTradeInfo.aspx?Infold=17812).

<sup>9</sup> China Climate Change Info-Net, 'Qihou bianhua gongzhong lijie yu xiaofei xingwei diaocha baogao fabu' [The Investigation Report on the Public Understanding on Climate Change and Consumer Behaviour Is Published], 15 May 2009, retrieved 20 October 2009, [www.ccchina.gov.cn/cn/NewsInfo.asp?NewsId=17423](http://www.ccchina.gov.cn/cn/NewsInfo.asp?NewsId=17423).

<sup>10</sup> Chinese Government, 'China's National Climate Change Programme Prepared under the Auspices of National Development and Reform Commission,' p. 59, June 2007, retrieved 20 October 2009, [www.ccchina.gov.cn/WebSite/CCChina/UpFile/File188.pdf](http://www.ccchina.gov.cn/WebSite/CCChina/UpFile/File188.pdf).

<sup>11</sup> Chinese Foreign Ministry, 'Special Representative for Climate Change Negotiations of the Ministry of Foreign Affairs Yu Qingtai Receives Interview of the Media,' 22 September 2007, retrieved 20 October 2009, [www.mfa.gov.cn/ce/celt/eng/xwdt/t366696.htm](http://www.mfa.gov.cn/ce/celt/eng/xwdt/t366696.htm).

<sup>12</sup> Ibid.





When releasing the white paper, Xie Zhenhua, deputy director of the National Development and Reform Commission, stressed that:

- By conserving and using renewable energy, China reduced 835 million tons of carbon dioxide (CO<sub>2</sub>) equivalent in 2006 and 2007. The reduction is almost equal to the combined GHG emission volume of the UK and Belgium in 2005;
- By using renewable energy, such as wind and solar power, China saved 220 million tons of coal, equivalent to 500 million tons of CO<sub>2</sub> emission;
- In 2006 and 2007, optimisation of industrial structure saved 147 million tons of coal equivalent, equal to 335 million tons of CO<sub>2</sub> emission.<sup>13</sup>

China's willingness to invest in clean energy was further confirmed this month when it announced to aim for a total of 2 GW on solar PV installations over the country by 2011, which would probably make China the world leader in installed PV power by the end of 2011.<sup>14</sup> Also recently, a Memorandum of Understanding was announced between the PV-tech company First Solar and the Chinese government about the construction of a 2 GW solar power plant in Ordos City, Inner Mongolia. This solar project will be built over a multi-year period including four phases and lasting till 2019.<sup>15</sup>

### **Cooperation between the EU and China**

While trying to defend China's position on climate change, Beijing's "environmental diplomacy" also indicated that there is a consensus within the Chinese government on the necessity to work together with the others in the international community. The EU serves as an important partner to China. The EU acts as a leader of climate change due to its active policy making and its expressed determination to effectively reduce GHG emissions. It is also due to the fact that neither the Clinton administration nor the Bush administration was willing to cooperate with others in order to implement the Kyoto Protocol.

The EU signed up to the Kyoto Protocol in 1998 and agreed to have "a 5.2 percent reduction in developed world greenhouse gas emissions with an EU 15 commitment to an 8 percent reduction (from a 1990 base) by 2012."<sup>16</sup> In 2000, the Commission launched the Climate Change Programme in order to meet the commitments that the EU made to the Kyoto Protocol. More significant efforts have been seen in recent years – the EU committed itself to

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<sup>13</sup> See Li Jing, 'China Issues Post-Kyoto Plans on Climate Change,' *China Daily*, 30 October 2008, retrieved 21 October 2009, [www.chinadaily.com.cn/china/2008-10/30/content\\_7156216.htm](http://www.chinadaily.com.cn/china/2008-10/30/content_7156216.htm).

<sup>14</sup> PV-tech.org, 'China aims to install 2GW, PV installations by 2011,' 13 October 2009, retrieved 22 October 2009, [www.pv-tech.org/news/\\_a/china\\_aims\\_to\\_install\\_2gw\\_pv\\_installations\\_by\\_2011/](http://www.pv-tech.org/news/_a/china_aims_to_install_2gw_pv_installations_by_2011/).

<sup>15</sup> Euro-China Solar Promotion Association, 'First Solar Planning Massive 2 GW Solar Project In China,' 10 September 2009, retrieved 22 October 2009, [www.solarpromotion.org/detail1.asp?id=595](http://www.solarpromotion.org/detail1.asp?id=595).

<sup>16</sup> Bretherton and Vogler, *The European Union as a Global Actor* (London: Routledge, 2006), p. 106.



"a reduction of at least 20% in GHG by 2020 – rising to 30%" if an international agreement can be reached on global targets. In the meantime, the EU also stressed that the share of renewable energies in EU's energy consumption by 2020, should reach 20 %.<sup>17</sup>

Between the EU and China, the dialogue on environment issues was launched in 1996, and then upgraded to ministerial level in 2003. At the 5th EU-China summit meeting in September 2005, a Joint Declaration on Climate Change was adopted, which confirmed the establishment of the EU-China Partnership on Climate Change. Since then, the issue of climate change has taken centre-stage in EU-China relations. In February 2006, the Memorandum of Understanding on Cooperation on Near-zero Emissions Power Generation Technology through Carbon Dioxide Capture and Storage was signed between the EU and China. At the 10th summit meeting in November 2007, the EU and China signed a joint statement, reaffirming their commitment to jointly face the challenge of climate change by following the rolling work plan of the Partnership on Climate Change. The European Investment Bank agreed to offer a €500 million loan to China, for projects aimed at tackling climate change.<sup>18</sup> In June 2009, the European Commission adopted a Communication which established the "plan to establish an investment scheme to co-finance the construction and operation of a power plant to demonstrate carbon capture and storage (CCS) technology in China." Such a scheme can be set as "a model for other technology cooperation activities between developed countries and emerging/developing countries in the context of a post-2012 climate change agreement."<sup>19</sup> In the cooperation between the EU and China on climate change, there are mainly two goals: the first is "to develop and demonstrate, in China and the EU, advanced 'zero-emissions' coal technology". The second goal is "to significantly reduce the cost of key energy technologies and promote their deployment and dissemination."<sup>20</sup>

China understands that the Clean Development Mechanism (CDM) is crucial for sustainable development, and as many as 2,232 such projects have been approved till October 2009.<sup>21</sup> Needless to say, the large number of

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<sup>17</sup> Commission of the European Communities, '20 20 by 2020 Europe's Climate Change Opportunity,' COM(2008) 30 final, Brussels, 23.1.2008, p. 2, retrieved 21 October 2009, [eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0030:FIN:EN:PDF](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0030:FIN:EN:PDF).

<sup>18</sup> Xinhuanet, 'China, EU Sign Joint Statement, to Jointly Face Climate Change,' 3 December 2007, retrieved 21 October 2009, [news.xinhuanet.com/english/2007-12/03/content\\_7194256.htm](http://news.xinhuanet.com/english/2007-12/03/content_7194256.htm).

<sup>19</sup> European Commission, 'Demonstrating Carbon Capture and Geological Storage (CCS) in Emerging Developing Countries: Financing the EU-China Near Zero Emissions Coal Plant Project,' Brussels, 25 June 2009, COM (2009) 284 final, p. 2, retrieved 21 October 2009, [ec.europa.eu/environment/climat/pdf/china/com\\_2009\\_284.pdf](http://ec.europa.eu/environment/climat/pdf/china/com_2009_284.pdf).

<sup>20</sup> EUbusiness, 'New chapter opens in EU-China Climate Change Partnership,' 29 April 2008, retrieved 21 October 2009, [www.eubusiness.com/China/climate-change.23/](http://www.eubusiness.com/China/climate-change.23/).

<sup>21</sup> Clean Development Mechanism in China, 'Approval Status of CDM Projects in China (up to October 14, 2009),' 22 October 2009, retrieved 26 October 2009, [cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File2354.pdf](http://cdm.ccchina.gov.cn/WebSite/CDM/UpFile/File2354.pdf).



approved CDM projects is used by the Chinese government to demonstrate its initiatives in curbing GHG emissions. China is attracted by cooperating with the EU because the latter possesses the advantage of capital and technology in this domain. As mentioned earlier, the partnership on climate change between the EU and China motivated the two sides to develop joint projects. However, a key issue in such cooperation is technology transfer, where the cooperation clearly shows its limits. China hopes to get "cheap access to key technologies to reduce its GHG emissions," but the EU expects "equivalent economic compensation for its technology." As China has proved to be "fast in absorbing foreign technology," the EU is afraid that technology transfer to China will help the latter "become a competitive exporter of high technology goods" in the future.<sup>22</sup>

### **Prospects**

With the Copenhagen Conference coming soon, both the EU and China are actively trying to work out some plans for emission reduction for the post-2012 period. China and India agreed to cooperate on climate change and announced collaboration on renewable energy projects in a Memorandum of Understanding this month in New Delhi. While agreeing to work on slowing the GHG emissions, they "resist making those limits binding and subject to international monitoring."<sup>23</sup>

Inside the EU, in order to encourage the developing countries to be more active in tackling climate change, the European Commission proposed a blueprint for international climate funding in September 2009, but due to the blockage of Poland and some Eastern European countries, the funding plan will probably fail at the EU summit meeting at the end of October.<sup>24</sup>

Such developments seem to indicate a very difficult process of negotiations and bargaining laying ahead in Copenhagen next December. Both the EU and China agree that climate change is a great challenge to the world. However, quantifying the amount of effort that each side is required to invest seems to be a tricky issue. The questions remain about how much responsibility each country should take, and whether such responsibility should be bound.

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<sup>22</sup> Constantin Holzer and Haibin Zhang, 'The Potentials and Limits of China-EU Cooperation on Climate Change and Energy Security,' *Asia Europe Journal*, Vol. 6, No. 2 (2008), p. 225.

<sup>23</sup> Muneeza Naqvi, 'India, China Agree to Cooperate on Climate Change,' *The Washington Post*, 21 October 2009, retrieved 26 October 2009, [www.washingtonpost.com/wp-dyn/content/article/2009/10/21/AR2009102101158.html](http://www.washingtonpost.com/wp-dyn/content/article/2009/10/21/AR2009102101158.html).

<sup>24</sup> EurActiv, 'EU Summit Might Fail on Climate Funding,' 27 October 2009, retrieved 27 October 2009, [www.euractiv.com/en/climate-change/eu-summit-fail-climate-funding/article-186798](http://www.euractiv.com/en/climate-change/eu-summit-fail-climate-funding/article-186798).



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RELATIONS AND DIPLOMACY STUDIES

InBev-Baillet Latour Chair of  
European Union-China Relations

## CALL FOR PANELS AND PAPERS ON EU-CHINA RELATIONS

UACES Conference, September 2010, College of Europe, Bruges\*

The College of Europe is proud to announce that it will be hosting, in September 2010, the 40<sup>th</sup> annual UACES conference, entitled: "Europe at a Crossroads" (Exchanging ideas on Europe 2010). UACES is a major British Academic organisation (political scientists, economists and lawyers are all members), and the conference is expected to attract upwards of 300 participants.

This conference is an opportunity to present research and engage with an audience from a broad range of European related disciplines. Leading international speakers and over 200 paper-givers will debate the critical issues facing decision-makers, examining where Europe should go, why and how.

The conference will be hosted by the College of Europe and will feature opportunities to enjoy the medieval city of Bruges, also known as the "Venice of the North".

The call for Panels and Papers is open, with the submission deadline for abstracts on the 22<sup>nd</sup> January 2010. We encourage contributions from all academic disciplines. Registration will open in early March 2010.

At the InBev-Baillet Latour Chair of EU-China Relations, we are also participating and providing support to the organisation of this conference. We would like to take this opportunity to iterate our desire to hold various panels related to EU-China relations. Therefore, we encourage papers on any aspect of EU-China relations, and panels on this subject, will be established thereafter. The deadline requirements are the same as those outlined above. We also encourage candidates from a variety of academic backgrounds, and the panels are open to participants of non-academic backgrounds, willing to partake according to the conference requirements.

For more information of the conference, please visit:  
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\* UACES stands for the University Association of Contemporary European Studies.