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Table of contents

1. CHINA'S DATE WITH TWO	
Jing Men	2
2. CHINA'S WEALTH IS EU'S NEEDS: THE CONFLICT ON RARE ELEMENTS	
Reinhard Biedermann	8
3. CHINA-GREECE COOPERATION AGAINST THE BACKGROUND OF GLOBAL ECONOMIC AND FINANCIAL CRISIS	
Dinos Stasinopoulos	17

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CHINA'S DATE WITH TWO

Jing Men *

February 14, 2012 was a busy day for China: the postponed 14th EU-China summit was finally held in Beijing and Chinese Vice President Xi Jinping, the forthcoming leader of China, paid a state visit to the US. This day has no sentimental significance for ordinary Chinese people, as Valentine's Day is not a Chinese tradition. However, if one were told that both the Europeans and the Americans failed to notice that they both, admittedly coincidentally, selected Valentine's Day to meet with the Chinese, one could not help questioning the coincidence.

China has been growing rapidly since the reform policy was carried out at the end of the 1970s. The country's considerable economic development has facilitated its rise to great power status, and this contrasts with developments in the now debt ridden Europe and weakening US, which have been greatly affected by the international financial and economic crisis. China has grown to be the world's second largest economy and biggest exporter. Moreover, it is the second largest trading partner of both the EU and the US. If the US and the EU treated China as an inferior partner before the international financial and economic crisis, China's importance pushes the transatlantic allies to be more pragmatic when engaging with China.

Several years ago, American professor David Shambaugh said that "the interaction of the United States, China, and the EU will be a defining feature of the international system in the years to come."¹ Up until now, Sino-EU and Sino-US relations have been developed in two parallel bilateral frameworks. Although some Europeans have discussed the possibility of a G-3, no institutional arrangement has been set up which could bring the three players together in this formation. That China held separate meetings with the EU and the US on Valentine's Day neatly depicts the way in which these partners interact.

The 14th Sino-EU summit

From 1998 to 2008, EU-China summits were held annually without fail. The pattern was broken, however, in 2008, when the Chinese unilaterally cancelled the summit because of French President Nicolas Sarkozy's scheduled meeting with the Dalai Lama. Three years later, and with China's consent this time, it was the EU's turn to postpone the summit, due to the serious problems in the eurozone, which needed to be tackled urgently. The fact that this highest level of EU-China dialogue has been interrupted by both sides due to acute domestic concerns seems to indicate that EU-China relations are not prioritised in either of the countries' foreign policy agendas.

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¹ D. Shambaugh, "The Strategic Triangle: U.S. and Europeans Reactions to China's Rise", *The Washington Quarterly*, vol. 28, no. 3, 2005, p. 7.

**InBev-Baillet Latour Chair of
European Union-China Relations**

Compared with the previous summit, this summit is noticeable for the following reasons. In the four and a half page Joint Press Communiqué, the EU not only reaffirmed its “respect for China's sovereignty and territorial integrity”, but also pledged to strengthen EU-China dialogue and cooperation over human rights “based on equality and mutual respect.”² Furthermore, leaders at the summit agreed to assign a “particular importance” to “working for the resolution of the Market Economy Status (MES) issue in a swift and comprehensive way.”³ It is quite clear from these statements that the EU intends to woo China. The Taiwan and Tibetan issues are part of core Chinese national interests because they are closely related to the country's sovereignty and territorial integrity. The EU's statement seems to be a promise that European leaders will not challenge China's bottom line on these issues, as they occasionally did in the past.

Secondly, since the EU issued its first policy paper on China, it has always been devoted to the idea of encouraging the transformation in China in the direction of an open society, based on the rule of law and respect for human rights. The EU intends to add a human rights clause in the EU-China Partnership and Cooperation Agreement under negotiation, so as to be able to exert pressure on China over its human rights violations. On many occasions, the EU criticised China's disregard for human rights. China always argues that for developing countries, the right to subsistence should be the first guaranteed right. The principle of “equality and mutual respect” that the EU is now hoping to follow moves away from its long standing position on human rights abuses in China and is an obvious compromise made to the country.

Thirdly, Market Economy Status is a big concern for Chinese leaders, who have raised the issue several times in past summit meetings but have failed to get a positive response from Europe. The expressed determination to solve this problem by European leaders is another indication that the EU is softening its position. Nevertheless, it must be pointed out that the Europeans are tactical in taking this step. It is generally accepted that China will be granted MES by 2016 at the latest. Therefore, after 2016, this issue will no longer be available as a bargaining chip. Moreover, as only about 1 percent of Chinese exports to the EU are affected by the anti-dumping measures taken by the EU, the political impact of this issue is much larger than the economic impact.

Obviously, the EU hopes that by conceding on these issues, China will help to deal with the eurozone crisis. In contrast to the debt-ridden eurozone, China holds more than US\$ 3 trillion of foreign currency reserves. As China is the fastest growing market for European exports, its support could be crucial in helping the EU out of the crisis. While everyone knows that for quite some months the EU has been struggling to find a sovereign debt solution and that this was the reason why the EU-China summit meeting of last year was cancelled, strangely enough, there is no mention in the Joint Press

² Council of the European Union, “Joint Press Communiqué of the 14th EU-China Summit”, Beijing, 6474/12, 14 February 2012, retrieved 18 February 2012, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/127967.pdf.

³ Ibid.

**InBev-Baillet Latour Chair of
European Union-China Relations**

Communiqué of the serious challenge that the EU currently encounters. Whether it is because it is so obvious that there is no need to mention it, or because the problem is so serious that it is too heavy for the Communiqué to address, remains unknown. It was, however, one of the key issues at the summit.

As a matter of fact, the EU has been waiting for China's support for more than a year. Although verbally Chinese leaders remain positive when discussing their assistance to the EU in dealing with its debt issue, the Chinese Premier Wen Jiabao had not expressed his readiness to help rescue the EU until Chancellor Merkel visited Beijing a week before the EU-China summit, on the occasion of the 40th anniversary of Sino-German diplomatic relations. At the summit meeting with Mr Van Rompuy and Mr Barroso, Wen expressed for the second time that China is willing to become more deeply involved in supporting Europe and that the country is ready to play a bigger part in helping to resolve the European sovereign debt issue. The fact that this position has now been openly stated demonstrates that China fully understands the severity of the euro crisis. As a result of the financial crisis in the US and the EU in 2008 and 2009, 20 million migrant workers in China lost their jobs. As the EU is China's largest export market, the EU and China are arguably in the same boat. China's close economic interdependence with the EU means that China cannot sit idly. To help the EU is to help China itself.

Although it is unclear to what extent China is willing to help the Europeans, nor do we know how much the country would like to pay to help bail out Europe, the speeches made by several Chinese officials recently reveal that China will most likely contribute to both the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) through the International Monetary Fund. China's pledge to aid Europe has had a positive impact on the international financial and stock markets – gold futures, European stocks and Asian stocks all rose in the wake of the summit.

Xi Jinping's state visit to the US

While Wen Jiabao was busy meeting the Europeans in Beijing, Chinese Vice President Xi Jinping paid a visit to Washington, holding a day of meetings in the White House and the Pentagon on the 14th of February. Xi's tour was a "return visit", after American Vice President Joe Biden's visit to China last August. As he is most likely to become the future leader of China, the US is, on the one hand, eager to establish a good working relationship with Xi; on the other hand, however, US officials are keen to use such opportunities to voice their concerns over a series of issues with China. In addition, as Xi's visit falls in a US election year, the Obama Administration is facing domestic electoral pressure to "act tough" towards China. Clearly, it is not an easy task to balance these two competing priorities.

China's trade and currency policies are blamed for American manufacturing job losses and the huge US trade deficit. Biden pointed out that China played an unfair game with the US, and called for a level playing field in US-China competition. He also mentioned that the US is concerned about the human rights situation in China. Interestingly, when Joe Biden criticised China on these policies and the Chinese veto of a UN Security

**InBev-Baillet Latour Chair of
European Union-China Relations**

Council resolution on Syria, he did not want to upset his counterpart so much that he explained that "it is a sign of the strength and maturity of our relationship that we can be candid about our differences as we have been."⁴

While addressing the concerns of Biden and other high ranking American officials during his visit to the US, Mr Xi also emphasised that the US should take steps to address Chinese concerns too, stating that the two sides must respect each other's "core interests". As Tibet and the Taiwan issues are part of China's "core interests", Xi urged the US to "honor its commitment to recognizing Tibet as a part of China and oppose Tibetan independence and handle Tibetan issues in a prudent and proper manner."⁵ Both at his meetings with President Obama and with the Pentagon, Mr Xi highlighted the importance of Taiwan in Sino-US relations, which caught the US unprepared.⁶ Ma's recent success in Taiwan's Presidential election conforms to the interests of both the US and China, which will help to maintain a relatively stable cross-strait relationship in the coming four years. Based on the three Sino-US Joint Communiqués, China has been hoping that the US would stop selling weapons to Taiwan. Up until now, however, the US has rebuffed China's request. The arms sales by the US to Taiwan last year resulted in China's decision to suspend for some time its military-to-military exchange as well as to postpone of military dialogue with the US. Probably due to the fact that the US insists that it should continue to sell arms to Taiwan, Mr Xi did not invite Defence Secretary Panetta to visit China, nor did he discuss Sino-US military exchange in 2012.

If nothing goes wrong, Mr Xi will soon become the leader of the most populous state in the world. His visit to the US was not only an important way for the US to learn more about his ideas, his personality and his working style, it was also an important way for the Chinese to see whether or not Xi could represent China well and earn respect from the US. As Li Cheng, a senior fellow from Brookings Institution, pointed out in his interview just before Xi's visit to the US, Xi has two audiences to appeal to at the same time: the Americans and the Chinese. In order to impress his countrymen, he needs to try to advance or protect China's best interests.⁷ Most of the time Xi followed standard Chinese diplomatic scripts in his speeches but occasionally he included some common cultural references by citing a line from a pop song and an advertising slogan, for example. Jon Huntsman, a former U.S. ambassador to China, commented that Mr. Xi "humanized" Sino-US relations,

⁴ United States Government, "Remarks by Vice President Biden and Chinese Vice President Xi at the State Department Luncheon", 14 February 2012, retrieved 18 February 2012, <http://www.humanrights.gov/2012/02/15/remarks-by-vice-president-biden-and-chinese-vice-president-xi-at-the-state-department-luncheon/>.

⁵ "Xi Jinping", *The New York Times*, 16 February 2012, retrieved 18 February 2012, http://topics.nytimes.com/top/reference/timestopics/people/x/xi_jinping/index.html?scp=1-spot&sq=xi%20jinping&st=cse.

⁶ "Xi's talk on Taiwan indicates his thought as a future leader", *DW News.com*, 18 February 2012, retrieved 19 February 2012, <http://national.dwnews.com/news/2012-02-18/58603787.html>.

⁷ A. Wagner, "Understanding Xi Jinping and China's New Generation of Leaders-- An Interview with Cheng Li", *The National Bureau of Asian Research*, 13 February 2012, retrieved 19 February 2012, <http://www.nbr.org/research/activity.aspx?id=207>.

**InBev-Baillet Latour Chair of
European Union-China Relations**

while at the same time stood firm on core areas of Chinese policy.⁸ On the popular microblogging sites known as weibo in China, Xi's visit was also regarded as a success.⁹

A comparison between the two meetings

A comparison between the two meetings demonstrates the following points. First, both the EU and the US attached great importance to their meetings with China. At the 14th EU-China summit, both Mr. Herman Van Rompuy, President of the European Council and Mr. José Manuel Barroso, President of the European Commission, were in Beijing. Before meeting their Chinese counterparts, both of them spoke highly of the meeting and highlighted the necessity to cooperate with China when attempting to cope with global economic uncertainties.¹⁰ In Washington, American Defense Secretary Panetta welcomed Mr Xi with a 19-gun salute and an honour guard of 350 troops in a ceremony "never before bestowed on a foreign vice president at the Pentagon."¹¹

Second, both the Sino-EU and the Sino-US meetings were deemed a success. A general consensus has been reached between Brussels and Beijing that China will offer more help to bail out the EU. What needs to be done as a follow up is to draft the detailed plans and ensure that appropriate channels for Chinese investment are opened in Europe. In return, the Europeans may consider granting MES to China. With regards to Xi's visit to the US, although his get-to-know-you tour was rather brief, these initial meetings did not go badly. The Americans are eager to have new faces in the Chinese leadership, although whether or not a leader with a different image will translate into better relations with the US remains to be seen.

Third, both the EU and the US were quite pragmatic in their dealings with China. The EU made compromises in some areas in order to obtain China's assistance to help deal with its sovereign debt problem. The US tried to balance criticising China with its desire to build a constructive relationship with the incoming Chinese leadership, in order to guarantee the US's interests in Asia and the world. Behind the increasingly pragmatic attitudes of the Europeans and the Americans, is the rising influence of China in regional and international affairs. Mr Xi is expected to lead China through a decade in which the country will probably overtake the US to become the world's

⁸ J. Page and L. Meckler, "Xi Meets Critics in Congress", *The Wall Street Journal*, 16 February 2012, retrieved 19 February 2012,

<http://online.wsj.com/article/SB10001424052970204792404577225692585053590.html>.

⁹ K. B. Richburg, "Xi Jinping's U.S. trip plays well in China", *The Washington Post*, 18 February 2012, retrieved 19 February 2012, http://www.washingtonpost.com/world/asia_pacific/chinese-vice-president-xi-jinpings-us-trip-plays-well-back-home/2012/02/18/gIQAhsWkLR_story.html.

¹⁰ Council of the European Union, "14th EU-China Summit holds promise for a strengthened cooperation", 13 February 2012, retrieved 19 February 2012,

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/127951.pdf.

¹¹ K. Wong, "Xi Jinping welcomed by 19-gun salute", *The Washington Times*, 14 February 2012, retrieved 19 February 2012, <http://www.washingtontimes.com/news/2012/feb/14/defense-secretary-leon-panetta-welcomed-chinese-vi/>.



InBev-Baillet Latour Chair of European Union-China Relations



largest economy.¹² With China's role becoming increasingly undeniable and indispensable in global governance, the EU and the US are pushed towards a more pragmatic stance in their respective China policies. Yet, the question is: when practising pragmatism in their respective policies on China, how far can they go? Can they forget their normative principles? Facing an ever stronger China with its different political and ideological system, how will they digest the challenge and the opportunity provided by the rise of China?

¹² B. Arends, "IMF bombshell: Age of America nears end", *MarketWatch*, 25 April 2011, retrieved 19 February 2012, http://articles.marketwatch.com/2011-04-25/commentary/30714377_1_imf-chinese-economy-international-monetary-fund.



CHINA'S WEALTH IS EU'S NEEDS: THE CONFLICT ON RARE EARTH ELEMENTS

Reinhard Biedermann*

Most people interested in China's economic rise can cite former communist party leader Deng Xiaoping's famous phrase about cats and their staggering ability to catch mice, indifferent of their colour. In recent months, however, another phrase, "*there is oil in the Middle East; there is rare earth in China*", has come to dominate political discourse.¹ In 2010 policy makers in Japan and the West no doubt gained considerable insight into this latter proclamation, made in 1992, when China blocked a rare earth shipment to Japan because of a minor incident around the Diaoyu or Senkaku islands, which both countries lay claim to. To avoid delivery to Japan through the "backdoor", EU and USA shipments were also blocked.

China has steadily reduced the export quotas imposed on rare earths, a significant change as 90% of the world's rare earth reserves are located in the country. Together with Mexico and the US, the EU has called upon the World Trade Organisation (WTO) to make a decision about China's export restrictions, which differentiate between domestic and foreign demand. In July 2011 a case brought to the WTO's dispute settlement body on other metals, such as coke, zinc and bauxite, resulted in China being asked to lift restrictions. This can be seen as a "precedence case" for rare earth metals.²

Notwithstanding China's overwhelming dominance of today's rare earths market, it was not long ago that global rare earth demand was mainly served by the USA and Australia. Indeed, in the 1990s the USA was still the dominant supplier of rare earths to Europe. However, as a result of high production costs and environmental concerns, the States soon stopped producing rare earths and became a net importer of these commodities. Reacting to this, the People's Republic of China created incentives to shut down rare earth production facilities elsewhere in the world, arguing that economic incentives should prevail over strategic ones. The result was that China soon built up a monopoly position over rare earth elements. Japan and the EU do not possess any of their own rare earth pits, although there is scientific speculation over untapped resources in the Pacific Ocean, Scandinavia and Greenland. Reacting to China's monopoly, the USA and Japan have begun to categorise rare earths as strategic elements. The EU has followed suit.

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¹ According to the official "China National Radio", Deng Xiaoping made this remark during his famous Southern Tour in January 1992, retrieved 9 January 2012.

http://www.cnr.cn/nmgfw/nmzt/60dq/tjnmq/200704/t20070412_504442760.html.

² A. K. Stahl, "The EU's Policy Response to China's Resource Diplomacy in Africa", *EU China Observer*, Issue 4, 2011, p. 16, <http://www.atlantic-community.org/app/webroot/files/articlepdf/China%20EU%20in%20Africa.pdf>.

InBev-Baillet Latour Chair of European Union-China Relations



A successful strategy to confront China's restrictions must take into account China's perspective. In 2010 the EU issued an initiative on raw materials, which was elaborated in early 2011. The initiative argues that the EU's policy response to global resource scarcity will have three pillars, one of which will emphasise raw materials diplomacy.

In the following section China's rare earth policy will be analysed, followed by a short exploration of the first pillar of the EU's raw materials initiative. The conclusion will argue that the EU's raw material diplomacy is one-sided and might therefore contribute to more frictions in the future. It will be argued that a better understanding of the situation in China and in developing countries in Africa, which provide cheap resources for high-tech industries, would be a first step, followed by multilateral engagement based on equality.

Mercantilism, market consolidation, and environmental protection

Rare earths are not widely known about because they are low on the production chain and only make up a small part of global industry, with an annual production of below 150.000 tonnes. Without them, however, many modern daily-used electronic applications that are used on a daily basis, from smart phones to green energy applications, would not be able to be manufactured. Rare earth elements are a group of 17 metals (as classified by the British Geological Survey).³ Most of them are attached to a certain geographic location, in other words they are regional and not reproducible. Rare earths are conventionally divided into three groups: the light (lanthanum, cerium, praseodymium, neodymium), the middle (samarium, europium, gadolinium, terbium) and the heavy (dysprosium to lutetium) rare earth elements.⁴ The heavy ones especially, which are needed in the defence industry, are mainly found and mined in China. Processed rare earths and other raw materials can be found in almost every high tech product including mobile phones and catalysts. They also make up a considerable part of the renewable energy sector. When making a mobile phone, for example, 40 different raw materials are used. A computer even consists of 60 raw materials, some of which are not to be found in Europe. For many essential raw materials, extraction is concentrated in only a few countries.

Contrary to the term "rare earths", these precious materials are actually not so rare. To highlight this point, the *Chinese Society of Rare Earths* states on its homepage: "*The Earth is rare in the universe, but rare earths are not that rare!*"⁵ Around one third of the world's known reserves are located in Greenland and deposits exist also in the USA, Canada, Australia, South Africa

³ "Rare Earth Elements", *British Geological Survey. National Environmental Research Council*, November 2011, retrieved 12 January 2012, <http://www.bgs.ac.uk/downloads/start.cfm?id=1638>.

⁴ D. Fontana, L. Pietrelli, "Separation of middle rare earths by solvent extraction using 2-ethylhexylphosphonic acid mono-2-ethylhexyl ester as an extractant", *Journal of Rare Earths*, vol. 27, no. 5, 2009, p. 830.

⁵ "The Chinese Society of Rare Earths", retrieved 21 February 2012, <http://www.cs-re.org.cn/en/>. Remarkable is the difference between Deng Xiaoping's proclamation from 1992 and today's slogan – in times, when China really starts to use the rare earth geopolitically.

**InBev-Baillet Latour Chair of
European Union-China Relations**

and Sweden.⁶ In June 2011, Japan found large resources of rare earths in the Pacific Sea, which could be exploited in the future. However, high-tech industries have irresponsibly relied on Chinese supply in recent years. In 2008, China produced 120.000 tonnes of rare earths, which is equivalent to 97% of worldwide production. 30.000 tonnes were exported, while a huge but unquantifiable share went to foreign corporations that have production facilities in China. Since 2005 China has started to restrict its exports, which decreased from 60.000 tonnes in 2006 to around 30.000 tonnes in 2011. In September 2009 China's media reported that for environmental reasons, China would start applying quotas on exports of rare earths and other exotic metals, of which it is the only supplier. China has even announced a complete export ban from 2015 onwards.⁷ This is worrying considering the findings of a recent study produced by the *US-China Economic and Security Review Commission*, which states that there is currently a global need of 210 000 tonnes of rare earths.⁸

Only a few years ago, China "dumped" rare earths on the markets at crash prices, which led other countries like USA, Australia and Canada to stop their own production. Even though mines in these countries may be re-opened within the next few years, the restrictions on exports will hit many high-tech corporations unexpectedly and they will therefore be unprepared for a change in their supply chain.⁹ According to experts, it will take years to satisfy the demand by sourcing rare earths outside China. Nonetheless, there is potential for China's monopoly position to be broken.

Geopolitical and mercantilist reasoning has encouraged China to curb the exports of rare earths. The country has engaged in numerous successful takeovers but has also failed certain takeover attempts, as Australian and US officials becoming increasingly aware of China's global rare earths strategy.¹⁰ China's blockade of shipments of rare earth metals to Japan in 2010, originating from sovereignty conflicts around the Diaoyu (or Senkaku islands, as they are called in Japan), caused European and especially German companies to suffer shortages. The president of the German industry association *Bundesverband der Deutschen Industrie* (BDI; Association of the German Industries) commented at the time that Chinese supply restrictions are very dangerous for German high-tech industries. He highlighted that

⁶ D. McMahon, "US Rare Earth Report tackles Chinese monopoly", *Rare Earth Investing News*, 27 April 2010, retrieved 21 October, 2011, <http://rareearthinvestingnews.com/754/us-rare-earths-report-tackles-chinese-monopoly/>.

⁷ "Worries mount over China's "rare earth" export ban", *Euractiv*, 9 June 2010, retrieved 12 January 2012, <http://www.euractiv.com/sustainability/worries-grow-over-china-rare-earth-export-ban-news-495040>.

⁸ L. Levkovitz, N. Beauchamp-Mustafaga, "China's Rare Earth Industry and its role in the International Market", *U.S. – China Economic and Security Review Commission*, 3 November 2010, retrieved 12 January 2012, <http://www.uscc.gov/researchpapers/2011/RareEarthsBackgrounderFINAL.pdf>.

⁹ But there are also exemptions, like the French car maker Renault that stockpiled reserves for many years to come.

¹⁰ R. Biedermann, "China's Great Game on Rare Earth Elements and the New Raw Materials Diplomacy of the European Union", *Tamkang Journal of International Affairs*, vol. 25, no. 2, October 2011.

**InBev-Baillet Latour Chair of
European Union-China Relations**

China wants to force German and other foreign companies to relocate their production sites to China, to develop high-technology goods there. The German car manufacturer Daimler already decided to build electric cars in a joint venture with the Chinese manufacturer Build Your Dreams (BYD), and Volkswagen plans to invest € 6 billion till 2012 in new production facilities in China to manufacture electric cars.¹¹ Most critical in the construction of electric cars are the batteries that need rare earths. Germany fears that the export restriction will hamper development towards a green economy at a time when Germany has decided to abandon nuclear energy until 2022, as a reaction to the nuclear catastrophe in Fukushima in Spring 2011. German companies have claimed that they are pressured by Chinese officials to increase their investment in China, if they want to secure access to rare earth minerals. When high-tech corporations cease to have access to China's rare earths, they will have to invest in China and develop parallel technology transfers. In 1999, then President Jiang Zemin wrote *"Improve the development and applications of rare earth, and change the resource advantage into economic superiority"*.¹² Bearing this quotation in mind, one might consider China's export curbs as a long envisaged neomercantilist strategy, which now bears fruits.

It is also important not to forget the importance of domestic influences, such as competition and environmental factors. China's State Council's announcement in May 2011 indicates a desire to consolidate what has been, up to recently, an almost unregulated sector, ensuring that it remains under governmental control. In Inner Mongolia, the most important region for rare earths in China and the world, the government monopolised the sector under the state-run corporation *Baotou Steel Rare Earth*. In 2010, Baotou Steel already produced around 60.000 tonnes of the total Chinese production of 130.000 tonnes. Baotou Steel is a stock exchange company listed in Shanghai and had doubled its sales in 2010 to 5,3 billion Yuan (ca. 830 million US\$). Two years from now, it is predicted that only the biggest state run corporations will dominate the market. It is predicted that 22 of the 35 corporations licenced by the Province of Inner Mongolia will close their businesses and receive compensation, while 9 more will be closed with no compensation. For years, Chinese officials have complained about the vigorous competition between the many mining corporations that has been keeping prices too low. China literally was exporting "gold for the price of cabbages".¹³ The Ministry of Land and Resources invoked a seldom-used mining law to take direct control of eleven rare earth mining districts in southern China.¹⁴ Baotou Steel shall get the right to mine the biggest mining region, enabling it to gain a stronger

¹¹ "Seltene Erden aus China – im Interview mit der Tradium Rohstoff AG", ARD, retrieved 26 July 2012, <http://www.youtube.com/watch?v=JE-7kIaXGMY>.

¹² "Rare Earth - An Introduction", *Baotou National Rare-Earth Hi-Tech Industry Development Zone*, retrieved 12 January 2012, <http://www.rev.cn/en/int.htm>.

¹³ K. Bradsher, "China Acts to Tighten Grasp on Rare Earths Production", *New York Times*, 16 February 2011, retrieved 12 January 2012, http://www.nytimes.com/2011/02/17/business/global/17rare.html?_r=1.

¹⁴ K. Bradsher, "China Seizes Rare Earth Mine Areas", *New York Times*, 20 January 2011, retrieved 12 January 2012, <http://www.nytimes.com/2011/01/21/business/global/21rare.html>

**InBev-Baillet Latour Chair of
European Union-China Relations**

influence over the control of world market prices. The Baotou Rare Earth Hi-tech Industrial Development Zone, a rare earth hi-tech zone unique to both China and the world, formulated a series of preferential policies to assist investors in Research and Development (R&D) programmes and the commercialisation of new products. The China Investment Corporation (CIC), a state investment fund, is working together with the Baotou Steel Group to establish a new firm that will integrate rare earth resources into its production line in the Inner Mongolia Autonomous Region. The reserves owned by Baotou account for 87 % of China's total rare earths reserves and 40% of the world's.¹⁵

Environmental reasons are another driving force behind China's desire to control the production of rare earths. China suffers from serious environmental degradation where rare earth elements are mined, a situation aggravated by widespread illegal mining. The separation of the different rare earth elements is a complicated chemical process that is in need of several acids where thorium, a radioactive element, is distributed throughout the waste. Ignoring environmental concerns is now a thing of the past, even if change has been gradual. The State Council of China has issued new guidelines, the first of their kind in eleven years, to promote the healthy development of the rare earths mining industry. Environmental concerns seem to be the major incentive for the creation of new rare earth mining regulations.¹⁶ The Department of the Environment published a plan with stricter regulations for the mining industries in January 2011. The ministry plans new boundary values for residual water. It is expected that these new rules will make exports more expensive. Sun Zhenyu, China's ambassador to the WTO, stated in October 2010 that China's stocks of rare metals were depleting fast and that Beijing had to conserve them for environmental reasons. Curtailing production would affect not only foreign customers but also local producers, according to this official.

China played the "environmental card" to defend the export restrictions at the WTO panel. However, the panel rejected China's argument.¹⁷ A July 2011 decision concluded that Chinese quotas, export duties and license requirements were discriminatory with regards to overseas sales.¹⁸ *"This is a clear verdict for open trade and fair access to raw materials. China should ensure free and fair access to rare earth supplies"*, said Karel de Gucht, European trade commissioner. The argument of the EU and the USA was that raw material consumption was not being controlled domestically. If China fails to comply after a certain period of time, the plaintives are allowed to respond with equivalent trade sanctions. The trade panel noted that export restrictions on trading these materials do not provide effective environmental protection, because domestic production and consumption is not similarly

¹⁵ "Security, Monopoly Concerns Stymie China's Acquisition of Australian Miners", *ChinaStakes*, 25 September 2009, retrieved 12 January 2012, <http://www.chinastakes.com/2009/9/security-monopoly-concerns-stymie-chinas-acquisition-of-australian-miners.html>

¹⁶ "China tightens regulation of rare earth industry", *Xinhuanet*, 16 June 2011, retrieved 12 January 2012, http://news.xinhuanet.com/english2010/indepth/2011-06/15/c_13931798_3.htm

¹⁷ World Trade Organization, Reports of the Panel, *China – Measures Related To The Exploration Of Various Raw Materials*, WT/DS394/R, Geneva, World Trade Organization, 5 July 2011.

¹⁸ Ibid.

**InBev-Baillet Latour Chair of
European Union-China Relations**

restricted.¹⁹ Europe and the USA want to see the ruling's principles applied also to rare earths. After a meeting with China's trade minister, Chen Deming, and other officials, De Gucht showed optimism and suggested that Chinese policy makers have realised that they need to change their policy.²⁰ Potentially as an initial indication of the efficacy of the WTO decision, for the second half of 2011 China doubled its export quotas, which totalled 15.738 tonnes, significantly higher than those of 2010, when the figure was 7.976 tonnes. Critics do, however, point out that the bigger quota is more a result of adding other materials to the quota, rather than an indication of real progress.

A flawed response: The EU's raw materials initiative

Due to the dependency and the above described situation, the EU's trade and raw materials strategy pays particular attention to fighting export restrictions, including export taxes, bans and regulated exports. First, in 2008, the European Union proposed a new strategy to address the critical need for raw materials. The EU describes access to raw materials as an essential part of the production of both high tech products and every-day consumer products.²¹ A 2008 May resolution of the European Parliament said the Parliament was "concerned about the trend to restrict free access to raw materials in third countries", but also recognised "the right of countries to restrict access to their raw materials for environmental purposes or to address critical shortages of supply when necessary."²² In November that same year, an EU expert group classified 14 raw materials as "critical" for EU industries and suggested a new global EU diplomacy strategy, that would ensure that companies gain better access to them in future. "Criticality" is related to production, which is concentrated in a handful of countries, mainly China, Russia, the Congo and Brazil.²³ In May 2009 European industry ministers, or those in charge of industry, proposed an EU "raw materials diplomacy", which should seek dialogue with all relevant third countries and raise the issue in all

¹⁹ "WTO backs EU complaint against China's mineral quotas", *Euractiv*, 6 July, 2011, retrieved 12 January 2012, <http://www.euractiv.com/trade/wto-backs-eu-complaint-chinas-mineral-quotas-news-506322>

²⁰ "China's "Rare Earth" Export Policy might change, says European envoy", *Huff Post*, 14 July 2011, retrieved 21 February, http://www.huffingtonpost.com/2011/07/14/china-rare-earth-export-policy_n_898304.html. "From the general indications they gave, I can conclude that they realize that they cannot have a different policy with respect to exports than with respect to internal consumption", De Gucht said.

²¹ Commission of the European Communities, *European Commission proposes new strategy to address EU critical needs for raw materials*, IP/08/1628, Brussels, 14 November 2008.

²² "Raw materials: Heading for a global resource crunch?", *Euractiv*, 18 January 2010, retrieved 12 January 2012, <http://www.euractiv.com/sustainability/raw-materials-heading-global-resource-crunch-links-dossier-188526>

²³ "Raw Materials: Are they truly scarce?", *Euractiv*, 28 February 2011, retrieved 12 January 2012, <http://www.euractiv.com/specialreport-rawmaterials/raw-materials-truly-scarce-news-502538>.

**InBev-Baillet Latour Chair of
European Union-China Relations**

appropriate trade and other fora.²⁴ In another document, the EU lists examples of 15 different raw materials or group of materials (e.g., copper products, aluminium or nickel products, rare earth, tungsten, and indium) where countries have decided to implement export restrictions in recent years. China uses export restrictions in 11 of 15 materials or groups of materials, including aluminium, coke, copper, magnesium and nickel.²⁵

The so-called "integrated strategy" of the EU for raw materials is based on three pillars that attempt to deal with the raw materials challenges: 1) Better and undistorted access to raw materials on world markets, 2) Improved conditions for raw materials extraction within Europe, and 3), Reducing the EU's consumption of raw materials by increasing resource efficiency and recycling. However, the long-awaited European Commission paper on raw materials has failed to foster enthusiasm among EU businesses, since many took it as a mere repetition of the previous 2008 initiative, calling for a better prioritisation of the three pillars of action (trade, domestic mining, recycling). Analysts argue that China's rare earth curbs have strongly influenced the new Commission paper.²⁶ The business sector has especially criticised the successful French efforts to include a chapter on financial and agricultural markets. France vowed to take on commodity speculators as part of its G20 presidency in 2011. It is questionable as to whether such an extension of the issues still fits into the EU's "strategy".

It is not only the business community that is criticising the EU's strategy. *Friends of Earth Europe* (FoEE), an environmental Nongovernmental Organization (NGO), expressed severe concerns about the European Commission's raw materials initiative, arguing that it will have a detrimental effect on the environment and developing countries. Environmentalists are concerned about "*other countries' rights to restrict trade on environmental grounds and their ability to process raw materials themselves*". Their argument is that the EU's new raw materials diplomacy would only fulfil the needs of European industries to ensure "security of supply", rather than uphold the long-term sustainability of the natural resources sector.²⁷ For Oxfam, a NGO fighting against poverty and injustice, the February 2010 strategy regarding raw materials, with its promises of a better partnership with Africa, are no more than "*window dressing for a forceful diplomatic and trade strategy*."²⁸

²⁴ Commission of the European communities, *Critical Raw Materials for the EU: Report of the Ad-hoc Working Group on defining critical raw materials*, Brussels, June 2010, retrieved 12 January 2012, http://ec.europa.eu/enterprise/policies/raw-materials/files/docs/report-b_en.pdf

²⁵ Besides China, other countries on the list include Russia (for ferrous scrap and non-ferrous scrap, wood), Ukraine (for cokes, ferrous scrap), India (iron ore) or Argentina, India, Brazil and Pakistan for raw hides and skins and wet-blue leather. In a press release, the EU counts more than 450 export restrictions on more than 400 different raw materials.

²⁶ A.K. Stahl, loc. cit., 2011.

²⁷ "EU Raw Materials Initiative, Commentary", *Friend of Earth Europe*, February 2009, retrieved 12 January 2012,

http://www.foeeurope.org/trade/publications/2009/FoEE_commentary_RawMaterialsInitiative_feb09.pdf.

²⁸ "Raw materials: Towards a global resource war?", *Euractiv*, 3 March 2011, retrieved 12 January 2012, <http://www.euractiv.com/specialreport-rawmaterials/raw-materials-global-resource-war-news-502704>.

**InBev-Baillet Latour Chair of
European Union-China Relations**

The European outrage over the restrictions of rare earth exports is just one aspect of the general EU trade strategy "Global Europe", endorsed in 2006. When De Gucht invokes a "war on resources", he is most likely referring to the fact that many developing countries are highly dependent on their raw material exports and most of their revenue stems from export taxes, which can be used to promote industrialisation and economic development at home. African countries see EU efforts to get "undistorted access" as attempts to undermine economic development. Unfortunately for the EU, when it comes to raw materials diplomacy, a one-size-fits-all strategy simply does not exist.

Conclusion: The EU needs a sustainable, unbiased approach

At the beginning of 2012 it seems that the rare earths conflict has calmed, due to a global economy that has also cooled down its demand for resources. According to official Chinese sources, the full-year-quota will be around 31.000 tonnes, similar to 2010 and 2011, respectively. However, combined, the slowing global economy and high prices have reduced demand from Europe, the USA and Japan, which has led to speculation that China will curtail its 2012 quotas. Indeed, China exported only 14.750 tonnes of rare earths in the first 11 months of 2011, or 49 percent of the full-year limit.²⁹ One might ask European industry leaders why they raise an alarm about export curbs, when they later do not exploit quotas available to them. Nevertheless, the alarm has been heard in Europe's political circles. In the midst of the Euro crisis and the numerous EU summits recently held, German Chancellor Angela Merkel found time to visit Mongolia – a new frontier for rare earth elements – in November 2011.

Overall, the EU's diplomatic goals are complicated by the different political and economic situations of the targeted countries. Africa is very different to China but the strategy is such that it should be applied invariably everywhere. EU diplomacy over raw materials is weakened by domestic factors, such as the diverging goals of the different actors involved, which range from country specific concerns – France classically emphasises agriculture, Germany high-tech interests – to the preoccupations of civil society organisations in Europe. Coupled to this, the external environment impacts on EU diplomacy in this field. Compared to China's raw materials strategy, which has recently become remarkably coherent, the European strategy is weakened by its diversity, with activity taking place on several levels – private, National, and European – that are all overloaded with diverging goals. However, where diversity would be needed the most, namely in finding different strategies for powerful and developing nations, the strategy remains one-sided. The business-biased strategy has contributed to an aggressive Commission stance, which is hardly justified by the facts. The largely industry-oriented perspective will not only fail to gain sympathy in developing countries, it will also be inefficient when it comes to China. The EU

²⁹ "China 2012 Rare-Earth Exports Quota Almost Same as This Year", *Bloomberg Business Week*, 5 January 2012, retrieved 12 January 2012, <http://www.businessweek.com/news/2012-01-05/china-2012-rare-earth-export-quota-almost-same-as-this-year.html>.



InBev-Baillet Latour Chair of European Union-China Relations



should take environmental concerns in China more seriously and should try to attract Chinese interest by offering to cooperate over the environmental issue, basing its offer on the assumption that China really does want to do more when it comes to environmental conservation. Otherwise the conflict will be solved by the WTO dispute settlement body *only*, with possible unintended consequences on rising protectionism in a currently unstable global economic environment. If such a situation were to arise, Karel De Gucht's "war on resources" would, at last, become reality.



CHINA-GREECE COOPERATION IN THE CONTEXT OF THE GLOBAL ECONOMIC AND FINANCIAL CRISIS

Dinos Stasinopoulos*

This note analyses the impact of the global economic and financial crisis on Greece and examines the opportunities for reinforced EU/China cooperation, particularly in the context of China/Greece cooperation.

The financial/economic crisis - The Greek Problem

A review of the economic press over the last 2-3 years reveals that policy reaction to the global economic crisis has not been comprehensive and has lacked systemic consideration.

Some analysts blamed Wall Street's greedy bankers with their innovative financial instruments, while others cited homeowners who contracted loans that they could not afford. The role of bankers is well documented. Non-traditional or innovative instruments were developed in the US and UK, mainly through new financial schemes, and the absence of regulatory oversight allowed these lending instruments to prosper. As a result financial markets moved beyond their original function of facilitating cross-border trade and investment, to experimenting with new risky schemes which contributed substantially to the crisis.

Initial efforts by policy makers centred on reforming banking regulations and introducing surveillance mechanisms and stress tests for banks. EU leaders are now seeking solutions as the global policy debate shifts from dealing solely with banking issues to tackling real economy issues of public debts. Although the crisis started in the US, it has since become global. The impact on countries in the periphery of the EU, such as Greece, has been substantial. Rising unemployment and large public debts have exposed weaknesses in the economic governance of the EU.

More than any other EU country, Greece has slid into a serious financial crisis. A large budget deficit and high level of government debt have raised questions regarding the sustainability of the country's public finances. The real causes of Greece's problem lie in a long period of fiscal indiscipline and weak competitiveness. Although financial assistance was given to Greece to stabilise markets and help debt restructuring, European leaders feel that resources channelled through the International Monetary Fund (IMF) and the EU are not sufficient to bail out Greece. These leaders call for additional resources and, in this respect, the role of China as an EU partner, is of paramount importance.

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**InBev-Baillet Latour Chair of
European Union-China Relations****Economic Interdependence and EU/China Cooperation - The Great Swap**

In the early 1990's the world began to acknowledge China's rising economic power. Fast growing exports allowed China to build a resilient command and control economy and since its accession to the World Trade Organisation (WTO) China has emerged as the world's third largest economy and the largest global exporter.

China's relations with the European Union have become very close.³⁰ The EU's open economy has been an important contributor to China's growth and in turn the EU has benefited from the growth of the Chinese economy.³¹ Despite growing by over 30% last year, trade relations have been characterised by concerns over Chinese dumping and EU protectionism. The EU's main concern is the inequity of its business relations. China provides subsidies in the form of grants, cheap credit from state-owned banks and tax breaks to various industry sectors.

The EU wants to ensure that China trades fairly and respects both intellectual property rights and WTO commitments. On balance, most European countries view China's economic rise as an opportunity as they believe that the economic transactions lessen the risk for trade policy conflicts. Europe prefers dialogue and, shunning confrontation, has rejected calls to close the door to Chinese imports.

There is a long standing demand that China be granted market economy status by the EU, which will give China more favorable treatment in some trade dispute cases. However, EU reluctance to recognise China's market economy status has been a source of continuous tension, despite China's efforts in complying with WTO requirements, reforming state-owned companies and improving corporate governance.³²

The current economic difficulties and the inadequacy of existing arrangements have reinforced the search for new forms of global economic management. China's rising economic and strategic power and accumulation of foreign exchange reserves have given her increased clout on the international scene and an important role in the management of the global system.³³ The present economic and financial crisis has also increased the need for reinforced cooperation between the EU and China.³⁴ As a result of the global economy becoming increasingly interdependent, China has every interest in a stable EU economy and many analysts feel that the time

³⁰ J. Men, "Building a Long-term EU-China Relations" in F. Laursen (ed), *The EU in the Global Political Economy*, Oxford, Peter Lang, 2009, pp.219-236.

³¹ Commission of the European Communities, Periodic Publication, Directorate General for Trade-China Bilateral relations.

³² "China Maturing under WTO Rules", *China Today*, Special Report, Vol 60, No 12, December 2011.

³³ J. Men, "Will the Financial Crisis Make China a Superpower?" *NATO Review*, July 2009.

³⁴ Commission of the European Communities, *Communication from the Commission to the Council and the European Parliament: EU-China: Closer partners, growing responsibilities*, COM(2006) 631 final, Brussels, 24 October 2006, retrieved 7 September 2011 <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2006:0631:FIN:EN:PDF>.

**InBev-Baillet Latour Chair of
European Union-China Relations**

has come for the "great swap" between the EU and China.³⁵ As EU policy advances with fiscal integration and the introduction of a Euro bond, China should contribute more in dealing with the EU crisis by using its substantial foreign currency reserves to buy more European securities. This option would become more attractive if the EU were to extend its financial stabilisation mechanism and create Euro bonds.

In the October summits of 2011 the EU agreed on a strategy to deal with the eurozone's debt crisis. It is hoped that as the EU is putting its house in order financially and fiscally, it will take the important step to recognise China's market economy status, thereby giving China more protection against trade defense cases. Chinese officials have recently said that China is willing to consider using its \$ 2.7 trillion overseas investment fund to help bail out debt-ridden EU countries.³⁶ It is opportune for the EU to grant China free market economy status and to give China a greater say in the IMF. Changes in EU and China's regulatory frameworks for investment, market opening and ownership of companies are required.³⁷

China /Greece relations –a Test Case for the Great Swap

China and Greece established relations in 1972 and cooperation in the past few years has been developing very fast. Bilateral trade volume reached a record 435 billion US dollars in 2010 with an increase of 18.5% in 2009 alone. China considers Greece an ideal place to invest since Greece links Europe with other continents. Greece provides China with a gateway to Northern, Eastern and Western Europe and opens up great possibilities for cooperation with South Eastern Europe, the Black Sea, Asia and Africa.³⁸

During the last two years China and Greece have signed various agreements covering strategic sectors such as shipping, shipyards, telecommunications, banking, tourism, infrastructure construction projects and cultural exchanges.³⁹ Quite appropriately, special attention was paid to shipping and tourism, which account for approximately 30 % of Greek GDP.

Greece is a global leader in shipping, with more than 4000 ships and 15 % of the world's total moving shipping capacity. In March 2011 the two sides signed a bilateral "action plan" to increase Sino-Greek port cooperation and provide funding for the construction of Greek ships in Chinese shipyards. Since 2000, Greek ship owners have ordered nearly 500 vessels from China, of which 155 have already been delivered. Chinese investments are concentrated in sectors such as product assembling, road transport, shipping and logistics. The Port of Piraeus is already an important hub for Chinese goods bound for Europe. China Ocean Shipping Company (freight group), COSCO, is already in charge of a container operation project in Piraeus. Two maxi-jetties,

³⁵ L. Phillips, "EU recovery from debt crisis "vital" to Chinese investments", *EU Observer*, 17 June 2011.

³⁶ L. Phillips "China will continue to buy European Debt" *EU Observer*, 21 June 2011.

³⁷ J. Fox & F. Godemont "A Power Audit of EU-China relations", *ECFR Policy report*, 2010 .

³⁸ "China's Top political Advisor, Jia Qinglin stresses trade ties with Greece", *CRI English*, 25 October 2011.

³⁹ Main sources of information on Greece/China cooperation were "Invest in Greece"- Various Newsletters 2010-2011.

**InBev-Baillet Latour Chair of
European Union-China Relations**

including freight handling, were leased for 35 years to the Chinese company COSCO. The Chinese also are looking to Greece as the main hub for cruising in the Mediterranean.

Discussions are under way on the possibilities for Greek shipping companies to be listed on the Shanghai Stock Exchange. Cooperation between Maritime education institutions in Greece and China is well under way and a Greek company, Costa Mare, has funded the expansion of the Shanghai Maritime University.

The signing of a China-Greece cooperation memorandum in June 2010 led to various seminars being organised in Athens in December 2010, in which senior executives of leading Chinese shipping companies participated. Bilateral cooperation and know-how exchange in the shipping sector were the main subjects of the seminars.

These seminars were complimented with visits to the Piraeus Port Authority, adjacent shipyards, the Merchant Marine Academy and shipping companies' headquarters.

Greece Telecom, Greek shipping, shipbuilding and banking companies and their Chinese counterparts are involved in harbour construction, marine technology, banking and telecommunications cooperation. In June 2011 the Chinese and Greek Chambers of Commerce agreed to intensify their efforts in the context of an active and targeted promotion of business, investment and the further development of trade relations.

Tourism is another important area for cooperation and the two sides recently signed an agreement on simplification of the visa regime in both countries. In 2010, 10.000 Chinese tourists visited Greece and both sides aim to boost these figures. In May 2011, Air China inaugurated its first direct flight from Beijing to Athens, with a stop-over in Munich.

In May 2011, the Chinese BCI (Business Confucius Institute) and the Greek IOBE (Foundation for Economic and Industrial Research) organised the first Hellenic-Chinese Business Partnership Conference in Athens, in which leading academics, financiers, entrepreneurs and key stakeholders participated. The conference explored new ways of encouraging business and financial cooperation between Greece and China. In May 2011, a five-year cooperation agreement over quality, hygiene and safety of farm products and foods was signed. It is aimed at facilitating the sale of Greek farm and food products in Chinese markets. The accord covers mutual exchange of information and know-how in the management and operation of certification systems. It encourages mutual recognition of production systems and calls for quality certification to enable cross-border control of agricultural products' hygiene and safety.

Possibilities for further China/Greece cooperation

The important Chinese presence in Greece provides an opportunity for Greece to improve its understanding of the strengths of the Chinese business sector. This will enable Greece to benefit from improved productivity and the

**InBev-Baillet Latour Chair of
European Union-China Relations**

transfer of technology in sectors that are critical to the country's long-term development strategy.⁴⁰

The Chinese economic model is export-driven and under both its state directed economy and relatively closed financial system, China has accumulated substantial reserves. As a result the country was less affected by the economic/financial crisis than other global economies.

Although China's economic model does not provide answers to all Greek problems, some elements of state capitalism as it is applied in China may provide policy options for Greece's lacking competitiveness. China's cooperation with Greece could potentially be reinforced because Greece's debt financing requirements have increased and because there is considerable potential for China to further Greece in its economic development.⁴¹

Greece is currently undertaking a major privatisation effort and in the near future will sell a € 50 billion portfolio of state assets that include buildings, ports and the abandoned Athens airport. This effort may produce some answers to the indebtedness of Greece by providing the cash to pay off some of the debt.

In addition to China's involvement in the Port of Piraeus deal, there is a similar project in the Port of Thessaloniki, for which China's expertise is urgently needed.

Cooperation over developing the Greek railway system is another possibility. A major railway line linking Athens with Thessaloniki consists of a standard gauge double track and covers a distance of 520 kilometres. This line is urgently in need of infrastructure and operations upgrading, in order to reduce travel time and improve passenger comfort.

On 8 December 2011, Greece launched a massive tender to attract international investors to one of Europe's biggest real estate projects, the former Athens airport of Hellenikon. Located within the greater Athens area, the site is close to the heart of Athens, with direct access to the Aegean islands and a short flight from most major European and Middle Eastern destinations. The Greek government intends to redevelop the site into a mixed-use location of national significance and in so doing hopes to enhance the attractiveness of the Athens area as a tourist destination as well as to promote it as a business and leisure centre. The project would involve substantial construction work and funding possibilities, making it an ideal project for further economic cooperation between China and Greece. In the energy sector, China Three Gorges, a resource-hungry energy producer, has recently bought a stake in Energias de Portugal and is looking for further bargains as Greece continues to sell state assets.

In 2010/2011 Greece and China signed various Memoranda of Understanding, pledging to stimulate further investments and purchase Greek

⁴⁰ Additional Information on Greece China Cooperation was provided by the Hellenic-Chinese Chamber of Commerce and Industry based in Athens.

⁴¹ "China sees investment opportunities despite Greek crisis", *Kathimerini*, 26 January 2012.

**InBev-Baillet Latour Chair of
European Union-China Relations**

bonds at a later date. Greece needs both investment and the sale of bonds to meet the conditions of the EU/IMF bailout.

Conclusion

The above analysis indicates that China/Greece relations provide an interesting test case for mutually satisfactory cooperation. Greece, largely as a result of its strategic location, is an ideal place for China to invest. Important investments have already been made in the Port of Piraeus, an key hub for transferring Chinese products to Europe.

China's rising economic and strategic power and accumulation of foreign exchange reserves have given her increased clout on the international scene and an important role in the management of the global system. As the global economy has now become so interdependent, China has every interest in a stable EU economy and many analysts feel that the time has come for the "great swap" between the EU and China, especially in the case of Greece, where the financial needs are greater than in the other EU countries.

It has been suggested that the EU should take an important step in recognising China's market economy status, thereby giving China more protection against trade defence cases. It has also been advanced that along with other countries, the EU should give China a greater say in the IMF.

In return, China should provide more funds to Greece and invest more in other parts of Greece, while ensuring liquidity and reasonable returns that result from greater access to Greek markets.

There are already encouraging signs that the foundations for the swap have already been laid. On many occasions throughout 2011 China's leaders have voiced strong support for the measures taken by the Greek government to contain the debt crisis and are urging Greece to proceed faster in liberalising both markets and the business environment and reforming the public sector. China also demands more clarity with regards to how Greece is dealing with its debt problem through external support. It should be stressed that the Greek government has made substantial efforts to meet Chinese demands for reforms, by simplifying administrative procedures, relaxing both labour laws and legislation and by increasing productivity in Greece's private and public sectors.