

# EU-China Relations: from Engagement to Marriage?

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# EU-China Relations: from Engagement to Marriage?

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## About the Author

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## **Abstract<sup>1</sup>**

This paper studies the relations between the European Union (EU) and China in order to answer the question whether their relationship is moving “from engagement to marriage.” It is divided into three parts: in the first part, the review of bilateral EU-China relations from 1975 until today shows that the partnership has been noticeably institutionalized both economically and politically thanks to the efforts of both sides. The second part analyses the common ground and problems between the two partners by examining their cooperation at the international level and the major bilateral issues of concern. In spite of differences in economic, social and political developments, the two sides tend to emphasize their shared interests in economic and trade relations as well as in maintaining international peace and security. The third part addresses the on-going negotiations between the EU and China on a Partnership and Cooperation Agreement (PCA). The completion of the PCA will mark the further institutionalization of EU-China relations and serve as a “marriage contract” to guide the partnership’s future development.

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<sup>1</sup> This paper is based on the speech held by Prof. Jing Men at the inauguration of the InBev-Baillet Latour Chair of European Union-China Relations at the College of Europe in Bruges on 29 October 2008.

EU-China relations have developed rapidly since the late 1990s. Despite of differences in ideological, cultural, political and social fields, the European Union and China have found common ground and common interests to develop their relationship. From 1995, when the EU produced its first China policy paper, until now that the two sides are negotiating a Partnership and Cooperation Agreement, we have witnessed an increasingly institutionalized partnership, facilitating cooperation on a wide range of issues at both multilateral and bilateral levels. As rising powers in international politics, the two are committed to maintaining a stable and peaceful international environment. The shared global responsibility and the intensified bilateral cooperation make them important partners. However, owing to differences in historical, economic and political development, the EU and China are distinct from each other. Differences produce attraction, but also create problems in mutual understanding. How to deepen bilateral cooperation and how to meet the challenges of the 21<sup>st</sup> century are primary concerns of those who are watching closely the progress in EU-China relations.

## **A Review of EU-China Relations**

The European Community and China established diplomatic relations in 1975.<sup>2</sup> In the first two decades of bilateral relations, two important agreements were produced: 1978 witnessed the first bilateral trade agreement, and seven years later, in 1985, a new agreement was concluded on trade and economic cooperation. Bilateral trade grew rapidly from US\$ 5.3 billion in 1981 to US\$ 31.52 billion in 1994.<sup>3</sup>

By the time the European Union completed its single market in 1992, its leadership sought to further stimulate the European economy by enhancing economic cooperation and trade relations with the other parts of the world. Attracted by the dynamic economic expansion in Asia, the European Commission developed the paper "Towards a New Asia Strategy" in 1994.<sup>4</sup> Located at the centre of the EU's Asia strategy, China was given substantial attention. In its first separate China policy

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<sup>2</sup> See the chronology of EU-China relations in the Annex.

<sup>3</sup> See the table of EU-China trade between 1981 and 2007 in the Annex.

<sup>4</sup> See the official website of Directorate-General Relex of the European Commission, [ec.europa.eu/external\\_relations/asia/rel/index.htm](http://ec.europa.eu/external_relations/asia/rel/index.htm).

paper "A Long-term Policy for China-Europe Relations" of 1995, the European Commission stated:<sup>5</sup>

The rise of China is unmatched amongst national experiences since the Second World War. Japan has made its mark as an economic power, the Soviet Union survived essentially as a military power. China is increasingly strong in both the military-political and the economic spheres. China is in the midst of sustained and dramatic economic and social change at home. Abroad, China is becoming part of the world security and economic system at a time of greater economic interdependence and when global problems, from protection of the environment to nuclear non-proliferation, require coordinated commitment from governments worldwide.

This policy paper demonstrates that the EU had noticed China's rise and considered its relations with China part of a long-term policy. China's reform and "opening door" policy noticeably promoted its domestic development and external relations. How China would transform itself in the reform process and what kind of role China would play in international affairs would have a direct impact on international peace and cooperation. Close engagement with China became an important EU policy.

From 1995 to 2003, EU-China relations embarked on a fast track, and bilateral relations were upgraded in many respects.<sup>6</sup> Bilateral trade exceeded US\$120 billion in 2003, two times more than that of 1995. In the same year, China overtook Switzerland to become the EU's second largest trading partner behind the US.<sup>7</sup> About twenty sectoral dialogues and agreements were reached between the two sides, based on which a large number of cooperative programmes and projects were undertaken to enhance exchange and to support China's transition towards a more open and plural society. The "Country Strategy Paper" and the "National Indicative Programmes" were developed by the EU to implement those cooperative programmes and projects. The first such document was out in 2002, with 250 million euros allocated by the European Commission to cover programmes from 2002 to 2006.<sup>8</sup>

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<sup>5</sup> Communication of the Commission, "A Long-term Policy for China-Europe Relations", COM(1995) 279 final, Brussels, 5 July 1995, [europa.eu.int/comm/external\\_relations/china/com95\\_279en.pdf](http://europa.eu.int/comm/external_relations/china/com95_279en.pdf).

<sup>6</sup> Since 1995 several China policy papers were produced by the European Commission (see references below). In return, the Chinese government also issued one EU policy paper: Ministry of Foreign Affairs of the PRC, "China's EU Policy Paper", Beijing, 13 October 2003, [www.fmprc.gov.cn/eng/topics/ceupp/t27708.htm](http://www.fmprc.gov.cn/eng/topics/ceupp/t27708.htm).

<sup>7</sup> "Sino-EU Trade Relations Trending up", *China Daily*, 23 October 2003, [chinadaily.com.cn/en/doc/2003-10/23/content\\_274686.htm](http://chinadaily.com.cn/en/doc/2003-10/23/content_274686.htm).

<sup>8</sup> See "China: Country Strategy Paper 2002-2006", [ec.europa.eu/external\\_relations/china/csp/index\\_2002.htm](http://ec.europa.eu/external_relations/china/csp/index_2002.htm).

Together with the intensified economic and social cooperation, political relations were also developed rapidly during this period. Political dialogue on sensitive regional and international affairs was established in 1994. Since then, Foreign Ministers, political directors and experts from both sides are closely involved in a regular and constructive political dialogue. This working mechanism helps maintain an effective and important channel of direct communication between the two sides. From 1998 on, a summit meeting system was created between the EU and China. With all these developments, bilateral relations were noticeably institutionalized, widened and deepened.

Enhanced cooperation in economic, political and other fields encouraged the two sides to upgrade bilateral relations. The European Commission for the first time used the word "partnership" in its China policy paper of 1998.<sup>9</sup> Five years later, the European Commission recognised that this partnership was reaching maturity. At the summit meeting of that year, the two sides started to talk about promoting a strategic partnership by further deepening and expanding EU-China relations.

The development of a strategic partnership brought the two into a "honeymoon period" between 2003 and 2004. Exchanges of visits by top leaders on both sides became more frequent. For example, EU officials paid 206 visits to China in 2004, on average four visits per week.<sup>10</sup> The Chinese Premier, Wen Jiabao, was the first foreign leader to pay an official visit to the EU after its historically important eastward enlargement in May 2004.

Satisfied with the progress in EU-China relations, Romano Prodi, then President of the European Commission, said at the EU-China business forum in May 2004 about the partnership between the EU and China: "if it is not a marriage, it is at least a very serious engagement."<sup>11</sup> Since then, the engagement has led to further institutionalization of the partnership. The increasing interdependence between Brussels and Beijing develops together with their commitment to the partnership. Both need each other and both are willing to enter a contract which can guarantee a long-term stable and cooperative relationship.

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<sup>9</sup> Communication of the Commission, "Building a Comprehensive Partnership with China", COM(1998) 181 final, Brussels, 25 March 1998, [ec.europa.eu/comm/external\\_relations/china/com\\_98/index.htm](http://ec.europa.eu/comm/external_relations/china/com_98/index.htm).

<sup>10</sup> Benita Ferrero-Waldner, "The EU, China and the Quest for a Multilateral World", 4 July 2005, [www.delchn.cec.eu.int/en/eu\\_and\\_china/30th/sp05\\_414.htm](http://www.delchn.cec.eu.int/en/eu_and_china/30th/sp05_414.htm).

<sup>11</sup> Romano Prodi, "Relations between the EU and China: More than Just Business", 6 May 2004, [europa.eu.int/comm/external\\_relations/news/prodi/sp04\\_227.htm](http://europa.eu.int/comm/external_relations/news/prodi/sp04_227.htm).

Up until now, the 1985 agreement is still valid as the formal basis of the relationship. Yet, the impressive development of bilateral relations calls for a more comprehensive agreement which can cover all the dimensions of cooperation. At the Ninth EU-China Summit in September 2006, the two sides agreed to launch talks on a Partnership and Cooperation Agreement. Negotiations began in January 2007. Once completed, the PCA will replace the current trade-focused agreement of 1985 and serve as a legal framework for bilateral relations.

## **Analysis of Common Ground and Differences**

### *Strategic Vision*

An important element in the strategic partnership between the EU and China is their shared interests in global and regional issues. Chinese Premier Wen Jiabao, in one of his speeches, defined what the Chinese expected from the relationship: "comprehensive" refers to "all-dimensional, wide-ranging and multi-layered cooperation" in various fields; "strategic" implies "long-term and stable EU-China relations" which transcend "the differences in ideology and social systems" and are "not subjected to the impact of individual events that occur from time to time;" and "partnership" defines cooperation "on an equal footing, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavour to expand converging interests and seek common ground on major issues, while shelving differences on minor ones."<sup>12</sup> The definition of the partnership illustrates China's pragmatic attitude in its relationship with the European Union. Through stable and long-lasting cooperative ties, China intends to de-emphasize differences in order to get the best out of the relationship.

In its China policy paper of 2003, the European Commission pointed out that the EU and China share "responsibilities in promoting global governance" and that the EU and China should work together "to safeguard and promote sustainable development, peace and stability."<sup>13</sup> The strategic cooperation with China in maintaining global order was also highlighted in the European Security Strategy

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<sup>12</sup> "Wen Stresses Importance of Developing EU-China Comprehensive Strategic Partnership", *People's Daily Online*, 7 May 2004, [english.people.com.cn/200405/07/eng20040507\\_142556.html](http://english.people.com.cn/200405/07/eng20040507_142556.html).

<sup>13</sup> Commission policy paper, "A Maturing Partnership - Shared Interests and Challenges in EU-China Relations", COM(2003) 533 final, Brussels, 10 September 2003, [europa.eu.int/comm/external\\_relations/china/com\\_03\\_533/com\\_533\\_en.pdf](http://europa.eu.int/comm/external_relations/china/com_03_533/com_533_en.pdf).

which recognized that the United States is the pre-eminent world power, but “no single country is able to tackle today’s complex problems on its own.”<sup>14</sup> Europe should be a pillar in the new world, and it should consolidate relationships with the other great partners, including China.

Both the EU and China intend to play a greater role in international affairs, and both promote the formation of a multipolar structure that facilitates the ascendance of their political influence globally. However, in policy papers or bilateral agreements, the EU prefers the term “multilateralism” to the term “multipolarity”. According to Benita Ferrero-Waldner, Commissioner for External Relations, “It is not the number of poles which counts, but rather the basis on which they operate. Our vision is a world governed by rules created and monitored by multilateral institutions.”<sup>15</sup> While the Chinese still adhere to the term “multipolarity”, the understanding of the concept has been quietly changing from balance of power to democratic international decision-making. In the meantime, the usage of multipolarity in Chinese official documents has been steadily decreasing, whereas the usage of multilateralism has been steadily growing.

Before 2003, the Chinese Foreign Ministry held that multipolarity “helps weaken and curb hegemonism and power politics.”<sup>16</sup> Without mentioning the United States by name, China made it clear that such a policy of multipolarity was intended to counterbalance American power. Since August 2003, a new understanding of multipolarity by the Chinese government has been published on the website of Chinese Ministry of Foreign Affairs: “Our efforts to promote the development of the world towards multipolarization are not targeted at any particular country”, but aim to boost the democratization of international relations.<sup>17</sup>

In the new definition of multipolarity, China highlights the elements of multilateralism such as democratization of international relations and the strengthening of coordination and dialogue, which to a large degree has brought it closer to the EU’s understanding of international relations. As 2003 was an important year in EU-China relations, it was quite probable that the Chinese would reach their new under-

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<sup>14</sup> European Council, “A Secure Europe in a Better World - European Security Strategy”, Brussels, 12 December 2003, [www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf](http://www.consilium.europa.eu/uedocs/cmsUpload/78367.pdf), p. 1.

<sup>15</sup> Benita Ferrero-Waldner, “The EU, China and the Quest for a Multilateral World”, *op.cit.*

<sup>16</sup> For the Chinese government’s viewpoint on multipolarity before 2003, see [www.chinaembassy.se/eng/zgwj/jbzc/t100415.htm](http://www.chinaembassy.se/eng/zgwj/jbzc/t100415.htm).

<sup>17</sup> For the Chinese government’s view on multipolarity since August 2003, see [www.fmprc.gov.cn/eng/wjdt/wjzc/t24880.htm](http://www.fmprc.gov.cn/eng/wjdt/wjzc/t24880.htm).

standing of multipolarity based on the communication with their European counterparts. As a result, several important speeches made by Chinese President Hu and Chinese Premier Wen in 2004 did not mention the term multipolarity. For example, in the joint declaration between China and France in January 2004, the two explicitly promoted multilateralism in international relations.<sup>18</sup>

### *International Cooperation*

At the international level, there are many issues on which the EU and China need to cooperate to maintain international peace and security. After 9/11, the fight against terrorism and weapons of mass destruction became more important to both the EU and China. Apart from the European Security Strategy issued in December 2003, the Council of the European Union also issued a separate paper on the "EU Strategy against Proliferation of Weapons of Mass Destruction" to highlight the key challenges faced by the EU and the importance to have a multilateral response to these challenges in cooperation with other partners.<sup>19</sup> In the same month in Beijing, China issued its first white paper on non-proliferation,<sup>20</sup> in which China pointed out that the "fundamental purpose of non-proliferation is to safeguard and promote international and regional peace and security" and that "a universal participation of the international community is essential for progress in non-proliferation".<sup>21</sup> One year later in December 2004, at the Seventh EU-China Summit, the two sides issued a joint declaration on non-proliferation and arms control in which they pledged to "work together within their strategic partnership" and "to strengthen the international non-proliferation system."<sup>22</sup> The close coordination between the EU and China in their positions on non-proliferation indicated that both regard each other as an important partner in international cooperation for peace and security. It also pointed to a shared understanding between the two sides on these issues of mutual concern.

It is noticeable that in developing its strategic partnership with the EU, China has taken greater steps in adapting and adjusting itself according to the principles

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<sup>18</sup> Thomas G. Moore, "Chinese Foreign Policy in the Age of Globalisation", in Yong Deng and Fei-Ling Wang (eds.), *China Rising*, Lanham, MD, Rowman & Littlefield, 2004, p. 135.

<sup>19</sup> See the "EU Strategy against Proliferation of Weapons of Mass Destruction", [www.trade.ec.europa.eu/doclib/docs/2004/august/tradoc\\_118532.en03.pdf](http://www.trade.ec.europa.eu/doclib/docs/2004/august/tradoc_118532.en03.pdf).

<sup>20</sup> Information Office of the State Council of the PRC, "China's Non-proliferation Policy and Measures", December 2003, [www.china.org.cn/e-white/20031202/index.htm](http://www.china.org.cn/e-white/20031202/index.htm).

<sup>21</sup> *Ibid.*

<sup>22</sup> Ministry of Foreign Affairs of the PRC, "Joint Declaration of the People's Republic of China and the European Union on Non-proliferation and Arms Control", 9 December 2004, [www.fmprc.gov.cn/eng/wjdt/2649/t173749.htm](http://www.fmprc.gov.cn/eng/wjdt/2649/t173749.htm).

and norms widely accepted in the international society. Coming from a background of a victim of colonialism, imperialism and feudalism and with a relatively short history of modern state-building, China took pains to change itself to integrate into international regimes. Albeit a latecomer, China has become a member of all the important intergovernmental organizations. On the other hand, the integration process has not been without problem. Due to differences in ideology, political understanding on the principles of sovereignty and non-interference, and considerations of national interest, China is perceived as an uneasy partner in multilateral cooperation.

The Darfur issue has long been a problematic issue in China's external relations. China is believed to maintain a good relationship with the Sudanese government in return for petrol to feed the rapidly developing Chinese industries. China's support to Khartoum indirectly prolonged the humanitarian crisis in Darfur. Between 1999 and 2006 Sudan's oil exports to China increased from 266,126 tons to more than 6.5 million tons. In 2005 and 2006, China imported 47 percent of Sudan's total oil production.<sup>23</sup> Since the Darfur fighting started in 2003, China has been under international pressure to take actions to help relieve the humanitarian disaster in Darfur. By mid-2006, China started to lobby the Sudanese government to allow a foreign intervention in Darfur.<sup>24</sup> In June 2007, Liu Guijin, the Chinese special envoy on the Darfur issue helped convince the Sudanese government to let a hybrid force of UN and African Union peacekeepers deploy in Darfur.<sup>25</sup> Two groups of Chinese peacekeeping soldiers arrived in Darfur in November 2007 and July 2008 respectively, serving as part of the 26,000-strong peacekeeping force in the region.<sup>26</sup> In the UN Security Council, China abstained on most of the resolutions on the Darfur issue. On the one hand, China insisted that national sovereignty should be respected; on the other hand, it was unwilling to block the resolutions which would be in direct conflict with its efforts to build a responsible image in the world. The call for boycotting the Beijing Olympic Games in 2008 by some political leaders and NGOs, partly due to China's lack of action on the Darfur issue, reminded the Chinese government of its responsibility as a rising power. Both out of its own desire to integrate in international

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<sup>23</sup> Jonathan Holslag, "China's Diplomatic Victory in Sudan's Darfur", *Sudan Tribune*, 2 August 2007, [www.sudantribune.com/spip.php?article23090](http://www.sudantribune.com/spip.php?article23090).

<sup>24</sup> *Ibid.*

<sup>25</sup> "China Considers Sending Peacekeepers to Darfur", *International Herald Tribune*, 22 June 2007, [www.ihrt.com/articles/2007/06/22/news/darfur.php](http://www.ihrt.com/articles/2007/06/22/news/darfur.php).

<sup>26</sup> "Chinese Peacekeepers in Darfur Honored by UNAMID", *China Daily*, 13 October 2008, [www.chinadaily.com.cn/china/2008-10/13/content\\_7097821.htm](http://www.chinadaily.com.cn/china/2008-10/13/content_7097821.htm).

regimes and out of the international pressure, the Chinese leadership gradually gives more emphasis to its international responsibility. As a matter of fact, Chinese President Hu Jintao has in 2008 on many occasions stated that after thirty years of reform, the relationship between China and the world has changed profoundly. China has become an important member of the international society, and China is willing to fulfil its international responsibilities.<sup>27</sup> The EU with its rich experience of multilateral cooperation could be helpful to China's further international engagement.

Thanks to the dynamic growth of its foreign trade, China has become the country with the largest foreign currency reserve. By the end of September 2008, China had a foreign currency reserve of more than US\$1.91 trillion. By the first quarter of 2009, it is expected to amount to US\$2 trillion. Among the reserve, China held US\$1.05 trillion US bonds and debt.<sup>28</sup>

For three decades, the Chinese economic growth compounded at an annual average rate of 10 percent. It became a member of the World Trade Organization in 2001 after fifteen years of negotiation. It is the second largest trading partner of both the United States and the European Union. But the most recent statistics showed that the third quarter growth of 2008 fell to 9 percent, the slowest pace in five years and well below forecasts. There have been signs that the Chinese economy might slow down more sharply than expected due partly to the problems in international credit markets.<sup>29</sup>

At present, sustainable global economic development is facing a serious challenge due to the financial crisis in many countries in the world. Starting from Wall Street in the United States, the financial problems have rapidly expanded to European countries. In early October 2008, in a rare coordinated move, the Federal Reserve of the United States, the central banks of Europe and China jointly cut interest rates.<sup>30</sup> After the US government decided to allocate 700 billion dollars to shore up Wall Street, the current president of the European Council, Nicolas Sarkozy, held a G-4 conference in Paris, chaired the European Council meeting in Brussels

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<sup>27</sup> See, for example, Hu Jintao, "Reform and Opening Has Led to Profound Changes in China", 12 April 2008, [www.china.com.cn/news/2008-04/12/content\\_14941423.htm](http://www.china.com.cn/news/2008-04/12/content_14941423.htm).

<sup>28</sup> Zhang Ming, "How to Pass the Subprime Crisis Safely with US\$2 Trillion", *Chinese Financial Times*, 17 October 2008, [www.ftchinese.com/story.php?storyid=001022533&page=1](http://www.ftchinese.com/story.php?storyid=001022533&page=1).

<sup>29</sup> Geoff Dyer, "China to Provide Stimulus Package", *Chinese Financial Times*, 21 October 2008, [www.ftchinese.com/story.php?lang=en&storyid=001022604](http://www.ftchinese.com/story.php?lang=en&storyid=001022604).

<sup>30</sup> "Fed Leads Round of Global Interest Rate Cuts", *MSNBC News*, 8 October 2008, [www.msnbc.msn.com/id/27080774](http://www.msnbc.msn.com/id/27080774).

and met President Bush at Camp David to call for an international summit to reform the global financial system. In Sarkozy's view, both the industrialized nations and the large developing nations should be invited, and China as a rising power should participate in the summit.<sup>31</sup> The request from the EU on international financial cooperation indicates the high degree of economic interdependence between the states and that only by enhanced international cooperation between the EU, China and other countries will the problems be tackled. At the ASEM meeting in Beijing in October 2008, Chinese Premier Wen declared that China would actively attend the G-20 summit meeting scheduled for the mid of November 2008 and emphasized that "confidence, cooperation and responsibility are the keys to finding a solution to the global financial meltdown."<sup>32</sup>

### *Bilateral Issues: Trade Relations*

Between the EU and China, intensified economic and trade relations are the founding stone of the maturing partnership. By far, the EU is China's largest trading partner and its most important supplier of technology. China is the EU's second largest trading partner, the biggest source of manufactured imports and the fastest growing export market. Together with the impressive growth of the two-way trade, the trade deficit for the EU has also been rising rapidly. While China's exports to the EU grew from US\$19.83 billion in 1996 to US\$245.19 billion in 2007, China's imports from the EU only increased from US\$19.89 billion in 1996 to US\$110.96 billion in 2007. In the past ten years the EU's deficit jumped to US\$ 134.23 billion.<sup>33</sup> The EU is increasingly complaining about the rising deficit in its trade with China. In its most recent China policy paper, the EU regards China as "the single most important challenge for EU trade policy."<sup>34</sup> Trade Commissioner Peter Mandelson warned that "We have to make sure that the public is satisfied that that trading relationship is being conducted

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<sup>31</sup> "Rencontre Bush-Sarkozy-Barroso à Camp David pour parler de la crise financière", *Euronews*, 10 October 2008, [www.euronews.net/fr/article/18/10/2008/sarkozy-seeks-us-backing-for-global-money-summit](http://www.euronews.net/fr/article/18/10/2008/sarkozy-seeks-us-backing-for-global-money-summit).

<sup>32</sup> Xinhua News Agency, "Chinese Premier: Co-op Needed to Deal with Global Economic Problems", 25 October 2008, [news.xinhuanet.com/english/2008-10/25/content\\_10251510.htm](http://news.xinhuanet.com/english/2008-10/25/content_10251510.htm).

<sup>33</sup> See Luo Xiumei and Zhang Jing, "A Look at the China-EU Trade in 2004" [2004nian Zhongguo yu Oumeng maoyi huigu], (2005) 2, *European Integration Studies [Ouzhou yitihua yanjiu]*, p. 33; "China-EU Trade Hits US\$272.3 billion in 2006", *China Daily*, 28 January 2006; and "Facts and Figures about China-EU Trade", *People's Daily Online*, 28 April 2008, [english.peopledaily.com.cn/90001/90778/6400153.html](http://english.peopledaily.com.cn/90001/90778/6400153.html).

<sup>34</sup> Commission Working Document accompanying COM(2006) 631 final: Closer Partners, Growing Responsibilities, "A Policy Paper on EU-China Trade and Investment: Competition and Partnership", COM(2006) 632 final, Brussels, 24 October 2006, [trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130791.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130791.pdf), p. 3.

on full and fair trade, otherwise we are going to be in trouble.”<sup>35</sup> According to the EU, the imbalance has been partly caused by obstacles to market access in China. The EU urges China to liberalize trade flows by removing barriers to imports, including price controls, and discriminatory registration requirements.<sup>36</sup>

One of the motivations for the EU to support China’s access to the World Trade Organization was to stimulate the opening of the Chinese market. China’s WTO membership did oblige China to remove trade barriers and reduce dramatically import tax, however, many kinds of non-trade barriers still exist, which to a large degree prevent EU products and investments from entering the Chinese market. In recent years, the two sides have widely expanded and strengthened their trade and economic dialogue at all levels covering trade policy, textile trade, competition policy, customs cooperation, intellectual property rights, regulatory and industrial policy. In order to address the imbalance in trade flows between the EU and China, the Chinese government proposed to establish the High-Level Economic and Trade Dialogue. This proposal was agreed at the summit meeting of November 2007. The first such high-level dialogue was held in Beijing in late April 2008.

Dialogue with China has been an important part of the EU’s China policy. Under the strategic guidance of constructive engagement with China in the 1990s, the EU initiated several dialogues with China on economic, political and human rights issues. Despite the growing complaints from some of the member states about the cheap Chinese products and China’s slow pace of market opening, the EU adheres to its dialogue principle. This cooperation-oriented approach has largely helped enhance bilateral communication and understanding. Thanks to the intensive dialogue between the two sides, the textile dispute in 2005 could be solved rather rapidly. Agreed by both sides, from the beginning of 2008, the temporarily introduced import restrictions by the EU on Chinese products have been replaced by a joint monitoring system. China works closely with the European Commission in export license and product surveillance in order to avoid a repetition of the 2005 situation. Today, it seems that through joint efforts this new system works well.

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<sup>35</sup> “Mandelson Warning on China Trade”, *BBC News*, [news.bbc.co.uk/2/hi/business/7048488.stm](http://news.bbc.co.uk/2/hi/business/7048488.stm), 17 October 2007.

<sup>36</sup> See EU-China Trade Relations, [www.delchn.cec.eu.int/en/eu\\_china\\_wto/EU%20China%20Trade%20Relations.htm](http://www.delchn.cec.eu.int/en/eu_china_wto/EU%20China%20Trade%20Relations.htm).

*Bilateral Issues: Arms Embargo*

A difficult issue is the arms embargo imposed in 1989 by the Western countries against China. The lifting of the arms embargo has been a topic of discussion in the EU since 2003. As the arms embargo is the lingering legacy of the Tiananmen event in 1989, its removal would indicate the EU's recognition of China's progress in the past years as well as its growing role in global affairs. The EU, led by France and Germany, agreed that a new code of conduct<sup>37</sup> regulating deliveries of European weapons to China should be prepared to replace the arms embargo. The discussions between the leading member states of the EU and China in 2004 seemed to promise a lifting of the ban. Javier Solana, High Representative for the Common Foreign and Security Policy, told the French radio *Europe 1* in an interview that the embargo might be removed in the first six months of 2005.<sup>38</sup>

However, in early 2005 the issue became more complex owing to US concerns. Washington urged the EU to maintain the embargo and threatened to cut off American transfers of military technology to Europe. US Deputy Secretary of State, Robert Zoellick, warned EU officials that if ever "European equipment helped kill American men and women in conflict, that would not be good for the (transatlantic) relationship."<sup>39</sup>

After China passed the anti-secession law<sup>40</sup> in March 2005, the lifting of the embargo became even more difficult for the EU. The EU does not want to see an increase in cross-Strait instability and the risk of an arms race. The US Secretary of State, Condoleezza Rice, warned that the EU should not upset the balance of power in a region in which it has no defence responsibilities.<sup>41</sup> Facing pressure from the United States, Javier Solana said that the EU had not changed its position on lifting the arms embargo against China and that it was "too early to say" whether it could be done under the Luxembourg Presidency.<sup>42</sup> Inside the EU, opposition to lifting the

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<sup>37</sup> Inside the EU, the Code of Conduct sets the rules and conditions that all the EU member states should follow and based on which they may sell their weapons to other countries.

<sup>38</sup> "Solana: EU May Lift Arms Ban on China Early Next Year", *Europe 1*, 9 December 2004, [www.china-un.ch/eng/xwtd/t173855.htm](http://www.china-un.ch/eng/xwtd/t173855.htm).

<sup>39</sup> Sebastian Alison, "US Warns EU over Lifting China Arms Ban", *Reuters*, 5 April 2005.

<sup>40</sup> The anti-secession law was approved by the Chinese National People's Congress with the purpose of emphasizing its sovereignty over Taiwan and of keeping Taiwan from declaring independence.

<sup>41</sup> Jonathan Watts and Nicholas Watt, "Rice Tells EU: Don't Lift China Arms Ban", *The Guardian*, 21 March 2005, [www.guardian.co.uk/world/2005/mar/21/china.usa](http://www.guardian.co.uk/world/2005/mar/21/china.usa).

<sup>42</sup> "EU's Position on Lifting China Arms Ban Remains Unchanged", *People's Daily Online*, 24 March 2005, [english.peopledaily.com.cn/200503/24/eng20050324\\_177991.html](http://english.peopledaily.com.cn/200503/24/eng20050324_177991.html).

ban grew. In April 2005, the European Parliament voted 431 to 85, with 31 abstentions, in favour of a resolution urging the EU to keep the arms embargo.<sup>43</sup> Linking the lifting of the arms embargo and China's human rights record, Annalisa Giannella, Personal Representative on Non-proliferation of Javier Solana, stated in April 2005, "Nobody has said we are going to lift our embargo for free. It would require an important concrete step to be taken by the Chinese."<sup>44</sup> The British Ambassador to China, Christopher Hum, said that "China must set a timetable for ratifying the international covenant on human rights before the EU will lift the ban." The German Chancellor, Angela Merkel, insisted that the embargo should remain in place until China improves its human rights record.<sup>45</sup>

The International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights are the two most important legal documents of the UN on human rights. Most of the countries in the world are signatories of these two covenants. Before applying for hosting the 29<sup>th</sup> Olympic Games, China signed the International Covenant on Economic, Social and Cultural Rights in 1997 and the International Covenant on Civil and Political Rights in 1998. Before the IOC made the final decision of the host city in July 2001, China ratified the International Covenant on Economic, Social and Cultural Rights in March 2001. Now that ten years have passed after China signed the International Covenant on Civil and Political Rights, the EU expects China to ratify it as soon as possible. Without seeing progress in human rights in China, the EU would not consider the lifting of the arms embargo. For Beijing, the ratification of the covenant is an important bargaining chip in hand. When the time comes, the National People's Congress will ratify this document. But inside the EU, 27 member states may not easily achieve a unanimous position. If one single member state is against the lifting of the arms embargo, the efforts for China to ratify the covenant will not get in return what China expects. Therefore, this seemingly military and political issue is closely bound with the human rights issue. When it will be lifted is not clear. However, since the embargo has been there for nearly two decades and EU-China relations have been developing rapidly without being affected, the two sides will probably not allow it to bother the further development of their bilateral partnership.

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<sup>43</sup> Richard Bernstein, "Backpedaling on the Arms Ban", *International Herald Tribune*, 15 April 2005, [www.ihf.com/articles/2005/04/14/news/embargo.php](http://www.ihf.com/articles/2005/04/14/news/embargo.php).

<sup>44</sup> Quoted in Katrin Bennhold and Graham Bowley, "EU Weighs Tying Arms Embargo to Rights", *International Herald Tribune*, 13 April 2005.

<sup>45</sup> "In Europe, Hu Faces Trade and Human Rights Issues", *The New York Times*, 9 November 2005.

*Problems and Promises in Bilateral Relations*

As already mentioned, a major difference between the EU and China is that they come from different ideological backgrounds and different political systems. This difference is compounded by the fact that the EU and China are at different stages of development. The EU focuses on political freedom and attaches great importance to the political and civil rights of its citizens. In contrast, China concentrates on solving economic problems so that all the Chinese can have enough to eat and wear. China was lagging much behind the industrialized countries when the PRC was founded in 1949. The economic reform carried out since the end of the 1970s has brought dynamism to the Chinese economy. Some Chinese benefited from government policy and became rich. But the uneven development in China has led to a huge gap between the big cities such as Beijing or Shanghai and most of the vast land of the Chinese interior. China's GDP per capita in 2006 was around US\$ 2,100, whereas the GDP per capita of the fifteen members of the European Monetary Union had already reached more than US\$34,000 in the same year.<sup>46</sup> As a result, China stresses more the economic rights of its citizens. This fails to correspond to the EU's expectations. The EU wants to exert influence on China and to turn it into a liberal democratic regime based on the rule of law. Since the 1990s, the EU has been keeping a close eye on the development of political rights of the Chinese citizens. In order to promote an open society, the EU has financed many programmes and projects in China, including a training program of Chinese lawyers.

The human rights dialogue between the EU and China was started in 1995. After a period of interruption, the dialogue was resumed in 1997. The two sides meet twice annually in order to discuss human rights issues. One of the goals in the EU's human rights dialogue with China is to urge Beijing to ratify the International Covenant on Civil and Political Rights. The European Parliament is active in monitoring China's human rights behaviour. From 2005 on, it has passed more than a dozen resolutions expressing concern over the issue. The EU has consistently stated in all of its China policy papers that democracy, human rights and the promotion of common values remain fundamental tenets of EU policy and of central importance to its relations with China.<sup>47</sup> Yet, contact with China seems to tell the Europeans that it is not that

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<sup>46</sup> "Global Income per capita", [www.finfacts.com/biz10/globalworldincomepercapita.htm](http://www.finfacts.com/biz10/globalworldincomepercapita.htm).

<sup>47</sup> 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, [ec.europa.eu/comm/external\\_relations/china/docs/06-10-24\\_final\\_com.pdf](http://ec.europa.eu/comm/external_relations/china/docs/06-10-24_final_com.pdf), p. 4.

easy to transform this huge authoritarian system. In recent years, criticism on China's slow pace of political reform, on its human rights record, on its lack of transparency in military expenditure, and on its restriction on market access dominates the media in Europe.

What makes bilateral cooperation more complicated is that unlike China, the EU is composed of 27 member states. As a regional organization, the EU has many features that are different from a sovereign state. For economic and trade issues, the European Commission plays a leading role by working together with the European Parliament and the Council, where decisions are made by a qualified majority of member states. In negotiations of economic and trade issues, China knows to whom it talks to and with whom it needs to work out an agreement. But for political and military issues, the situation is more problematic. The arms embargo issue falls into the domain of the Common Foreign and Security Policy that requires unanimity of all the member states of the EU. Each individual member state, no matter big or small, is important in the decisions taken by the Council of the European Union. Member states may have different national interests and different political positions concerning their China policy. When the embargo was introduced in 1989, the Community had only twelve members. Now with twenty-seven members, it is more difficult to achieve consensus on scrapping the ban on arm sales.

In order to promote EU-China cooperation, China needs to work with both the European institutions and the member states. However, the central concerns and interests of these institutions are also different. The officials of the Commission are more concerned with tangible results in economic cooperation and pay less attention to the differences of norms and values between them and their partners, whereas the European Parliament counts on the public opinion and is concerned about normative differences with its external partners. As the European Parliament is influential in the making of major international agreements, China is obliged to establish a reasonable working relationship with it.

Another factor which has a strong impact on EU-China relations is the United States. Different from EU-China relations, EU-US relations are based on common values, a common cultural and historical background, similar political systems and a long tradition of alliance. In comparison to the relatively recent EU-China partnership, the transatlantic partnership is much deeper and more stable. On the other hand, for several decades in China's external relations, the United States has been the first

priority. How to maintain a workable relationship with the US in order to maintain a favourable international environment has always been the most important concern for the Chinese government. Therefore, how the EU and China deepen their partnership and in the meantime keep their commitment to their respective relations with the US is not an easy task.

While admitting that there exist many differences, the Chinese government points out that there is no fundamental conflict of interest between China and the EU. Neither side poses a threat to the other. In its EU policy paper, Beijing states that “given their differences in historical background, cultural heritage, political system and economic development level, it is natural that the two sides have different views or even disagree on some issues.” But “the common ground between China and the EU far outweighs their disagreements”:

Both China and the EU stand for democracy in international relations and an enhanced role of the UN. Both are committed to combating international terrorism and promoting sustainable development through poverty elimination and environmental protection endeavours. China and the EU are highly complementary economically thanks to their respective advantages. Both China and the EU member states have a long history and splendid culture each and stand for more cultural exchanges and mutual emulation.<sup>48</sup>

The common ground between the EU and China, the institutionalized cooperation mechanisms, and the commitment of the leadership to engaging with each other and to working together to promote international peace and security serve as an important basis of bilateral cooperation.

## **Prospects for the PCA**

In September 2006 at the Ninth EU-China Summit, the two sides agreed to start negotiations on a Partnership and Cooperation Agreement. In the EU's view, the PCA should cover all the dimensions of bilateral relations. It expects that the new treaty will be an upgrade of the 1985 Trade and Economic Cooperation Agreement, and that a wide range of issues will be covered in the document to define EU-China relations in the 21<sup>st</sup> century. But the Chinese Ministry of Commerce wishes to separate the negotiation of a new trade and economic cooperation agreement from that of the PCA. In other words, two documents are to be produced by the ongoing negotiations: one on the economic relations between the EU and China, the other

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<sup>48</sup> Ministry of Foreign Affairs of the PRC, “China's EU Policy Paper”, 13 October 2003, [www.fmprc.gov.cn/eng/topics/ceupp/t27708.htm](http://www.fmprc.gov.cn/eng/topics/ceupp/t27708.htm).

on the strategic partnership. The negotiations involve two distinct groups of officials and experts: Directorate-General Trade works closely with the Chinese Ministry of Commerce to negotiate economic issues, whereas Directorate-General Relex works with the Chinese Ministry of Foreign Affairs on political issues.

No matter whether the negotiations will result in one or two documents, it is clear that both the EU and China are serious about their relationship and are willing to commit themselves to consolidating what has been achieved and to cooperating on what can be jointly developed. In that sense, we may say that the further institutionalization of the partnership serves as a “marriage contract” between the two. With cautious optimism, we may see a more intensified and comprehensive partnership between the EU and China in the coming decade.

**Annex***EU-China Trade 1981-2007 (in bn US\$)*

Year	Volume of trade	Chinese imports from EU	Chinese exports to EU
1981	5.3	2.77	2.53
1982	4.42	2.22	2.2
1983	5.93	3.41	2.52
1984	5.88	3.53	2.35
1985	8.36	6.11	2.25
1986	11.65	7.66	3.99
1987	11.15	7.26	3.89
1988	12.87	8.15	4.72
1989	23.51	14.75	8.76
1990	22.21	12.81	9.32
1991	11.61	6.24	5.37
1992	17.4	9.8	7.6
1993	26.1	14.41	11.69
1994	31.52	16.94	14.58
1995	40.34	21.25	19.09
1996	39.69	19.89	19.83
1997	43	19.19	23.81
1998	48.86	20.71	28.15
1999	55.68	25.47	30.21
2000	69.04	30.85	38.19
2001	76.63	35.72	40.91
2002	86.75	38.54	48.21
2003	125.22	53.06	72.15
2004	177.29	70.12	107.16
2005	217.31	73.60	143.71
2006	272.30	90.32	181.98
2007	356.15	110.96	245.19

Source: Chinese Ministry of Commerce

*EU-China Relations: Chronology*

<b>May 1975</b>	Diplomatic relations established
<b>February 1978</b>	Trade agreement signed
<b>May 1985</b>	Agreement on Trade and Economic Cooperation signed
<b>October 1988</b>	Opening of the Delegation of the European Commission in Beijing
<b>July 1995</b>	First Commission Communication "A long-term Policy for China-Europe Relations"
<b>March 1998</b>	Commission Communication "Building a Comprehensive Partnership with China"
<b>April 1998</b>	1 <sup>st</sup> EU-China Summit, London
<b>December 1999</b>	2 <sup>nd</sup> EU-China Summit, Beijing
<b>October 2000</b>	3 <sup>rd</sup> EU-China Summit, Beijing
<b>September 2001</b>	4 <sup>th</sup> EU-China Summit, Brussels
<b>September 2002</b>	5 <sup>th</sup> EU-China Summit, Copenhagen
<b>September 2003</b>	European Commission adopts policy paper "A maturing partnership: shared interests and challenges in EU-China relations"
<b>October 2003</b>	China releases first ever policy paper on the EU
<b>October 2003</b>	6 <sup>th</sup> EU-China Summit, Beijing
<b>December 2004</b>	7 <sup>th</sup> EU-China Summit, The Hague
<b>September 2005</b>	8 <sup>th</sup> EU-China Summit, Beijing
<b>September 2006</b>	9 <sup>th</sup> EU-China Summit, Helsinki
<b>October 2006</b>	Commission Communication "EU-China Close Partners, Growing Responsibilities" and a policy paper on trade and investment
<b>November 2007</b>	10 <sup>th</sup> EU-China Summit, Beijing
<b>April 2008</b>	EU-China High Level Economic and Trade Dialogue Mechanism, Beijing
<b>December 2008 (planned)</b>	10 <sup>th</sup> EU-China Summit, Lyon

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