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



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## STABILITY, GROWTH AND PROSPECT – A REVIEW OF CHINA-EU RELATIONS IN 2010

Ambassador SONG Zhe\*

I. As we celebrate the 35th anniversary of the establishment of diplomatic relations between China and the EU this year, new progress has been made on the path towards the steady growth of our bilateral ties. Such progress can be observed from the following aspects:

Firstly, frequent high level visits have consolidated the political basis of our relations. This year has born witness to many high-level mutual visits between China and many EU member states. The 13th China-EU Summit was held in Brussels. Chinese State Councillor Ma Kai recently concluded his visit to the EU headquarters. The new EU leadership, including President Barroso and President Buzek, paid visits to China. High Representative Ashton co-chaired in China, with the Chinese State Councillor Dai Bingguo, the first China-EU High Level Strategic Dialogue. This month, several EU Commissioners will be visiting China for the Third High Level Economic and Trade Dialogue. These frequent high level exchanges are very good ways to deepen mutual understanding, increase trust, and inject new vigour to our growing bilateral ties.

Secondly, growth in trade and investments reinvigorated our business cooperation. Our bilateral trade has gradually shaken off the adverse influence of the international financial crisis and has even exceeded the pre-crisis level. In the first 10 months of this year, our bilateral trade grew by nearly 33% year-on-year to US\$388 billion, 8% higher than the same period in 2008. It is estimated that by the year's end, this number will top US\$450 billion. Europe remains China's largest trading partner and export market. And China is the second largest and the fastest growing export market among the EU's top five export destinations. By the end of October, the EU has, in total, invested US\$5.5 billion in China this year, 10.5% more than last year. More European companies are shifting their investments in China from the manufacturing business to the service sector. There are more mergers, acquisitions and investment risks. From the Chinese perspective, in the first three quarters, Chinese direct investment to Europe grew 5.2 folds. These investments have brought hope to a lot of European enterprises trapped by the difficult economic climate. China has thus become a "money tree" for European enterprises. Many European economists and European media agree that China's soaring demand for mechanical equipment and luxury goods has become an important driving force for the economic recovery of many European countries.

Third, practical cooperation continues to grow especially with regard to people-to-people exchanges. Positive results have been achieved thanks to our cooperation in the fields of education, culture, science and

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technology. We have set up the China-EU Climate Change Ministerial Dialogue and Cooperation Mechanism, and jointly established the Clean Energy Centre. In relation to people-to-people exchanges, a wide range of activities and programmes have further strengthened the mutual understanding and friendship between our two peoples. We have signed a joint action plan for the China-EU Year of Youth Exchange, launched the Youth Policy Dialogue, held the first Youth Summit and the first High Level Cultural Forum. For the first time, the EU participated in the World Expo as separate from the EU member states, and staged a gala celebrating Europe Day in Shanghai.

Fourth, closer consultation and coordination have deepened our cooperation on international affairs. China and the EU have maintained close consultations on global issues such as the reform of the international financial system and climate change under the umbrella of the United Nations, the G20 forum and other multilateral frameworks. The smooth functioning of our political consultation mechanisms at all levels also ensures our effective exchange and coordination on international and regional hotspot issues.

II. In the world today, profound changes are taking place in international relations. The financial crisis is not yet over and the proliferation of the sovereign debt crisis remains as a daunting threat for Europe. The development that we have achieved in our bilateral relations against such a backdrop has not come by easily. As we move into a key development stage in our relations, we should continue to work together to preserve the vigour and strength of our relations.

Today, the EU is earnestly implementing the Lisbon Treaty and working strenuously to manage the challenges of both the sovereign debt crisis and its integration process. In this transitional period, fresh characteristics can be also found in China-EU relations as well. Nevertheless, despite of all the changes taking place in international affairs, in Europe and in China-EU relations, the importance China attaches to the EU and our determination and confidence to develop further the China-EU comprehensive strategic partnership has not changed.

Europe is a major power in the international community. Europe plays an important role in upholding world peace, promoting common development, tackling global challenges, and resolving regional and hotspot issues. Europe is a strong force in building a fair and just international political and economic order.

The EU's integration process is the most viable choice for European countries in order to develop strength through unity. For decades, the European Union has demonstrated admirable determination and resolve in overcoming all difficulties and hardships and in establishing from scratch an otherwise highly integrated union today. We firmly believe that the European integration process will continue to enjoy a promising prospect in the future.

Europe is the world's most important economy. As the world's largest bloc of developed countries, the EU is a leading player in terms of foreign trade, innovation, brand marketing, and economy of scale. We have full



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confidence that the euro will emerge from the current crisis and contribute to the stability and diversity of the international monetary regime.

Europe enjoys strong influence over international public opinion and agenda-setting. Europe is the birthplace of Western civilization and modern philosophy and a supporter and practitioner of multilateralism, global governance, and of peaceful resolutions to international disputes. We believe that thanks to the many active minds present in Europe and thanks to the strength of its media, Europe is in a position to contribute more forcefully to the prosperous development of a more diverse world.

China will continue to work alongside the EU to bring more substance to our comprehensive strategic partnership. We will take active measures to ensure that our relations will grow further in order to bear the fruits of a more comprehensive, inclusive, highly motivated, and mutually beneficial relationship.

III. 2011 will open a new chapter in the second decade of the 21<sup>st</sup> century. There will be more opportunities for us to expand and deepen our cooperation. As we start both afresh and from a higher starting point in terms of the development of our bilateral relations, the strategic significance of our ties will be further strengthened. I have full confidence in and high expectation of our future cooperation. Next year, we should focus our efforts to make progress in the following areas:

Firstly, the strategic agreement. We should continue to deepen mutual political trust, respect each other's development path, accommodate each other's concerns, and make sure that China-EU relations will forge ahead along the path towards a comprehensive strategic partnership. Our relations have gone beyond its mere bilateral context. Therefore, in the post crisis era, stronger strategic cooperation between China and Europe on international issues and our closer participation in international rule-making and institution building will help promote a new world order founded on multilateralism.

Secondly, interdependence. Next year, China will begin to implement its 12<sup>th</sup> Five-Year Plan and the EU will follow through with its 2020 Strategy. Our similarities and best practices in social and economic development could offer us enormous opportunities to deepen cooperation. Information technology, low-carbon economy, environmental protection, energy conservation, and Small and Medium Enterprises are all areas which present huge potential for enhancing cooperation. Cooperation in these areas will boost our bilateral trade and further increase our interdependence.



## THE UNIQUENESS OF THE EU VS. THE UNIQUENESS OF CHINA – IMPACTS ON EU-CHINA RELATIONS

Jing Men\*

When looking at EU-China relations, we cannot avoid the question of whether they are strategic partners or not. Since 2003, leaders from both sides started to talk about establishing a strategic partnership between Brussels and Beijing. However, seven years later, it still remains unclear to both the Europeans and the Chinese as to how to define the nature of their bilateral relations. While the official rhetoric states that the relationship enjoys strategic importance, in reality, policy practitioners and scholars seem to be more sober in their evaluation of bilateral ties.

In fact, both European and Chinese specialists can name a long list of differences between the two – from their respective political system to their respective model of economic development, from their cultural heritage to their social norms – the two “partners” seem to have more differences than similarities. On the other hand, both sides generally agree that they share common interests in maintaining world peace, sustainable economic development, regional stability, the fight against terrorism, and cooperation on non-proliferation and disarmament. In particular, against the backdrop of the rapidly changing international political and economic environment, as rising powers, they both need each other’s support in facilitating their respective goals. In other words, cooperation is without doubt the key word in EU-China relations.

Both the EU and China are unique in many aspects. Compared to other major players in global affairs, they possess some distinct features that others do not display. To develop and maintain bilateral cooperation, one needs to, first of all, understand each other’s wants and needs, goals and motivations. As Mr Franz Jessen, Head of DG RELEX’s China Unit said, “Even if we cannot shorten our differences, at least we can try to avoid misunderstandings.”<sup>1</sup> Thirty-five years after the establishment of bilateral relations, there still unfortunately exists many misunderstandings between the EU and China. To a certain degree, these misunderstandings are formed due to the huge differences that exist between the two sides. This paper focuses on the following four features to examine the differences and to explore the commonalities.

### ***Capitalist road vs. socialist road***

The EU follows a capitalist road with European characteristics. Before the end of the Cold War, the ideological competition and conflicts between capitalism and socialism dominated international relations which ended

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<sup>1</sup> This quote is taken from a speech given by Franz Jessen on October 18, 2010 at a book launch organised by the European Union Institute for Security Studies.

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when capitalism achieved an overall success – marked by the collapse of the Soviet Union and the overturn of the communist/socialist political systems in Central and Eastern European countries. Francis Fukuyama applauded this monumental historical change by claiming it as “The End of History.”<sup>2</sup> Yet, European capitalism has a lot of socialist features. Compared to laissez-faire capitalism, Europeans attach great importance to social welfare and social justice. The policies on pensions, education and medical care offered by the governments of many Member States tend to accommodate both the rich and the poor in society, which has led certain Chinese to state that “Europe is more socialist than China.”<sup>3</sup>

China officially follows the “socialist road with Chinese characteristics.” When Mao Zedong founded the new China in 1949, he was guided by Marxism-Leninism and Mao Zedong Thought, with the idea to completely abolish private ownership and to strictly implement a planned economy copied from the model applied in the Soviet Union. Since the reform policy was carried out at the end of the 1970s, the Chinese leadership has sought to emulate the successful experience of economic development as taken from the capitalist world so as to become more open to the practices of market economy and private ownership. Although on paper, China is said to follow the “socialist road”, it is unclear in reality how much China has really adhered to socialism *per se*. As a matter of fact, pragmatism is the most genuine label that can be attributed to the Chinese experiment. As Deng Xiaoping said, “No matter black or white, it is a good cat so long as it catches mice.” No one would have expected thirty-five years ago that in the 21<sup>st</sup> century, China would so ardently strive to be considered and treated as a recognised market economy by the EU.

### ***Developed countries vs. developing country***

The EU is currently composed of twenty-seven Member States, many of them are developed countries. Before the US rose to be the hegemonic power, the world was dominated by Western European capitalist states. The current international political and economic system was established by these countries. As the founder of the international order, these European states made their own marks on history through their pursuit for democracy and liberty. Their belief in human rights has helped to promote these values and norms as universal values and norms. The Central and Eastern European countries were attracted by the EU’s economic success based on its market economy and its well-developed liberal democracy – this served as one of the main reasons behind the EU’s fifth and sixth enlargement.<sup>4</sup> In EU-China relations, the Chinese side tends to describe the EU as composed of “the

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<sup>2</sup> See Francis Fukuyama, “The End of History”, *The National Interest*, 1989 (16), pp. 3-18.

<sup>3</sup> The author’s interview with several Chinese scholars, Beijing, 2-5 July 2009.

<sup>4</sup> Nicos Rossides, “Central & Eastern Europe’s Transformation”, [http://www.masmi.com/global/main.php?action=aatext&page=aatext&design=default&aatext\\_id=142](http://www.masmi.com/global/main.php?action=aatext&page=aatext&design=default&aatext_id=142), accessed 13 December 2010.

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largest group of developed countries.”<sup>5</sup> Such description, on the one hand, highlights the differences in economic development between the EU Member States and China; on the other hand, it highlights the two sides’ economic complementarity, that is, the EU provides the capital and technology while China offers cheap labour.

China’s rapid rise poses problems as to how to define China: there is no consensus internationally as to whether it is a developed or developing country. As the Chinese President Hu Jintao stated, “China is still [the] world’s largest developing country, despite the universally recognised achievements....”<sup>6</sup> China argues that it is a developing country due to its rather low GDP per capita (ranking no. 97 in the world), its limited resource dispositions per capita, its unbalanced demographic structure (more than 700 million live in rural areas and 150 million live under the poverty line), the imbalance between the rural and urban areas and between the eastern provinces and the western regions, its lagging trade structure (most Chinese industries are labour-intensive and resource-intensive industries), and its low investment in public education and social security.<sup>7</sup> This line of reasoning has failed to convince many Europeans, or the world in general. The counter proof can also be offered: as China overtook Japan a few months ago to become the world’s second largest economy behind the United States in August 2010. China surpassed Germany to become the world’s largest exporter in January 2010. Moreover, China possesses the world’s largest foreign currency reserve and serves as the world’s largest creditor with the US remaining its biggest debtor. China’s trade power has also become undeniably important: China is currently the largest trading partner for Japan, Australia, Brazil, South Korea and the second largest trading partner for the US, the EU, Canada, India, Argentina and Africa. Compared to all the other countries in the world, this is China’s unique feature – with one leg already in the developed world, and the other lagging behind in the developing world.

### *Decision-making processes*

The EU is unique in its decision-making process – due to the combination of both the “community method” and the intergovernmental method. The supranational features attributed to the European institutions cannot be found in any other regional organisations in the world. This unprecedented feat in human history exemplifies the talented creativity found in amongst Europeans. On the other hand, as the EU travels through uncharted waters, it is natural that it encounters many challenges. How to maintain an optimal balance between these two decision-making methods and how to allow the EU to perform effectively and efficiently is a crucial task for the European leaders to deal with. Having undergone several enlargements, the EU’s size has expanded, yet, the coordination in terms of positions and policies is

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<sup>5</sup> See, for example, an article in the European Parliament Magazine, by Mr. SONG Zhe, the Chinese Ambassador to the EU, 3 December 2009, <http://www.chinamission.be/eng/jd/t630363.htm>, accessed 13 December 2010.

<sup>6</sup> Quoted in Fu Yuancong, “Why Does China Remain A Developing Country”, 6 October 2010, <http://www.fmprc.gov.cn/eng/wjz/zwjg/zwbdt/t758927.htm>, accessed 12 December 2010.

<sup>7</sup> Ibid.



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getting tougher. Conscious of the problems of its current system, many Europeans hold that the EU should speak with one voice so as to avoid the Chinese employing the “divide and rule” trick.<sup>8</sup>

In China, while economic reform has achieved remarkable success, political reform remains stagnant – as there is no model to copy, the Chinese leadership is cautious in every step it takes towards the reform of the political system. What is unique in China is that, on the one hand, it is open to economic reform, eager to play a role in all the important international financial and economic organisations; on the other hand, it is conservative in relation to its political reform, postponing the ratification of The International Covenant on Civil and Political Rights (ICCPR) for more than ten years after having signed it at the end of the 1990s. Nevertheless, this situation is not sustainable. As Chinese Premier Wen recently pointed out in his speech in Shenzhen that political reform has to correlate with economic reforms: “If there is no guarantee of reform of the political system, then results obtained from the reform of the economic system may be lost, and the goal of modernisation cannot be achieved.”<sup>9</sup>

Although facing criticism from the liberal democratic world concerning the lack of reform of its political system, China’s one-party system does enjoy certain advantages in its external relations. Less bothered by public voices, but more concerned with state power and more efficient in its decision-making, the Chinese, in their negotiations with the Europeans, can often send clear messages to the latter on its core national interests and on its key concerns. Whereas the EU, troubled by its complicated decision-making process, often sends confused messages to its counterpart, which not only sometimes puzzles the Chinese, but also allows Beijing to detect the different positions among the Member States and to exploit the situation for its own interests.

### *Euro vs. Yuan*

The EU Member States are divided economically into two zones – the euro zone and the non-euro zone. While the creation of the euro zone could be hailed as an extraordinary achievement for European integration, it has also brought many problems for the members of the euro zone. One particular concern remains as to how the euro zone will escape the current international financial and economic crisis that started in 2008.

In comparison, the Chinese economy is one of the strongest. Although China was faced with the challenge of the East Asian financial crisis in the late 1990s and the world financial crisis in 2008, its economy managed to maintain the dynamism which has made China one of the most important contributors to world economic recovery and development. Thanks to its

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<sup>8</sup> See, for example, Bruno Waterfield and Peter Foster, “EU Infighting Damages Hopes of Robust China Stance”, *The Telegraph*, 7 March 2010, <http://www.telegraph.co.uk/news/worldnews/asia/china/7393328/EU-infighting-damages-hopes-of-robust-China-stance.html>, accessed 10 December 2010.

<sup>9</sup> Quoted in Peter Beaumont, “Wen Jiabao Puts Political Reform on China’s Agenda”, *Guardian*, 29 August 2010, <http://www.guardian.co.uk/world/2010/aug/29/wen-jiabao-china-reform>, accessed 13 December 2010.



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rising influence in world financial and economic affairs, China has joined the G20 and obtained more voting power at the IMF. The Chinese economy's impressive performance is, to a certain degree, attributed to its currency policy. While it remains disputable whether the Chinese currency is undervalued or not, the currency policy, up until now, guarantees the success of China's export industries and helps to maintain a stable employment rate on the domestic labour-market – which plays an important role in stabilising society and in turn offers legitimacy to the Party's rule. Different from the euro and many other international currencies, the China Yuan is not free-floating, neither can it be freely converted. Most of the business undertaken between China and its partners is calculated on the basis of American dollars. While this is not convenient for the Chinese enterprises, it nevertheless protects the Chinese currency from speculation. Yet, its huge dollar reserve and its strict currency control policy have triggered criticism from the US. In order to divert its currency reserve, China increased its investment in the euro, the Japanese Yen, the South Korean Won and other major currencies. In the meantime, China has increased the number of countries with which the settlement of international trade transactions can be done in Yuan. In this way, it may provide the Yuan with increasing international importance, so as to finally help it become a global reserve currency.<sup>10</sup>

The euro's current weakness makes the Chinese purchasing power more attractive – the Chinese government, since the beginning of 2009, has sent many business delegations to the EU, and signed an impressive number of contracts with its Member States including Greece, Italy and Portugal – the more problematic countries of the euro zone.

### *Impact on EU-China relations*

The EU and China's distinct features respectively constitute both strengths and weaknesses in terms of their bilateral relations. The EU, although having successfully grown to be an influential and unique regional organisation with twenty-seven Member States, faces the problem of policy coordination, in particular, in the field of its foreign and security policy. To overcome this problem, the EU recently launched the European External Action Service (EEAS). As it is still in its initial stage, we need to wait and see how effective the EEAS will be in the future. On the other hand, the EU, economically developed and politically liberal, is widely recognised as a civilian and economic power. China, in comparison, practised its nation-building mainly on the basis of the rules and norms established by the Europeans in the 19<sup>th</sup> and the 20<sup>th</sup> century. As a result of its experience of power politics both before the founding of the PRC and during the Cold War era, the Chinese leadership believes that only by becoming a major power in the international system, can China be respected by others. Thus, China's objective in pursuing its nation-building is to acquire more power and prosperity. Its trajectory of power construction is mainly associated to hard-line realism.

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<sup>10</sup> Peter LeVine, "China's Yuan: The Next Reserve Currency?", Business Week, 26 May 2009, [http://www.businessweek.com/globalbiz/content/may2009/gb20090522\\_665312.htm](http://www.businessweek.com/globalbiz/content/may2009/gb20090522_665312.htm), accessed 13 December 2010.



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Due to these reasons, in modern-day EU-China relations, their respective concerns diverge. Whereas the EU attaches great importance to liberal values and civilian rights, China is more interested in the state's security and political influence. The EU emphasises civil and political rights, whereas China insists that the right to subsistence is essential. The EU has practised multilateralism for decades and has strongly endorsed this approach in international and regional cooperation. China seeks multipolarity and considers the multilateral approach as but one of the tools to realise its goal. Furthermore, together with its internationally rising power and influence, China is becoming more active in the management of international affairs – although it does not seek to challenge the fundamental order of the international system, it does urge for reforms in many fields. In its external relations, China is believed to be more confident and more assertive. The EU is obliged to adapt to such changes.

On the other hand, China has also noted that in line with its growing international influence, it needs to take more responsibility. China strives to promote its newly developed concepts of nation-building and world development, such as "collective security" or "harmonious world", through its increasingly active diplomacy. China emphasises the importance of cooperation with others in order to maintain world peace and stability. Despite the divergences and differences that exist between the EU and China and despite the fact that it is still unclear as to whether the two are strategic partners, it is certain that without cooperation, it will remain difficult for the two to realise their common and respective objectives.



## ***EU-CHINA OBSERVER* – CALL FOR CONTRIBUTIONS**

The *EU-China Observer* is a bimonthly academic journal, published online, dedicated to the study of EU-China Relations which is published by the College of Europe's InBev-Baillet Latour Chair of EU-China Relations. The principle aims of this open access journal are to further deepen the academic analysis and understanding of the development of this bilateral relationship – a relationship that is growing ever more important in this increasingly interdependent and interconnected world. The journal – which is distributed to a base of over 5,000 readers – provides a platform for scholars and practitioners interested in exchanging ideas on topics related to EU-China relations, from an interdisciplinary perspective. In effect, the *EU-China Observer* publishes rigorous theoretical reasoning, advanced empirical research and practical policy-oriented papers in all relevant subjects-areas. We welcome articles or proposals from all perspectives and on all subjects pertaining to EU-China relations. The journal also accepts book reviews which may concern any recent publications on topics closely related to the study of EU-China relations. The journal targets academic audiences, as well as policy-practitioners, members of the business community, NGO representatives, journalists or other interested individuals, located not only in China or the EU but also targeting audiences worldwide so as to gain exposure to the widest possible readership.

Therefore, the Chair is calling for contributions to the journal, which should not exceed 2,500 words in length. Contributions should be sent to either Prof. Dr. Jing Men ([jing.men@coleurope.eu](mailto:jing.men@coleurope.eu)) or to Mr Benjamin Barton ([benjamin.barton@coleurope.eu](mailto:benjamin.barton@coleurope.eu)), who will review the contributions and provide swift feedback, where necessary, to the concerned authors.

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