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## *A New Agenda*

On 27 November 2006, Presidents Hu Jintao and George W. Bush had a telephone conversation. Hu had just returned from visits to India and Pakistan following the APEC summit in Hanoi a week before, where the two Presidents had also met for bilateral talks. Bush was arriving at the NATO summit in Riga (Latvia). There was, however, no sign that the President of China was in any comparable direct contact with the leaders of Europe, of EU nations.

China and the EU held a summit meeting in Helsinki six weeks before. China's Prime Minister, Wen Jiabao, attended, and the EU was represented by the Prime Minister of Finland and the President of the European Commission. The joint statement emphasized the importance of high-level political dialogue and consultations, but it is obvious that the EU does not talk to China at the same level as the US. This is the case despite the fact that day-to-day relations between China and the US are much less serene than those between the EU and China.

Diplomatic relations between the People's Republic of China and the European Union as such started in 1975 with a visit to China by the then Vice President of the European Commission, Christopher Soames. The President of the Commission, Roy Jenkins, visited China at the end of February 1979 and met with senior politicians, among them Deng Xiaoping, who was to emerge as the paramount leader. Deng, who had visited the US in late 1978, told Roy Jenkins that to him, the European Community seemed to be coming together politically, economically and militarily, step by step. He wished to

see a powerful, strong, united Europe which fitted into his concept of a world structured around specific poles of power. At that time, the Soviet Union represented the central threat both to Europe and to China, and he wondered whether the US was really fully committed to defending Europe. He thus implied that Europe needed to take care of its own security and should eventually cooperate with China, as both were threatened by the Russian bear. Deng said, “You hold the bear by its forepaws where he bites, and we hold him by the hind paws where he kicks, and . . .”.

At the time, China was engaged in a brief war with Vietnam, which it saw acting as “Russia’s Asian Cuba”. Roy Jenkins told the Chinese that he thought China was neither wholly First World, nor Second, nor Third — referring to China’s achievements as a nuclear power, in science and technology as well as its economic potential in the context of the implementation of the four modernizations, and the challenge to improve the well-being of its vast population.

A quarter of a century later, at the beginning of the 21st century, China and the EU have both greatly changed. With its booming economy, China is almost unrecognizable to the visitor who accompanied President Jenkins at the end of the 1970s. The EU, today a bloc of 27 countries focusing on economic interaction and integration, has not yet become the wholesome interlocutor that Deng had in mind. It is true that for both the US and the EU, relations with China top their agenda of concerns, in particular with reference to the consequences of globalization. The US, however, is an Asian power, particularly from a security standpoint. Europe is not. Europe’s main engagement with China is about trade disputes, but there is no really meaningful political cooperation, so no telephone calls from Hu Jintao.

Following the summit in Helsinki, the EU and China have committed to redefine and strengthen their relations. For the EU, the fundamental objectives are to have China as an investment and trade partner, contributing to growth in Europe, and to have China as a responsible player in world affairs, sharing the responsibilities for stability and the preservation of the environment and natural resources. For China, relations with the EU are not on top of its foreign policy agenda. Its basic priorities are a need for stability in Asia, including the preservation of its territorial integrity in the “one China” concept, and the need of securing markets and access to technology as well as raw materials to sustain its development. Relations with the US are a crucial concern. The

presence of the US 7th Fleet in the Pacific Ocean as well as of US troops in South Korea, Japan and the Philippines, attest the daily reality of the US's role in Asia's security.

## **A New Actor on the World Stage**

Nowadays, China is indeed very active in international diplomacy. In a single week in November 2006, it hosted the ASEAN plus 3 leaders in Nanning as well as a summit conference in Beijing of 48 African countries, while at the same time bringing together the six countries involved in the attempt to deal with North Korea and its nuclear program. At the turn of 2006, a powerful delegation led by the Chinese foreign minister toured Africa, which had already received high-level Chinese visitors earlier that year.

Two weeks later the Chinese Prime Minister joined his counterparts from the ASEAN countries, Japan, Korea, India, Australia and New Zealand in a series of summits held in Cebu (13–15 January 2007). The ASEAN agreed on a plan to draft a charter for an ASEAN economic community — the leaders having the example of the EU's economic integration very much on their mind — with legally binding provisions and enforcement mechanisms. “We are happy to have China as our big brother in our region”, said President Gloria Arroyo of the Philippines. China agreed with ASEAN to create a free trade zone.

The Chinese Premier visited Japan in April 2007. It was a most carefully planned public relations and charm operation, demonstrating Chinese goodwill towards its neighbor. The new administration in Japan under Prime Minister Abe is engaging in active diplomacy around the region. But plans to review the constitution as well as the creation of a fully-fledged Ministry of Defence and revisionist views of history expressed by this administration are unsettling news for the people in Asia. The true normalization of the China-Japan relationship might take another generation as proper reconciliation or closure over the Japanese atrocities during World War II has yet to be undertaken.

## **Europe Puts Trade First**

At the time of Lord McCartney's mission to China in 1793, China was the largest economy in the world. Throughout the nineteenth and twentieth

centuries, its share of global GDP fell as low as 0.5%. Industrial revolution and colonial exploitation increased the wealth of western Europe, and China fell behind. The last quarter of the twentieth century saw a reversal of this trend as China's program of the four modernizations unleashed an unprecedented economic revival.

In those 30 years since the establishment of diplomatic relations between the EU and China, both entities have undergone considerable changes. China today is the fourth biggest economy in the world and on its way through sheer force of numbers to become the world's biggest economy within 20 years. Nevertheless, its GDP is only about one-tenth that of the US or the EU. And its GDP per capita is today barely US\$2,000 (although its GDP PPP is already US\$7,200). It has experienced an annual growth rate of quasi 10% for the last 20 years — 10.7% in 2006 — but still faces tremendous problems in creating jobs for the 25 million new workers that join the labor market every year. Indeed, the tremendous transformation of its economy has deepened the gulf between the poor and the very rich. Long gone are the days of the egalitarian society 30 years ago.

The European Union then was the European Community of nine states. Developments such as the demise of the Iron Curtain and the collapse of the Soviet Union were difficult to imagine in 1975, as was the idea that the European integration project could comprise 27 member states as it does today. The challenge facing the EU now is to some extent of the same nature as China's problems. How to generate more wealth and create jobs for the 10% unemployed in the EU?

Deng Xiaoping's vision in 1979 of big players in a multipolar picture of the world, with a fully empowered EU being one of the poles, has not materialized. Although a great economic might, Europe is still to become a political and military power. The initial phase of the EU's relationship with China was characterized by cooperation arrangements designed to assist China's development, particularly in areas such as science, rural economy and training. There was some political dialogue, but the emphasis was essentially on economic opportunity as China's development would open vast markets for European goods and services. The Tiananmen massacre had a traumatic effect on this relationship. After a cathartic period of sanctions and frozen relations, China emerged as a different partner, a harder, self-asserting state rather than a soft friend. The issue of the arms embargo has not been resolved to date, both sides

having tacitly agreed to put it in between brackets. In fact, it is doubtful that the lifting of the embargo at a future date would have more than a symbolic — important, nevertheless, politically — significance as by now China is buying arms more cost-effectively from Russia and developing its own (e.g. advanced fighter jet), not to mention its spectacular and successful space program.

Significant steps in the history of this relationship were the initial 1978 Trade Agreement, followed by a Trade and Economic Cooperation Agreement in 1985. The EU Commission opened a Delegation in Beijing in 1988. It also opened an office in Hong Kong in 1993 (with accreditation to Macao). The preservation of the business environment and the rule of law in the former British and Portuguese colonies was the objective of the EU's support of China's "one country, two systems" concept for the handover of these territories in 1997 and 1999. Ten years later, one can rate this policy as having been very successful.

The EU and China have held summit meetings since 1998. They reached agreement on China's accession to the WTO in 2000. China joined the WTO in 2001. China's accession to the WTO was a great achievement not only for China, but also for the EU. The EU actually offered assistance to China to prepare for the consequences and implementation of its membership. The pace of trade between China and EU, between China and the rest of the world accelerated. This trade is now three times more important than in 2001. China still has not gained market economy status and is a target for many anti-dumping actions. This reflects a situation where China is the workshop for the world, its cheap and abundant labor involved in low value-added processing and assembly, mostly by foreign funded enterprises. These are issues that will have to be addressed in the next round of negotiations between China and the EU, as China continues to enter high technology sectors, like the manufacturing of Airbus planes.

## **Looking Ahead**

In 2008, the world will be drawn to China. In fact, the curiosity in the West for things Chinese has always been strong, and has strengthened much over the past few years. In particular, the number of tourists has increased, as has the number of Chinese visitors to Europe after the Approved Restriction Status Agreement signed in 2004. These exchanges play an essential part in fostering better understanding between the peoples of Europe and China.

China's fantastic growth over the last 30 years has had obvious benefits for the rest of the world, reducing for instance the cost of clothing, equipment, food and all those things that China supplies. But China's economy is working two-thirds for exports, while the EU and US by comparison only export about 25%, probably less, of their production of goods and services.

China's success due to the combination of very low wages with state-of-the-art technology has created a fantastic manufacturing capacity. In the West, there is now increasing concern that China is destroying "our jobs". At the same time, China has accumulated foreign exchange reserves of over US\$1 trillion. 70% of these are held in US treasuries and other US dollar denominated assets. The US and Europe tend to accuse China of artificially keeping its currency undervalued to make its exports more competitive.

As the feeling of unfair competition from China becomes palpable with electorates in the EU (as in the US), there is a serious risk of a protectionist backlash. Restoring a balance or preventing excessive imbalances must be an objective for future negotiations between the EU and China.

Currently, cooperation between China and the EU spans many issues through seven formal agreements, 22 sectoral dialogues, covering anything from aviation and maritime transport to regional and macroeconomic policy. China participates in EU research programs and is also a partner in ITER and Galileo.

It certainly would seem desirable to strengthen EU-China cooperation in international organizations and forums, in particular to share information and coordination on terrorism, migration, drug and human trafficking, pandemics and so on. It will also be relevant to make China share the awareness that growth must be qualified by concerns for the environment, the management of natural resources as well as the impact of frenetic industrialization on global warming.

The reform of the UN is a common interest and the EU certainly welcomed China's participation in UN peacekeeping, clearly a step away from the insistence on non-interference in the affairs of third countries.

The reforms introduced by Deng Xiaoping liberated the economy, eventually making it the most capitalist economy in the world. China has become a brutal playground, where survival of the fittest is the rule. There is, however, no level playing field. Corruption and abuse of power by officials are a major problem both for Chinese and foreign operators. The EU can share its regulatory experience with China, but closer to hand are also the examples and models to be followed of Hong Kong and Singapore.

China's membership of the WTO should eventually make a contribution to reforming and strengthening China's legal system and rule of law. This is an essential requirement for the legal certainty and validity of contracts and conventions entered by foreign investors.

From an EU viewpoint there are a number of sticky issues, in particular the concern over China's failure to comply with some of its WTO obligations, such as market access in services. A classic example is the difficulty encountered by investors from Europe trying to create, ahead of the Olympic Games in 2008, a sports program television channel. Other problems are counterfeiting, unfair tariffs on automobile spare parts, and the difficulties created by the Chinese regulatory authorities for foreign news agencies and journalists.

Today's foreign affairs agenda is driven by domestic concerns. The priorities of government policies, both in Europe and in China, are to provide jobs for the citizens. In China in October 2006, the Communist Party's Central Committee adopted two priorities: one was looking after the poorest in society, the other space exploration. Thirty years ago China was very much an egalitarian society; today, the gap between the very wealthy and the very poor is widening in a spectacular fashion. Extreme poverty and abuse of power by local officials were the root causes for 17,000 riots in China in 2006. Thus, sustaining economic growth is indispensable to alleviating poverty. It also means that energy, raw materials and water management will determine much of China's foreign relations.

This typically shows up China's interest in Africa. The EU, in the context of the summit meeting with China on 9 September 2006, reaffirmed its attachment to the principles of good governance and human rights in Africa. China emphasized the five principles of peaceful coexistence, including the principle of non-interference in internal affairs, as well as the mutual respect of sovereignty and territorial integrity. China also takes an interest in the Middle East where it has reasonably good relations with all the parties and from where it obtains a substantial part of its oil.

## **Europe's Image in Asia**

When visiting or staying in Asia, the opportunities of exchanging views with business communities, academics and government circles, confirm that the EU as such is not very present. Public opinion in Asia is aware that Europe is very busy with its enlargement, the attempts to reshape its operation and

institutions, and the development of its single currency, and therefore understands to some extent that not enough energy and attention is given to relations with Asia. Meetings at various levels, in various forums, seldom attract all the leaders from the EU member states, while their Asian counterparts dutifully attend. The President of the Commission is less well-known than the Commissioner for External Trade, attesting the reality that the only issue that matters is trade.

It is also clear that this is the only area in which the EU can act as EU. The EU of 27 member states with all their national leaders, as well as its institutions and its complicated rotating 6-monthly presidency (Germany and Portugal in 2007, Slovenia and France in 2008), has become baffling for China and others in Asia. In the new EU, the assertion of national identities has had a diluting effect on the integration process that was so clearly a theme in the conversations between Deng Xiaoping and Roy Jenkins.

European economic operators in China do not see a big role for the EU institutions. They have set up an effective Chamber of Commerce, with the blessing of the EU, for lobbying against counterfeits, tariffs and so on. But the EU is of little help when investors and their joint venture partners have problems.

The Chinese and others in Asia are well aware that the EU makes the rules, but they also see that trade promotion is a national affair. High-powered trade missions from member states visit regularly, with the presence and assistance of government leaders. Brands (e.g., Ferrari, Mercedes-Benz, Louis Vuitton) are identified with their European countries of origin. Disputes over bras and shoes, prompted by individual member states' concerns, are perceived as denying the European consumer a good deal, and jeopardizing business ventures of Europeans in China.

## **A New Approach**

As China and the EU embark on a new round of negotiations to overhaul their relationship, it might be worth considering a more pragmatic but double-pronged approach.

Trade and investment relations are the priority, but the EU must also continue to project its soft power. That soft power is relevant for rising China was illustrated by the success and interest generated by a November 2006

broadcast on Chinese TV documenting the rise, over the past 500 years, of nine major powers (Portugal, Spain, the Netherlands, France, Great Britain, Germany, Russia, Japan and the US). The program concluded that what makes a power great is “soft power” (education, skills, organization, etc.) and not force or war. Discussions and audience reaction showed that China now sees herself as a major power, but that her rising is peaceful. It would in this context appear logical that all the EU-China dialogues and technical cooperation in education in particular will continue and develop without requiring new codification. Extending and deepening development cooperation and joint programs in public health, education, scientific cooperation, the protection of the environment and climate change should engage scientists, think-tanks and non-governmental organizations from both sides. Issues such as an ageing population confront societies in Europe and Asia. Because of the success of the one child policy, China can control the number of job seekers, but might also, in one generation, become an ageing society like Europe or Japan. Cooperation between small and medium-sized enterprises (SMEs) from Europe and China should also be developed as SMEs can contribute to stabilizing the social fabric outside the big conurbations, creating jobs and encouraging innovation.

Political consultations take place in the rarefied atmosphere of high-level meetings and visits by political leaders from different member states. It is to be hoped that the EU will increasingly speak with one voice and develop an identifiable political face, making the office of Javier Solana, the present High Representative for Common Foreign and Security Policy, more effective. In this context, the EU should also promote China’s inclusion into the G8.

If the Doha round fails, it would be appropriate for the EU to propose a Free Trade Agreement (FTA) with China. This might be more expedient in responding to the EU’s demands for better market access, removing restrictions on foreign ownership and investment, for joint action on improving the protection of intellectual property rights, and equally, in responding to China’s demand for technology transfer and more investments as well as fairer access to European markets.

## **The Voice of the People**

In time for the Olympic Games, the EU and China should agree — possibly after the autumn 2007 meeting of China’s Communist Party’s National

Congress — on a joint declaration, something that in historical terms would correspond to a European version of the US-China Shanghai communiqué and demonstrate in a highly visible form the will to work together. In fact, the EU-China partnership has a double agenda: a hard one about trade, and a soft one about shaping a new relationship between the nations and people of Europe and China in other areas of mutual interest. Projecting the EU's soft power in China as well as in Asia should become a constant endeavor both for the EU's institutions and the member states. To be successful, any policy must be carried by public opinion; this is equally true in Europe and in China. In China, a civil society is emerging — the internet helps. The government is also promoting greater transparency and accountability for the operations of the Communist Party and the various national, provincial and local power systems. These developments should have a positive impact on the relations between Europe and China.

The relationship between the EU, its member states and China can only develop to mutual advantage if it attaches to a warp and weft of growing people-to-people contacts. It is important to build on existing networks with China: academic, cultural, sports, business — rooted in the national states that make up the EU. Based in Singapore, one is aware of the region's distaste for Europe's interest in and insistence on the issues of democracy, human rights, rights of minorities and fundamental freedoms. Asian interlocutors fail to see why Europe attaches importance to these when they often fear that freedoms undermine the stability needed for economic development. There are two points to make. People in Europe — and presumably elsewhere in the world — are concerned by what happens to their fellow human beings in other places. In a world of global, instant communications, in a world of global news channels, the suffering of people is broadcast directly into the homes of voters and taxpayers. In Europe's active civil society, causes such as the Tibetan cultural and religious identities have a substantial following.

Human rights are definitely on the political agenda when dealing with China, and this is why it is EU policy “to encourage the full respect of fundamental rights and freedoms, of freedom of speech, religion and association, the right to a fair trial and the protection of minorities” in China.

China's political establishment might not like this, but it will appreciate that at a time when anxieties about globalization and trade imbalances fuel clamors for protectionism against China, it would be unwise to increase the number

of China bashers in Europe by ignoring the human rights issue. In addition, it is conceivable that new concerns on China's domestic agenda such as the need to make society more harmonious and to promote accountability and democracy within the Communist Party could make the EU-China human rights dialogue more relevant.

The Olympic Games in 2008 and the 2010 World Expo will offer tremendous opportunities for travel and exchange between Europe and China. The cultural attraction for things Chinese has been for centuries a factor in promoting better understanding between China and Europe. Today, as the number of students and tourists grows exponentially in both directions, it is important to strengthen the people-to-people dimension in the China-EU partnership. China has a strong national identity, whilst the Europeans are in a more complex situation, with participants from old and less old, but recently reinvigorated nation-states in a new venture of cooperation for peace and stability.

For this more complex new Europe, two developments that are foreseeable in China will contribute to shaping the new agenda for the future EU-China partnership. The first comes with China's growing affluence. China's economic success will lead to the emergence of a more affluent and demanding middle-class, resulting in a stronger internal market both for Chinese and foreign — including luxury — products. The second will be a consequence of the first in prompting structural adjustment caused by higher wages and higher manufacturing costs. Investment from the EU and China will seek to diversify, looking for cheaper sites elsewhere in Asia. The strengthening of China's currency will have an impact, as will protectionist measures by China's trading partners. European investors will be tempted to switch to countries in Asia that escape EU quotas and other restrictions. This prospect also corroborates the significance of China lining up with ASEAN for creating a free trade zone.

Indeed, there can be no doubt that trade is the key for the success of the future EU-China partnership, as it is for the future prosperity for the whole of Asia.

*Etienne Reuter*