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Chen Zhimin

» Europe has been Chinese premier Wen Jiabao's key foreign policy priority during his two terms and ten years in office. After he took over China's premiership from Zhu Rongji in 2003, Wen's first China-EU summit was a major success. But the China-EU 'honeymoon' was short-lived, and hopes for a China-EU 'strategic axis' to oppose US unilateralism after the Iraq war dissipated over the following years. In 2007 and 2008, serious disputes erupted between China and a number of EU countries over human rights and Tibet. The global financial crisis and the European sovereign debt crisis prompted both sides to refocus their bilateral agendas on pragmatic cooperation on economic issues. The last two summits before Wen's retirement, held in February and September 2012, signalled some advances. This progress allowed the premier to announce that after 10 years of ups and downs, the China-EU relationship is still moving forward.

RESULTS

Two-way trade, the most vibrant dimension of the China-EU partnership, rose from about \$100 billion in 2003 to \$567.2 billion in 2011, representing an average annual increase of

HIGHLIGHTS

- Ten years on from the launch of the China-EU strategic partnership, trade keeps growing but other lingering issues are casting a shadow on the future.
- On key issues, from trade disputes to geopolitical crises, the positions of the EU and China seem set on divergent paths.
- The partnership needs reinventing to exploit the many opportunities ahead while taking into account the interests of both parties.



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20.8 per cent. The EU has been China's top trading partner for eight consecutive years, while China has become the EU's second largest trading partner. For a few months in 2011, China even surpassed the US as EU's largest trading partner. The EU has invested more than \$80 billion in China over the last three decades. Based on official figures, China's direct investment in the EU was just \$100 million in 2003, but by 2011, it had jumped to \$4.3 billion. However, according to a June 2012 report by the Rhodium Group, a private economic research firm, Chinese FDI in the EU went from less than \$1 billion a year between 2004 and 2008, to around \$3 billion a year in 2009 and 2010, before reaching almost \$10 billion in 2011. China has the world's largest foreign currency reserves, valued at \$3.24 trillion, and it is possible that it has invested about 20 per cent of its reserves in Euro-denominated assets. Premier Wen has pointed out that even at the height of the European sovereign debt crisis, China purchased Eurozone government bonds and bonds issued by the European Financial Stability Facility. In view of this rapidly growing two-way investment flow, the two sides agreed in the February summit to launch negotiations on a China-EU investment agreement. Due to the complexity and high stakes of the issue, it seems likely that substantive negotiation will start under a new Chinese government in 2013.

Bilateral cooperation has expanded beyond trade and investment into a wide range of areas. Bilateral sectoral dialogues have increased from 19 in 2003 to more than 60 today. At the February 2012 summit, China and the EU decided to

set up the High Level Meeting on Energy (HLME) to deepen EU-China strategic energy dialogue. Chinese vice premier Li Keqiang attended the first session of the forum on 3 May 2012. In September 2012, as part of the new EU-China Partnership for Urbanization, Brussels hosted the first EU-China Mayors' Forum, bringing together 50 mayors from Europe and China. The two sides have also held an inaugural meeting of the bilateral Dialogue on Space Technology Co-operation and expressed common willingness to enhance cooperation on the civil aspects of their respective Global Navigation Satellite Systems (GNSS). Just before the September summit, the EU suspended a controversial anti-subsidy trade case against Chinese telecommunications companies, which allowed both parties to gloss over the issue of trade disputes during the event. Furthermore, the two sides forged a temporary truce on the EU's attempt to levy a carbon tax on airliners using EU airports, another sensitive issue which put China and the EU in direct confrontation. They agreed to 'cooperate to take action forward in multilateral fora' in 'tackling international civil aviation emissions', and they promised to enhance practical cooperation on building an Emission Trading System in China.

The EU and China have also shown new interest in developing security and military cooperation in the context of their Strategic Dialogue, which was upgraded to vice-premier level in 2009. Following the third Strategic Dialogue on 9 and 10 July 2012, both sides decided to continue cooperating on crisis management, counter-piracy and maritime security. They agreed



to increase training exchanges and to hold a regular dialogue on defence and security policy. And they announced their intention to continue dialogue on cyber issues after the first meeting of the EU-China Cyber Task-Force.

The High Level People-to-People Dialogue was launched in 2012 to improve mutual understanding among the general populations of China and the EU. In 2011, nearly 2 million Chinese people went to Europe for tourism and study, a fivefold increase since 2003. However, deliberate government facilitation is still needed in order to promote better mutual understanding. As a major initiative to invest in the future relationship, the Chinese government decided to offer 30,000 scholarships for students and scholars from China and the EU to study or conduct research in the two regions.

DEEP REGRETS

The partnership still needs to address a number of contentious issues. In his opening remarks to the EU leaders at his final China-EU summit, Wen expressed his regret and China's frustration at the fact that the arms embargo on China remains in place. He also spoke out against the fact that market economy status has not been granted to China.

European leaders debated lifting the arms embargo in 2003, but deliberations on the topic stopped in 2005. Reportedly, Catherine Ashton raised the issue again in an internal report in late 2010, but further steps were blocked by EU member

states. One of China's top demands in discussions with the EU is the granting of market economic status (MES). According to China's WTO accession agreements, China will automatically receive MES status by 2016. The Chinese government has been hoping that as a strategic partner, the EU would move ahead of other major advanced economies and grant MES to China some years ahead of 2016. But the two sides apparently have not been able to reach agreement on the issue.

Neither the arms embargo nor MES is seen as a matter of real, vital interest in China. The call to end the arms embargo was mainly symbolic, aiming to end the political discrimination that China feels the embargo represents. In fact, even under this arms embargo, China's military technology and equipment have witnessed a major leap forward in the last 10 years. Likewise, the EU's decision to keep China on the sidelines in the Galileo satellite navigation project has prompted China to deploy its Compass (Beidou) system well ahead of the Galileo system. As 2016 draws near, even the MES may be an issue of diminishing value for China. However, these two items have been at the top of the Wen administration's agenda for the past 10 years, and no serious progress has been made.

Premier Wen has other regrets. In early September, the EU trade commissioner, Karel De Gucht, launched a probe into the suspected dumping of solar panels made in China. China exported more than \$25 billion of solar panels to the EU in 2011. Considering the large sum of money involved, this could be the largest trade



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dispute between the EU and China in history. Premier Wen's administration has made great efforts to incorporate sustainable development, a general European norm, into his government's central domestic agenda. The government has encouraged clean and renewable energy industries, which have developed rapidly during Wen's premiership. China has become the global market leader in the field. Now, the success of this policy is jeopardized by the European decision. The Chinese side is especially confused because, just a week before the commissioner's decision, the German chancellor, whose country is the biggest producer of solar panels in Europe, agreed to use cooperative consultation to resolve the issue.

The trade row is disturbing to China for other reasons. Europe's more assertive efforts to curb its imports from China take place when China believes it is offering an essential helping hand to Europe at a time of severe crisis. Most recently, in the G20 summit meeting of June 2012, China announced it would contribute \$43 billion to the second round of IMF resource boosts. Moreover, China's exports to Europe are experiencing negative growth, while imports from Europe are steadily growing. China's trade statistics show that, in August 2012, China's exports to Europe decreased by 4.9 per cent, but its imports from the EU grew by 3.1 per cent. During the same month, China's exports to the US grew by 10.2 per cent, making the US China's number one export market again. Furthermore, the trade row casts a shadow over the slowing Chinese economy, for which the government is trying to avoid a hard landing.

China is very concerned at the more assertive foreign intervention of the EU and its members in its neighbourhood. China supported UN Security Council Resolution 1970 to impose sanctions on the Gaddafi regime in Libya, and its abstention on Resolution 1973 allowed the European countries to launch a military intervention. But China felt that its accommodation on the Libya case opened the door for Europeans to orchestrate regime change in Libya, which went well beyond the Security Council authorization to launch a civilian protection mission. As China still regards itself a proponent of state sovereignty and non-interference in domestic affairs, the Libya experience prompted China to cast three vetoes (in October 2011, February 2012 and July 2012) on similar Security Council resolutions on Syria. The Chinese believe that these resolutions, sponsored by Europeans and other countries, may lead to another forced regime change in Syria. So, the policy gap on how to handle the volatile situation in the Middle East is widening between Europe, which is perceived as more intrusive, and China, whose sovereignist approach is entrenched. That gap was not bridged at the 15th summit.

REINVENTION AWAITED

The 15th summit was the last one under the current Chinese leadership. A brand new leadership will emerge in China over the next few months, most likely under Xi Jinping as president and Li Keqiang as premier. The leadership change in China makes it tempting to ponder the scope for reinventing the China-EU partnership in the future.



The new Chinese leadership might take a stricter position to defend its key interests

The relationship is likely to maintain a comfortable level of cooperation, with the possibility of further enhancement. Vice premier Li Keqiang, if he assumes the premiership as is widely anticipated, would be well placed to carry on Premier Wen's EU policy legacy. In his current capacity, he has been closely involved in relations with Europe over the past years. He personally attended the first China-EU High Level Meeting on Energy and he was present at the launch meeting of the new EU-China Partnership for Urbanization.

His knowledge of Europe and his wide-ranging personal ties in Europe would be a key asset for him in leading China's EU policy in the future.

China's on-going disputes with the US and Japan, the two other major western-looking powers, will lead new Chinese leaders to ensure a stable relationship

with Europe, with which China has no major geopolitical disputes.

China's investment drive in Europe will generate new incentives for it to deepen its economic relations with the EU and its member states. And possible domestic market-oriented reform in China would entail more economic opportunities for the European business community. The Chinese economy successfully weathered the 2008 global financial crisis, due to a substantial degree to the growth of state-controlled sectors. But the economy is

slowing down and the government is not attempting another round of massive state-sponsored stimulus like the one carried out in 2008. So, more rigorous market-oriented reform seems to be one of few viable strategies for the government to revitalize the economy. This kind of reform would further open up the Chinese economy and offer more market access to private Chinese and foreign firms. This would mitigate a major concern of European firms operating in China, which would facilitate better management of bilateral economic disputes and advance bilateral cooperation.

On the other hand, Europe will have to deal with a somewhat different China when the new leadership takes office. Even if Chinese leaders continue to support the partnership with the EU, they will have to persuade a more reserved general public. According to BBC polls, views in China about EU's international influence have grown less positive: in 2008, 62 per cent of Chinese people had a positive opinion of EU influence, compared with only 46 per cent in 2012. And a Chinese poll indicates that only 8 per cent of Chinese people rank the China-EU relationship as the most influential one in China's external relations. China-Russia and China-Japan score 20 per cent each, and China-US was named most important by 77 per cent of respondents (those surveyed were allowed to choose two options).

The new Chinese leadership might take a stricter position to defend its key interests. Xi Jinping made it clear in a major foreign policy speech in July 2012 that China would solve its disputes with



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neighbouring countries and maintain the stability in the Asia Pacific 'on the basis of sternly safeguarding China's national sovereignty, security and territorial integrity'. He was talking about the Asia Pacific region, but the idea that China will not seek unconditionally cooperative relationships may well be applied to other external relations.

China's export machine is slowing down because of rising production costs and external economic protectionism, and China is turning to increasing domestic consumption and investment for future growth. A more balanced Chinese economy would be less reliant on traditional foreign markets than it was in the past. That would produce a more symmetric economic relationship between China and Europe. It would also pave the way toward a scenario where China could respond to foreign economic pressures in a more resolute manner.

While acknowledging the considerable achievements in the China-EU relationship, as well as reflecting on past missteps, both parties need to look forward and embrace the opportunities offered by a new leadership in China and a new Europe emerging from its debt crisis. But they must also anticipate the various challenges that these developments will entail.

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