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Documento de Trabajo
Serie Unión Europea
Número 38 / 2011

China's Priorities and Strategy in the China-EU Relations

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Serie *Unión Europea* de Documentos de Trabajo del Instituto Universitario de Estudios Europeos

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CEU Ediciones

Julián Romea 18, 28003 Madrid

www.ceuediciones.es

Instituto Universitario de Estudios Europeos

Avda. del Valle 21, 28003 Madrid

www.idee.ceu.es

ISBN: 978-84-92989-70-6

Depósito legal: M-15569-2011

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INTRODUCTION

Today, the relationship between the European Union and China is strong and important, though it is not in the most desirable situation for both sides. After having a progressive development from 1995-2005, recent years have witnessed a number of setbacks, creating some acrimonious feelings on both sides. As the world is embracing a more challenging future after the severe world economic and financial crisis, and in view of the new foreign policy system enshrined in the Lisbon that is taking the shape, it is time for the EU and China to engage in a more serious and in-depth dialogue, so as to contribute to a possible revitalising of this important relationship.

In the following sections, the authors intend to identify the EU's place in Chinese foreign policy thinking in the past, to assess the development of their relations, outline the priorities in China's EU policy, and frame a Chinese strategy towards the EU.

1. Europe in China's foreign policy thinking in the past

The EU/EC and its member states have occupied a prominent place in China's foreign policy thinking since the early 1970s. Firstly, since China and all major western European countries established normal diplomatic relationships at the beginning of the 1970s, Europe has been regarded as a group of countries which have no fundamental conflicting interests with China. Apart from China's diplomatic skirmishes with European countries over human rights, disputes with France over its export of 60 Mirage-2000 fight planes to Taiwan and with the UK over the Hong Kong handover in the early 1990s, there had been no major concerns over European infringement of China's security and sovereignty. After the UK withdrew its troops from Hong Kong in 1997, there is no European military presence in East Asia, and the Taiwan issue for the most part did not feature as prominently in EU-China relations as in US-China relations. Therefore, the 2003 China EU Policy Paper could proclaim: "There is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other¹".

Secondly, China has seen its relations with Europe serving its strategic objectives from the beginning. After China forged the diplomatic normalization with all EC member states in early 1970s, China and the European Community established diplomatic relations in 1975. While these steps were taken in their mutual interests, from China's side, improving relations with Europe and supporting European integration reflected the strategic thinking of China, namely the "Three Worlds" idea, which saw the United States and Soviet Union as the "First World", and western European states as belonging to the "Second World", and therefore as valuable partners in China's effort to fight the two Cold War hegemonies. China supported and urged the European states to integrate themselves and to develop a common independence policy towards the superpowers. Such a line of thinking continued in the post-Cold War era, when China sees the United States being an unruly unipolar power and becoming the most threatening force to China's core interests. As European countries solidified their integration process by establishing an EU with a common currency and Common Foreign and Security Policy (CFSP), and shared China's concerns about US hyperpower, Europe is seen as a natural and ideal partner in China's drive for a multipolar world. Although China itself replaced the multipolar world concept with a "harmonious world" vision and a new stress on multilateralism from 2005, multipolarization is still seen as an inevitable trend which paves the way for a functioning harmonious world and multilateralism.

Thirdly, since China's reform and opening-up policy of late 1970s, it has long been recognized that stable relations with Europe would be a necessary pre-requisite for Chinese development. With an export-oriented development strategy, Europe, with its advanced economy, can provide the export market, technologies, and much-needed investment for China's massive economic development project. Over the last three decades, the rapid growth of the Chinese economy seems to have further consolidated Chinese demands in this regard.

¹ Foreign Ministry of PRC, "China's EU Policy Paper" (2003).

Furthermore, the EU as a successful model of internal and regional transformation is of itself of interest to Chinese elites. Chinese scholars and policy makers are enthusiastically looking for good lessons from European experiments and achievements, such as the development of a functioning welfare state, green economy, balanced regional development, and the creation of European single market. In view of China's tremendous challenges unfolding in the process of rapid economic development, China needs advice from Europe to help narrow the developmental gap between coastal and inland regions, to achieve sustainable economic development, to construct a single domestic economy out of provincial protectionism, and to rebuild its social welfare system. As China is increasingly involved itself in the Asian regional cooperation process, this also raises the prospect that the model of European integration might even offer an example if not template of how China might deal both with greater China and with the Asian region as a whole.

2. The EU-China relations during the Post-Cold War period

With the strong push from key member states, such as Germany and France, the European Commission issued a policy paper on China, *A Long-Term Policy for China-Europe Relations*, in 1995. In the paper's view, China "is increasingly strong in both the military-political and the economic spheres", and the developments in China "not only have a far-reaching impact on itself, but also have global and regional implications". Therefore, the EU's China policy should aim to promote "the fullest possible Chinese involvement in the international arena, whether on security, political, environmental, social or economic issues"². Positive developments in the following years led the Commission to issue another China policy paper in 1998, calling for the building of a "comprehensive partnership" with China³. Amid the heightened concerns over American unilateralism in the wake of American invasion of Iraq, the Commission in the 2003 China policy paper further called for an EU-China strategic partnership, stating that "it is in the clear interest of the EU and China to work as strategic partners on the international scene... Through a further reinforcement of their cooperation, the EU and China will be better able to shore up their joint security and other interests in Asia and elsewhere"⁴. In October 2003, apparently as a direct reply to the EU's September China policy paper, the Chinese Ministry of Foreign Affairs also issued a policy paper on the EU, *China's EU Policy Paper*. This is an unprecedented move, because the Chinese government has never published any policy paper of its kind relating to a country or regional group, a fact fully demonstrating the high importance which China attached to its relationship with the EU. The paper points out that, "despite its difficulties and challenges ahead, the European integration process is irreversible and the EU will play an increasingly important role in both regional and international affairs". With regard to bilateral relations, the paper stated that "there is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other.", and "China-EU relations now are better than at any time in history". Interestingly, the paper did not describe the EU-China relationship as a strategic one. Only in the last part of paper regarding the military aspect, did the paper seek to "develop and improve, step by step, a strategic security consultation mechanism". Nevertheless, the paper expressed a strong commitment from the Chinese government to strengthen and enhance China-EU relations as "an important component of China's foreign policy", and to build a "long-term, stable and full partnership with the EU"⁵. One year later, leaders from both sides claimed the relationship as a "comprehensive strategic partnership"⁶.

² European Commission, "A Long-Term Policy for China-Europe Relations" (1995). COM (1995) 279.

³ European Commission, 1998, "Building a Comprehensive Partnership with China", COM(1998) 181 final.

⁴ European Commission, "A Maturing Partnership - Shared Interests and Challenges in EU-China Relations" (2003) COM(2003) 533.

⁵ Foreign Ministry of PRC, "China's EU Policy Paper" (2003).

⁶ *Joint Statement*. 7th EU-China Summit. The Hague, 8 December 2004.

As both sides attached greater importance to the relationship, bilateral cooperation on a wide-range of areas had been dramatically deepened. In 1975 when China and the EC established a diplomatic relationship, EC-China trade was only US\$224 million. In 2004, the EU surpassed the United States and Japan, to become China's biggest foreign trade partner. With the opening-up of China to the global economy, in 1980, China's trade with the EC increased to US\$6.033 billion. That figure further increased to US\$ 15.925 billion in 1990 and US\$71.514 billion in 2000⁷. In 2008, total EU-China trade reached US\$425.6 billion, accounting for 16.6% of China's total trade; and also making China the EU's second largest trade partner after the United States, and its biggest source of imports. Even when faced with the economic downturn around the world, both China's exports to and imports from EU grew by 19% in that year⁸.

The EU is also a major source of foreign direct investment in China. Over the last three decades, annual EU countries' actual utilized direct investment in China rose from zero to the peak level of US\$5.44 billion in 2006, with a share of 7.48% of China's total FDI in that year⁹. EU companies have invested over USD 70 billion in China, and they have generated total sales of over USD 130 billion in 2006¹⁰. European investors, like their American counterparts, tend to bring in bigger, less numerous, higher value –added and high-tech projects, which had a “catalytic impact” on China's development¹¹.

In the process, both sides have established a web of regular dialogue mechanisms, making the relationship a highly institutionalized one. Starting from 1978, with the ministerial EC-China Joint Committee overseeing the bilateral commercial relationship, the two sides have established more than 27 separate sectoral agreements and dialogues, covering subjects like climate change, regional policy, maritime transport, tourism, space science, the EU's research and development programmes, the ITER nuclear fusion reactor, university links, social security reform and the convergence of product standards. In 1998, the annual EU-China summit dialogue convened its first meeting. In February 2003, the EU Troika at ministerial level met Chinese foreign minister in Beijing. Thereafter, ministerial level dialogue gained an independent status, generally held in China or the country holding the EU presidency, rather than at the margins of other multilateral events. At expert level, several CFSP working groups have engaged in regular meetings with Chinese experts on issues like human rights, non-proliferation, conventional weapons exports, and Asian affairs. In September 2008, the 8th China-EU summit injected further important impetus into the development of the political dialogue mechanism by setting up the regular vice ministerial-level strategic dialogue. Since the first meeting held in London in December 2005, as of the first half of 2009, four rounds of such meetings have been held. Modelled after the US-China Strategic Economic Dialogue, the EU and China launched in April of 2008 annual EU-China a High-Level Economic and Trade Dialogue, with the participation of more than one-third of the commissioners from the EU side and a number of key Chinese ministers, co-hosted by Chinese Vice-Premier Wang Qishan and EU trade commissioner Peter Mandelson. The new high-level mechanism aims to provide much needed leadership and coordination in dealing with a very complicated and challenging economic relationship.

With the EU having acquired a role in foreign and security policy, EU-China cooperation started to expand to political and global aspects. After resolving the arms sale to Taiwan by the French government in 1994, the EU and its member states in general adhered to a One-China policy, therefore sidelining the tension-producing Taiwan issue in EU-China relations. In March 1998, the EU's General Affairs Council (GAC) decided that the EU would “neither propose, nor endorse” any resolution criticizing China. Instead, the

⁷ Robert Ash, “Europe's commercial relations with China”, in David Shambaugh, Eberhard Sandschneider and Zhou Hong (eds), *China-Europe relations: Perceptions, policies and prospects*, Routledge: London, 2008, pp. 224-225.

⁸ National Bureau of Statistics of China, Statistical Communiqué of the People's Republic of China on the 2008 National Economic and Social Development, February 26, 2009.

⁹ http://www.fdi.gov.cn/pub/FDI/wztj/lntjsj/wstzsj/2007nzwgwtj/t20081110_99064.htm. 3.84 in 2007. In 2008, EU FDI in China amounts to US\$4.99 billion.

¹⁰ Patrick Messerlin and Razeen Sally, “Why it is dangerous for Europe to bash China” *Financial Times*, December 13 2007.

¹¹ Katinka Barysch, Charles Grant, and Mark Leonard, *Embracing the Dragon: The EU's Partnership With China*, Centre for European Reform, 2005, p.38.

EU will extend its constructive approach to the human rights area, and set up a EU-China human rights dialogue mechanism. Encouraged by the new desire for an “overall strategic partnership”, international issues were being addressed in an annual EU-China summit, growing from 4 out of 28 paragraphs of the summit statement to 13 of 36 paragraphs in 2006. Almost all the major international issues were mentioned, indicating the mutual intention to substantiate the global strategic partnership. Also in the spirit of “strategic partnership”, the EU and China signed an agreement on cooperation in relation to the EU’s Galileo satellite navigation programme in 2003; and later that year, French President Jacques Chirac and German Chancellor Gerhard Schroeder both publicly supported a re-examination of the EU’s arms embargo policy against China. The rapid rapprochement between the EU and China in 2003 and 2004 led observers to proclaim a “honeymoon” between the EU and China was in the making¹².

3. The Strategic Partnership in rhetoric and reality

Since late 2005, EU-China relations have encountered problems on multiple fronts which have turned the relationship from a “honeymoon” into a complicated one. First of all, the two sides are disappointed with the results of a rhetorical “strategic partnership”. It seems no breakthroughs of crucial importance have been achieved over the past few years. Bilaterally, China’s efforts to get the EU to lift its decade-long arms embargo and grant China market economy status (MES) are in vain. Europeans are also disappointed with human rights dialogues, and see no progress in their market access in China and the protection of intellectual property rights (IPR). Globally, on the issue of climate change which is regarded by the EU as the most important foreign policy issue, the two sides have engaged in some cooperation projects, and have worked together to get the United States back to the negotiation table, but in the crucial Copenhagen climate change conference, the two sides found they were in a bitterly opposed position regarding emission reduction targets, finance and the monitoring mechanism. China and EU3 are members of the 6-nation contact group dealing with the Iran nuclear issue, but they found they have quite different views about proper approaches to deal with Iran.

Secondly, the EU and China unfortunately find that they are in a competitive position in areas of cooperation in the past. Economic relations were seen as perfectly complementary, and hence mutually beneficial. Trade was more or less balanced, investments from Europe supported China’s development while boosting European firms’ global competitiveness. However, after the EU became the number one trading partner of China, the competitive side of the economic relationship surfaced. The EU complained about its growing trade deficit to China, and more frequently resorted to trade protection measures. At the same time, the EU also stepped up its pressures on China to open its market and strengthen the protection of IPR. The 2006 Commission China policy paper issued a long list of demands to the Chinese side, labelling China as the EU’s “single most importance challenge to the EU’s trade policy”¹³. The change of tone and approaches in the EU’s trade policy towards China led one American scholar to claim that the EU was adopting an Americanized style¹⁴. China’s investment and participation in the development of the EU’s Galileo satellite navigation programme was seen as a symbol of the “strategic partnership”. However, a few years later, the EU changed its mind, first limiting and in 2008 finally suspending China’s involvement in the development of the system. In

¹² David Shambaugh, “China and Europe: The Emerging Axis”, *Current History*, September 2004, pp. 243-248.

¹³ European Commission, *Accompanying COM(2006) 631 final*: “Closer Partners, Growing Responsibilities. A policy paper on EU-China trade and investment: Competition and Partnership” Commission working document, Brussels, October 24, 2006.

¹⁴ Bates Gill, “The United States and the China-Europe Relations”, in David Shambaugh, Eberhard Sandschneider and Zhou Hong (eds), *China-Europe relations: Perceptions, policies and prospects*, Routledge: London, 2008, p. 276.

return, China decided to launch its own Beidou satellite navigation system, and the two sides are now locked in a head-on competition for the same frequency¹⁵.

Thirdly, the two sides found themselves in dispute over new issues in the relationship. From 2005 and onwards, China's presence in Africa suddenly emerged as a new source of disputes in EU-China relations. Politically, China is widely accused by European media and a number of governments of supporting "rogue regimes" in Sudan and Zimbabwe, turning a blind eye to the humanitarian crisis in Darfur and the poor human rights record in Zimbabwe, and blocking western efforts to impose sanctions on both countries in the Security Council of United Nations. The EU also criticized China for its investments in the field of energy and mineral resources, portraying China as "neo-colonialist", exploiting American resources. In terms of development assistance, the EU has argued that China's no strings attached aid to African countries has emboldened them to resist EU efforts to promote democracy and human rights in Africa.

Fourthly, disputes which were contained in the past have resurfaced in the bilateral relations. It seems that, in recent years, the EU has turned towards a more value-based approach in its political relations with China. The European Parliament and the media have been criticizing China's human rights record, even in the honeymoon period. This is not surprising, considering the difference in the political systems between the two sides. The new development is that a number of governments of Member States in the European Union and to a certain extent, the European Commission on human rights, have also upgraded the human rights issue in their priorities in their relations with China. Leaders of key member states granted fairly official meetings with the Dalai Lama. After the mass riots in Tibet in March 2008, the torch relay of the Beijing Olympic Games in London and in Paris were interrupted, and the issue of attending the opening ceremony of the Beijing Olympics was highly politicized, with politicians attempting to link their attendance to the issue of Tibet and Darfur. To protest the French president's announced meeting with Dalai Lama, apparently also in his position as the rotating president of the EU, China postponed the annual EU-China summit of 2009.

The last but perhaps most profound factor having a negative impact on the EU-China relationship is the worsening of public attitudes towards each other, particularly from the European side. According to the BBC polls conducted by the international polling firm GlobeScan together with the Program on International Policy Attitudes (PIPA) at the University of Maryland, between 2004 and 2008, the European perception of China grew increasingly negative. When asked whether China is a positive or negative force, more and more citizens in European countries viewed China as a negative force, such as in France (70%, up from 33%), Italy (68%, up from 40%), Germany (69%, up from 47%), and Spain (54%, up from 33%), in Britain (42%, up from 34%). There are also corresponding drops in positive views, such as in France (22%, down from 49%), in Spain (29%, down from 37%), in Italy (21%, down from 42%), in Germany (11%, down from 34%), and in Britain (39%, down from 46%). Public attitudes towards Europe have been generally very positive, but in 2008, we also can identify some downward change. In 2004, 77% of Chinese regarded the EU as a positive force, but that figure dropped to 57% in 2008. With regard to single member states, the positive rating of France among Chinese citizens suffered a substantial drop, from 72% in 2004 down to 44% in 2008, while the negative rating is up from merely 9% to 45%¹⁶.

¹⁵ He Jingjun, "Jialilue yu beidou yuanhe fenfei" [Why cannot Galileo and Beidou can not cooperate?], *Wenhui Daily*, March 31, 2009.

¹⁶ BBC Polls 2004, 2008, [Http://www.globescan.com](http://www.globescan.com).

4. New opportunities for a more constructive China-EU relationship

A number of new developments over the past months present to both EU and China a window of opportunity for revitalizing the relationship.

First of all, a post-Lisbon EU new foreign policy system is taking shape and this might assist the EU in adopting a more coherent and forward-looking China policy. On 1 December 2009, the Lisbon treaty was finally put into effect. The much delayed revised treaty offered a brand new opportunity for the EU to be a more credible international actor. The treaty established for the first time an international legal personality for the EU, it abolished the rotating presidency in the foreign policy aspect, creating a new permanent president for the European Council and a strengthened High Representative for Foreign Affairs and Security Policy, a position merging the functions previously held by the High Representative, the foreign minister of the rotating presidency and the Commissioner for external relations in the European Commission. Although it is regretful that the member states have chosen two low-profile politicians¹⁷, Mr. Herman Van Rompuy of Belgium and Lady Ashton of UK, to fill the two new positions, which seemingly underused the potential offered by the treaty reforms, the early months of their work has not disappointed. With his political skill in pushing for policy convergence, Mr. Van Rompuy has had achievements in encouraging member states to reach common positions to cope with the worst financial crisis Europe has encountered in decades. Lady Ashton also successfully obtained endorsements from the member states, the European Commission and European Parliament for her plan to create a new EU External Action Service (EAS), after months of bitter internal fighting among these players. It is widely expected that the EAS, along with other new EU foreign policy apparatus, would start to function from August this year; the new EU foreign policy mechanism will be in place this summer. Meanwhile, the EU is looking towards reframing its foreign policy strategy and policies in the coming months. It is reported that a special summit initiated by Mr. Van Rompuy will be convened in September to discuss the overall EU foreign policy strategy, and the informal foreign minister meeting in September will be tasked with discussing the EU's relations with emerging powers, including China.

Certainly, the new reforms are by no means revolutionary. By their nature, they are still intergovernmental, and the task of forming consensus among 27 countries would not be an easy task, as before. However, with a greater concentration of resources and policy framing capacity in Brussels, the EU is expected to play a more coherent and consistent and effective role than in the past. Particularly, China is hoping that Lady Ashton, supported by a new External Action Service, can capitalize the improving political relationships between China and member states, to help shape a more forward-looking China policy in the months to come.

Secondly, at the level of member states, we have seen steady progress in bilateral relations with several member states, with which China had political problems in the past. French president Sarkozy paid a high profile state visit to China in late April 2010, and attended the opening ceremony of the Shanghai Expo. During his visit, premier Wen Jiabao was quoted as saying that his visit “will offer a solid political guarantee for the growth of China-France ties”; and President Hu Jintao said China-France ties have “opened a new page”¹⁸. In July, German Chancellor Merkel led a delegation to China and spent her birthday in Xian, accompanied by premier Wen. The new UK conservative government has sent its foreign minister and Chancellor of the Exchequer to China after assuming power a few months ago.

¹⁷ See Chris Patten, “A Vision-free Leadership”, *European Voice*, November 26, 2009.

¹⁸ *China Daily*, April 30, 2010, p. 17.

Furthermore, on the occasion of the Shanghai Expo, senior leaders from most of the EU member states have come to China to attend the event. In a word, the Shanghai Expo provides a diplomatic platform for China to meet leaders from a renewed European Union after the Lisbon reform.

Thirdly, economic relations between the EU and China have become more balanced in terms of mutual dependence. The EU's yearly growth rate of exports to China rose 4.1%, in contrast to an overall decline of 16.4% in 2009. From January to April 2010, the EU's overall exports increased by 16.5%, with the recovering of world demand; however, its exports to China registered a 42.9% rise. At the same time, China's exports to Europe fell by 13.4% in 2009, and in the first four months of 2010, they only grew by 11.7%. As a result, by April 2010, China has surpassed Switzerland as the second largest market for the EU after the United States, while it continues to lead in terms of exports to the EU; more significantly, in the first four months of 2010, trade between EU and China was only 10% less than EU-US trade, which indicates that China may soon overtake the United States as the largest trading partner with the EU¹⁹. In terms of trade balance, China's gap narrowed from 169.5 billion Euros to 133.0 billion Euros, a reduction of more than 20 percent; and using Chinese statistics, the trade surplus with the EU fell to 108.4 billion US dollars, a fall of 32% compared with the year of 2008²⁰.

Another much talked-about issue is that of the RMB's exchange rate. Due to the financial crisis in the Euro zone, the Chinese RMB has appreciated more than 10% in 2010 against the Euro, thus removing to a large extent the issue of RMB value in bilateral relations. Rather, as China continues to support the Euro, the issue of how the two sides can cooperate in order to maintain the stability of the Euro has become a new area for bilateral cooperation. In June, China's State Administration of Foreign Exchange, or Safe, which manages the reserves under the auspices of the country's central bank, was allocated up to 400m (\$505m) of Spanish 10-year bonds in a debt deal, which was seen by the market as "a big vote of confidence for the Eurozone", and buoyed the broader markets, helping global equity rally and marking a potential turning point for the eurozone²¹.

In the field of foreign direct investment, China has been mainly a receiver of EU FDI for three decades, but recently, China's FDI in Europe is expanding at an astonishing pace. In late 2009, China's state shipping company Cosco took control of two container terminals at Piraeus in Greece under a 3.4 billion 35-year concession deal. In June, as Moody's downgraded Greek debt to junk, Chinese companies signed a series of deals with their Greek counterparts in the areas of telecoms and shipbuilding which were worth more than 500 million²².

In early July, the European Commission approved the takeover by the Chinese Zhejiang Geely Holding Group of the Swedish carmaker Volvo from Ford Motor Co. Geely, which acquired Volvo earlier 2010, has said it would spend \$2.7 billion on the takeover, including about \$900 million in working capital to improve Volvo²³.

Lastly, as the world moved towards a more balanced world of multi-partnership, it is becoming more and more indispensable for the two sides to develop stable and closer relations, in order to nurture the benefits from the network of partners of each side. The arrival in the White House of Mr Obama as the first African-American President in American history is surely a landscape shift in American politics. Amid the setbacks of the Bush administration's foreign adventures in Iraq and Afghanistan, the tainted global image of the United States, and the most severe economic and financial crisis the United States has faced since the Second World

¹⁹ Eurostat, External and intra-European Union trade Monthly statistics - Issue number 07/2010

²⁰ <http://www.chinacustomsstat.com>.

²¹ David Oakley and Anousha Sakoui in London, "China offers Spain 1bn confidence vote", *Financial Times*, July 12 2010, <http://www.ft.com/cms/s/0/69eb723a-8df3-11df-9153-00144feab49a.html>.

²² "China eyeing major Greek investments: report", *China Daily*, June 15, 2010, http://www.chinadaily.com.cn/bizchina/2010-06/15/content_9978532.htm.

²³ ALESSANDRO TORELLO, "EU OKs China's Geely, Daqing to Take Over Volvo", *Wall Street Journal*, July 6, 2010.

War, President Obama arrived with a new pragmatic approach to the pursuance of American foreign policy goals.

The sense of new pragmatism also leads the Obama administration to pay higher attention to engaging the new emerging powers in an increasingly multipolar world. Certainly no Chinese observer is thinking that such developments represent an American intention to cede its leading position in the world, but rather it is seen as a new strategic approach to retaining that position in a newly emerging multipolarising world, described as the “multi-partner world” by Secretary of State Clinton²⁴.

President Obama abandoned the plan to deploy the anti-missile system in Poland and the Czech Republic, in order to “reset” its relationship with Russia. In November 2009 in Beijing, President Obama and Chinese President Hu Jintao pledged that the two countries “are committed to building a positive, cooperative and comprehensive U.S.-China relationship for the 21st Century, and will take specific actions to steadily build a partnership to address common challenges”²⁵.

The retreat from unilateralism by the United States, along with the rise of the emerging powers, is transforming the world into one of multi-partnerships. Power is more balanced, and major players are seeing each other as essential partners in their efforts to develop their economies as well as jointly to deal with global challenges. If some Europeans had the illusion in recent years that working with a more collaborative American government can solve most of the pressing issues that the EU has faced, now it is increasingly realized that the EU itself also has to engage with the emerging powers with a more serious and constructive approach. There is a sense in Europe, a feeling that the United States is one step ahead of Europe in pragmatically adapting itself to the new changes in the international system, and Europe has to catch up²⁶.

5. Current Chinese priorities in EU-China relations

In view of the difficulties over the past few years and new recent positive developments, the Chinese side needs to articulate its policy priorities towards the EU. The following discussion presents our personal views in this regard.

- 1) As the EU’s foreign policy system is undergoing major change, the starting point of China’s aspiration in China-EU relations is to hope that the EU can play a more credible and constructive role in international affairs. For this, the Chinese side can do nothing to influence the EU; it is for the EU itself to decide. Nevertheless, the Chinese side would hope that the Lisbon reform would help the EU to have a stronger capacity in framing and implementing a common policy, not only in policy areas where supranationalism prevails, but also in foreign and security policy areas where intergovernmentalism continues to dominate decision-making. As we discussed earlier, a number of difficulties arose in the past due to the inability of the EU to come up with a common policy, or when times changed, to ensure the necessary policy adjustment. The Chinese side would hope that the EU, with the help of the new EAS, can enhance the credibility of the EU in foreign policy, be able to think strategically, and act accordingly.

²⁴ Hillary Rodham Clinton, “Interview on the Charlie Rose Show”, Berlin, Germany, November 9, 2009. <http://www.state.gov/secretary/rm/2009a/11/131713.htm>

²⁵ The White House, “U.S.-China Joint Statement”, Beijing, China, November 17, 2009, <http://www.whitehouse.gov/the-press-office/us-china-joint-statement>.

²⁶ “A Strategy for European Foreign Policy”, the EU Institute of Security Studies, June 16, 2010.

Besides the internal improvement of its role, the Chinese side would like to see the EU act as a more constructive player in the international system. This means that China would like to see the EU acting as a system balancer whenever the remaining superpower is or intends to act recklessly; as a system maintainer to ensure the smooth functioning of the current international system; and as a system reformer so that the international system can adapt to deal with the pressing new challenges in the context of the rise of emerging countries.

In terms of system maintenance, China now has a huge stake in the existing international order, the UN system, the WTO trade order, and in the financial order based on the IMF and the World Bank. The effective functioning of this system is of vital importance to China's domestic development and international engagement. Therefore, China needs the EU to play a significant role in building and supporting the current system. System balance demands that the international system should be a multi-polarized one where no single power can dominate the system. To pursue that goal, China needs the EU to play its part as one of the major players in the world, using 'soft' balancing tools, to ensure that the remaining superpower will not resort to unilateral and hegemonic foreign policy. Certainly, China does not want to see Europe and China forming an anti-US axis, because, China itself does not want that, and China also believes that Europe would not do that, and the US would not allow it to happen. Furthermore, as a newcomer in the system which was not involved in the designing of most of the existing systemic institutions, China would continue to seek necessary reforms of the existing institutions, to give more voice and influence to China and other developing countries, and hence the demand for system reform. To achieve this goal, China would hope that the EU could see the change in world, and then act strategically and pragmatically, through cooperation with emerging countries, to accept the necessary, though gradual, system reforms, such as the creation of new institutions, like the G20, redistribution of voting powers such as in the IMF and the World bank, and the rewriting of rules to suit the aspirations of the developing countries.

- 2) China would like to advance the bilateral relationship into a Strategic Partnership in the real sense. Most importantly, the two sides should make efforts to enhance mutual political trust. China would expect the EU to behave as a real partner, which means, at the very least, that the EU would respect China's sovereignty and the Chinese domestic system, and not interfere in China's domestic affairs, and in its handling of the Taiwan, Tibet and Xinjiang issues. The Chinese side should welcome a constructive dialogue with the EU over the domestic governance of both sides, but the EU side should end its game of naming and shaming of China on the grounds of China's so-called human rights record. Such an approach, excepting letting the Europeans feeling good internally, has done little in the constructive sense. Moreover, China would hope that the EU can make serious efforts to strengthen the relationship, like lifting the outdated arms embargo against China, which puts China in the same group of countries as Zimbabwe. The Chinese side would like the EU to continue to show its commitment to the final goal of removing the arms embargo, and to take necessary steps in that direction. Meanwhile, the two sides shall start to explore the means to strengthen military ties, such as officer exchange, joint exercises and training, so as to improve military trust and cooperation in peace-keeping operations around the world.
- 3) Economically, China would like to see the EU who is China's biggest trading partner, providing open and stable market access to Chinese goods and investment; China is prepared to offer assistance to ensure financial stability in the EU. China has been seeing the rise of protectionism in Europe against Chinese imports and inward investment. Frequent anti-dumping measures have been taken in Europe, championed mostly by southern EU member states; Chinese investment in Europe has also faced numerous hurdles in a time that Chinese companies are expanding their investment globally. One of the key issues for China, not only for the economic reasons, but also because the current leadership have made it a key priority, is the granting of MES to China.

Since the 1990's, China is by far the number one sufferer of the EU's anti-dumping measures, and the main cause is that the EU has not given China the so-called market economy status (MES). Because of this, when determining whether dumping exists, the exporting prices of Chinese exports are not compared with their domestic prices, but instead with the prices of the similar goods of a country with an established MES, which could, for instance, be Norway, Canada, Japan and the US. In this way, many so-called Chinese dumping examples are calculated rather than real.

According to the GATT rules, the sole criteria of the MES is whether the domestic prices of the country are determined by the market, and has nothing to do with whether a country is a market economy in economic terms. With more than 95% of domestic prices determined by the market, China very much qualifies for MES, but the leading developed economies including the EU still refuse to give China this status. This is OK, as China agreed to no change in status for 15 years when it joined the WTO in 2001. The question is why the EU refused a re-consideration of China's application in 2004, but gave Russia the status. China is not in the least against the EU giving Russia such status, but in so doing there is apparently a double standard, and even discrimination. 2016 is not very far away when China will automatically enjoy this status; but the dark spot of an unreasonable refusal may remain longer in Chinese people's hearts.

It is true that during the past decade of rapid growths, disputes and conflicts have increased as well. The top issue in their bilateral economic relations seems to be the trade imbalance, that is, the rising trade (in goods and services) surplus of China against the EU, which reached its peak in 2008 to 164.7 billion of Euros as opposed to the total trade volume of 361.2 billion²⁷. It is indeed an imbalance, which needs to be addressed. Protection measures to limit imports from China are certainly not the right way, as they will be at the expense of European consumers and industries alike. A better approach is for China to import more from Europe. Here the key issue is that the EU should export what China needs to import. The comparative advantage of Europe is in high-tech products; if the EU could be more open in this respect, with the higher added value of these products, the imbalance would be easily addressed.

The Chinese side has made a number of important moves to support the Euro, and has helped the Euro to rebound from its low level against the US dollar. Many of the current international financial disturbances are rooted in the contradiction between the dollar's international usage and its sovereign issue. Cooperation between China and the EU, between the PBC and the ECB and between the RMB and the Euro may still be a political issue at the moment, but its successful development will certainly be a stabilizing factor of great economic implications. The Chinese side, having invested in Eurobonds to the tune of about 400 billion Euros, continues to see the EU as one of major destinations for its foreign currency reserve, and is willing to support the Euro as an international currency. However China has its concern over the safety of its investment, and would like to work with the EU's institutions and member states to find ways to ensure the safety of these investments as well as ways for China to support the Euro.

In addition, there are other important areas where China believes its relations with the EU could be further developed:

- **Energy and climate change cooperation:** China is bound to be the world's number one energy consumer sooner or later, and that has caused great concerns both at home and abroad, especially as it is linked to the issue of climate change and environmental protection. Europe is much more advanced in energy saving, green energies, etc. Increased technological cooperation and assistance in this area will be beneficial for both and for the world at large, and with very significant economic implications as well.
- **Tourist and cultural cooperation:** Both China and Europe are rich in natural, historical and cultural attractions, and this is an area where consumption potentials are always rising. To realize such

²⁷ EUROSTAT statistics, but much less in Chinese statistics due to different calculations.

potentials, both sides need to make the markets more open and to provide better information and better services. From the Chinese side, we would like to see the EU develop a speedy and simple visa application procedure, to facilitate Chinese citizens coming to visit Europe.

- Education cooperation: This also has an economic aspect, and education cooperation is an investment in the future. Europe enjoys here a big advantage in attracting Chinese students, if only the language barrier could be lowered.
 - Government procurement: If China and EU could negotiate and reach an agreement in this area, the gradual opening of the markets will yield tremendous economic benefits for both, by bringing forth their comparative advantages.
 - Cooperation between small –and medium– sized firms: As both sides have large numbers of such firms, the creation at the government level of a joint mechanism, including a service agency and a fund, to facilitate and support such cooperation, would open a new horizon in China-EU economic cooperation.
- 4) Globally speaking, China would expect the EU, when cooperating with China, to maintain the existing international systems, such as the liberal trade regime and financial lending institutions; meanwhile, China also hopes that the EU can offer support for the growing role of emerging countries, and hence the timely reform of the existing global institutions; and equally work at finding solutions to the pressing challenges of today's world.

One of their common challenges is the accelerated process of economic globalization. Whether we like it or not, economic globalization is a natural process and a destiny that is inevitable due to science and technology advancement and economic-social development. When in a split-second huge amounts of capital can be transferred to the other side of the world for transactions just concluded through computers, and when with outsourcing, a company does not need to build a workshop or factory any more to take advantage of local resources and markets, economic transactions are truly overflowing national boundaries, and have to be planned and carried out in a global environment. In macroeconomic terms, the marked acceleration of factor movements brought about by globalization entails competition at an international level, worldwide reallocation of resources, shortened business cycles –just to mention some of them– which every economy has to reckon with seriously. Issues of international scope and implications have to be dealt with together by the major players, including China and the EU. Globalization has also created new opportunities, which are likewise better exploited through common efforts.

The lesson that we all should draw from the current financial crisis is that, given the changes and developments in the past few decades, the existing international institutions are no longer capable of dealing with new situations and issues, such as financial stability and security, food and energy supply, climate change, etc.. Reform of the old order has proven and shall prove to be as difficult as the setting-up of a new order, and as stakeholders, China and EU have a strong case for cooperation. Specifically, the EU and China should work together to consolidate the G20's status as the main platform for global economic and financial management; and they should endeavour to reform the IMF and World Bank's voting and management structure so that emerging countries can have their due influence in these institutions

Regarding global challenges, China and the EU share common interests and goals such as the fight against climate change, the prevention of nuclear proliferation, and the promotion of stability and development in Africa and other developing regions. At the same time, due to a different foreign policy tradition, different levels of development, and a different experience in dealing with developing countries, the two sides must overcome a number of important differences in their efforts to achieve these common goals. Under such circumstances, the Chinese side would expect the EU to work with China to achieve progressive convergence based on equal dialogue. In this spirit, China would expect that the EU could respect China's positions on various global and regional issues, and seek cooperation with China in finding solutions to

these issues, without attempting to impose European views and solutions onto China and expecting China to accept them. The Copenhagen climate change conference was surely a bitter experience in this regard. To avoid this, the two sides need to engage in a more sensible and constructive dialogue

6. Framing China's new strategy for revitalizing China-EU relations

6.1. A pragmatic yet proactive approach

China should approach the EU from a very pragmatic standpoint, based on the recognition of two realities in the international system. The first is the current complicated nature of China-EU relations. Due to the relative decline of the United States and America's return to multilateralism, neither China nor Europe would have strong motivation in upgrading their relationship for the purpose of balancing American unilateralism as they did in the past, while at the same time China and EU would find their interests would not always be in harmony as both of them aim to have greater influence around the world. The second reality is the emergence of today's world of multi-partnership, in which both parties strive to improve their relations with third parties, thus rendering the relationship less special than it was in 2003 and 2004.

Recognizing these facts means that China should not develop excessive expectations for bilateral relations. It should emphasize the stability of the relationship, the expansion of pragmatic cooperation, and the search for ways to contain disputes.

However, a more pragmatic China would proactively make use of the window of opportunity provided by the Lisbon reforms. On the one hand, China would continue to commit itself to the "strategic partnership" as the basic characterization of the relationship; On the other hand, it would give new life to the notion that the EU after Lisbon reform would "become a more effective partner of China"²⁸ Therefore, China has decided to upgrade the EU-China strategic dialogue to the same level as that of the China-US strategic level, involving State Councilor Dai Bingguo and his counterpart, Lady Ashton. Although it is not at the moment known whether or not such a raising of the level of dialogue would produce more substantive results, China has at least given an important indication that China would take seriously the new foreign policy system after the Lisbon reform, and would try its best to work with the new EU leaders in foreign policy, to see if the two sides can make the most of the opportunity to move the relationship to a new level.

6.2. Multilevel engagement

The Lisbon reforms, while having strengthened the EU's international protagonism, did not change the basic nature of the EU's multilevel foreign policy system. Although the role of the EU institutions, including the European parliament, has become more significant in the shaping and execution of EU foreign policy, national governments continue to enjoy significant influence in the making of the EU's foreign economic policy, and maintain their veto power in the Common Foreign and Security Policy. Furthermore, at societal level, the public, NGOs, business communities and the media also intervene as important players in the shaping of European policy towards China.

Starting from such a view of the European foreign policy system, it is important that China's strategy towards the EU be a multilevel one. Aside from efforts to engage the EU level institutions, China has to strengthen its efforts to develop stronger relationships with the member states. At the moment, a large number of EU states are facing economic problems at home, and expanding their exports to a fast growing

²⁸ Yang Jiechi Minister of Foreign Affairs of the People's Republic of China "Work Together for an Even Better Future of China-EU Relations", New Europe, 12 July 2010.

Chinese domestic market, attracting investments from Chinese companies, and seeking Chinese financial help, are of growing importance to these countries. By focusing on these positive and mutually beneficial cooperation fields between EU states and China, the possibility of closer economic relations is much more likely, and more beneficial, than in previous years. China has maintained a positive relationship with the new UK government; its relations with France and Germany have improved in recent months. Through Chinese companies making large investments in the crisis-stricken Greece economy, and in the purchase of Spanish government bonds, China is helping the countries in economic troubles. Such an overall improvement of China's relations with individual member states is important in itself. Meanwhile, it would surely give further impetus to the progressive development of China-EU relations.

One thing that is clear for the Chinese policy-makers is that the problems in China's relations with the EU over recent years have been at the societal level. With a large part of the European population holding unfavourable views about China and China's international influence, it is important that the Chinese side should make efforts to better present itself to the European public. On 1 July 2010, China's Xinhua News Agency launched its English language TV service, CNC World. CNC World broadcasts English news programs 24 hours a day and covers breaking news and major political, economic and cultural news around the globe. Early this year, China's former ambassador to the United Kingdom, Madam Fu Ying, was promoted to her new position as the vice foreign minister in charge of European affairs, apparently due to her impressive public diplomacy performance. Currently, China has established more than 26 Confucius Institutes, offering Chinese language and cultural courses in EU countries. From May to October 2010, the half-year-long Shanghai Expo offers a rare but massive opportunity for the general public of the two sides to engage in extensive cultural exchanges. It is welcoming to see that positive views towards China have been improving, after reaching a low point in 2008²⁹. However, much more work must be done in the future.

It is also noted that the lack of expertise in Europe on contemporary China studies is becoming an issue in the development of healthy China-EU relations in this more complicated stage of the bilateral relationship. Years ago, David Shambaugh, an American scholar, lamented the small number of China specialists in Europe, particularly in comparison with the United States³⁰. The result of that is that either policy makers are not supported by sophisticated policy advice, or there are not enough voices from the expert community in the media to provide balanced views about development in China. Surely, a remedy to that must be a long-term task, and it should be mainly a job for the European governments and societies to improve their China studies capacity. For the Chinese side, while appealing for the EU to commit more investment in training a new generation of researchers, it can contribute by expanding research exchange and help train future scholars by offering an advanced degree program both in Chinese and English in the Chinese Universities, or by developing joint degree programs with European universities

In June 2010, the Germany-based Heinrich Boll Foundation sponsored research on the reporting of China in the major German media in 2008. The study's authors argue that German reporters often miss the chance to present new perspectives to their audience, and the perception of China as a competitor has become so widespread in the West that many journalists also follow this pattern³¹. As the German case indicates, negative reporting of China has played a role in producing an excessively unfavourable view of China in continental Europe, while people in the UK and the United States generally hold a more balanced view of China. It is for this reason that Germany and China are paying more attention to the improvement of dialogue between media from both sides.

²⁹ For example, the positive view of China in Spain improved from 31% in 2008 to 47% in 2010; in Germany from 26% to 30%; and in France from 28% to 41%. See PEW 2010, p.52.

³⁰ David Shambaugh, "The New Strategic Triangle: U.S. and European Reactions to China's Rise", *Washington Quarterly*, 28:3 summer 2005. pp. 7-25.

³¹ Thomas Baerthlein, "German reporting on China is diverse, but could get better", *Deutsche Welle*, June 17, 2010. <http://www.dw-world.de/dw/article/0,,5696713,00.html>.

Opinion of China						
Do you have a favourable or unfavourable view of China?						
Country	Favourable			Unfavourable		
	2005	2008	2010	2005	2008	2010
Britain	65	47	46	16	36	35
France	58	28	41	42	72	59
Germany	46	26	30	37	68	61
Japan	--	14	26	--	84	69
Poland	37	33	46	34	54	42
Russia	60	60	60	29	26	29
South Korea	--	48	38	--	49	56
Spain	57	31	47	21	56	38
United States	43	39	49	35	42	36

Source: Pew Global Attitudes Project.

<http://pewglobal.org/database/?indicator=24&survey=12&response=Unfavorable&mode=table>

<http://pewglobal.org/database/?indicator=24&survey=12&response=Favorable&mode=table>

6.3. Global perspective

China-EU relations are not isolated bilateral relations. Sino-European relations in the past have been subjected to the constraining effects of the superpowers and in the future they will be affected by international structural changes in the international structure in the future and their respective relations with other major players. At the same time, as both China and the EU acquire greater influence in international affairs, and their bilateral relations are increasingly globalized, both sides need a global strategy through which to conduct their relations with each other.

In relation to China's global policy towards the EU, on the one hand, China should continue to put the EU in the central position in its global strategy. With a Union of 27 member states, the EU has an economy of the same size as the United States, is the biggest trader and investor in the world, and wields significant influence in world affairs. Developing cooperation with the EU is not only important for China's continued development, but is also the key to finding solutions to various regional and global problems. China, together with the EU, affirmed that, "The EU and China, as comprehensive and strategic partners sharing much common ground on international issues, seek to actively meet global challenges and strive for a peaceful, sustainable and prosperous world which cannot be achieved without the joint efforts and close cooperation of the EU and China"³².

On the other hand, as China's own international influence continues to rise, being an indispensable force in the world's major institutions, like the Security Council of the United Nations, the G20 summit, the World Bank and IMF, with prudent but proactive diplomacy, China has shown that it can maintain cooperative relations with other major powers and with the majority of the developing countries. Even with the remaining superpower, the United States, China has managed to have a workable relationship with both the Bush Jr. administration, and the current Obama administration. Although faced with a number of key issues dividing them, the two countries have developed a series of highly institutionalized channels to address their disputes as well as to work for their common interests, which has given rise to the notion of "G2". Officially, Chinese leaders have stated on a number of occasions that China rejects the

³² Joint Statement of the 12th EU-China Summit, Nanjing, China, 30 November 2009, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/111567.pdf.

idea of the “G2”. In the meeting with president Obama in November 2009 in Beijing, Mr. Wen outlined three reasons why China rejects the idea: first, China is still a developing country; second, China pursues the independent foreign policy of peace and will not align with any country or country blocks; third, global issues should be decided by all the nations in the world, rather than one or two countries³³. Having said that, the Chinese government certainly understands that, an improved relationship with the United States is not only important in itself, but will also persuade other countries to abandon the illusion that they can ally with the United States in jointly forcing China to accept deals that it dislikes, an illusion popular among a certain circle in the west, as indicated by the misleading new policy paper from the European Council on Foreign Relations (ECFR)³⁴.

Similarly, China will continue to strengthen its relations with countries around the world. With its partnership strategy in place from 1993, China has established more than thirty strategic partnerships with key states in the world, including a number of EU member states. Over the last 10 years, it also developed partnerships with regional blocs, such as the China-ASEAN Partnership, the China-EU Partnership, the China-Africa Partnership through the Forum on China-Africa Cooperation (FOCAC), and the China-Arab Partnership through the Sino-Arab Cooperation Forum (SACF) established in 2004 between China and the League of Arab States, a regional organization with the membership of 22 Arabian states. China also initiated or participated in a number of multilateral platforms based on China’s bilateral partnerships, such as the China-Russia-India trilateral mechanism, the BASIC Network involving China, Brazil, India and South Africa, which played a vital role in the Copenhagen Climate Change Conference, BRIC Summit, the China-Japan-Korea Trilateral Partnership and Mechanism, and the Shanghai Cooperation Organization (SCO). Through this web of bilateral and multilateral partnerships, China is able to forge stronger ties with a majority of the countries around the world. With China’s expanding presence and growing influence in the world, this will create more incentives both for China and the EU to enhance dialogues and cooperation between them, rather than indulge in a mutually disadvantageous game of competition.

To conclude, we think there is room for China-EU relations to be further developed, and we have a window of opportunity before us. It is certainly true that, as the relationship enters a more complicated stage, it will be difficult to make dramatic changes. However, if we can grasp the new opportunities, think strategically, and act pragmatically, the relationship could be enhanced in the near future.

³³ Ministry of Foreign Affairs, The People’s Republic of China, “Wen Jiabao Meets with U.S. President Obama”, November 18, 2009, <http://www.fmprc.gov.cn/eng/zxxx/t628181.htm>.

³⁴ Francois Godement, “A Global China Policy”, a policy brief by the European Council on Foreign Relations. June 2010, http://www.ecfr.eu/content/entry/a_global_china_policy.



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Resumen: Actualmente las relaciones entre la Unión Europea y China son fuertes e importantes, aunque distan mucho de ser ideales. Después de un desarrollo progresivo entre 1995-2005, los últimos años han presenciado una serie de contratiempos que han fomentado las asperezas entre ambas partes.

En un mundo que se enfrenta a un futuro lleno de retos después de la severa crisis económica y financiera, y ante la implementación de los nuevos instrumentos de política exterior que aporta el Tratado de Lisboa, es hora de que la UE y China se embarquen en un proceso de diálogo más serio y más profundo capaz de contribuir a la revitalización de la importante relación China-UE.

Este artículo trata de identificar el lugar que ocupó la UE en la política exterior china en el pasado, determinar el desarrollo de dichas relaciones, subrayar las prioridades de la política exterior de la UE hacia China y formular una estrategia china hacia la UE.

Palabras clave: Relaciones UE-China, Política Exterior China, Política Exterior de la UE, Historia de las Relaciones Internacionales, Bilateralismo y Multilateralismo.

Abstract: Today, the relationship between the European Union and China is strong and important, though it is not in an ideal situation for both sides. After a progressive development from 1995-2005, recent years have witnessed a number of setbacks, creating some acrimonious feelings on both sides. As the world is embracing a more challenging future after the severe world economic and financial crisis, and in view of the new foreign policy system enshrined in the Lisbon treaty that is taking shape, it is time for the EU and China to engage in a more serious and in-depth dialogue, so as to contribute to a possible revitalising of this important relationship.

In this report, the authors intend to identify the EU's place in Chinese foreign policy thinking in the past, assess the development of relations, outline the priorities in China's EU policy, and frame a Chinese strategy towards the EU.

Keywords: Relations UE-China, Chinese Foreign Policy, Foreign Policy of the EU, History of the International Relations, Bilateralism and Multilateralism.

Con la colaboración de:



Education and Culture DG

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ISBN: 978-84-92989-70-6



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