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Political Dialogue in EU-China Relations

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Political Dialogue in EU-China Relations

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Introduction

The emergence of a new power in the “multipolar” world is a fact that other significant international actors or powers must recognise in order to reorganise their foreign policy positions. China, because of its economic, political, territorial, and demographic size, is an international and security actor that generates numerous challenges for a “sui generis” actor such as the European Union. Since the late ‘70s onwards, the EU has forged strong ties with China. Nevertheless, despite the rhetoric used in Brussels, EU-China relations appear to be not as strategic as they should be.

Political dialogue between the EU and China started in 1975. After several decades of contact and cooperation, the establishment of a “Strategic Partnership” in 2003 was a significant upgrade in the relations. However, building a partnership is not easy. From 2005 onwards there have been difficulties arising from textile disputes, the failure of the lifting of an arms embargo, a growing trade deficit, and the human rights dossier.

Nowadays, EU-China relations are at a historical peak. A successful political dialogue requires mutual effort and the wisdom to deal with difficult issues and to make sure that these problems will not jeopardize relations in the long run.

The EU’s challenge for the next few years is to maintain economic growth and to stabilise its neighbourhood. China’s main challenge for the next decade is to rescue a high number of its citizens from poverty and to maintain economic gains. Both partners have a shared interest in a stronger international system of governance and in developing win-win north-south partnerships.

EU-China relations have overlapping conflicting interests. Both areas are trade giants and economic partners, but differences in political regimes and value beliefs create impediments to the building of a long-term partnership. However there are two particular fields where cooperation seems to work reasonably well: trade and environmental/energy issues.

EU-China relations started in the seventies. If diplomatic relations were the first basis of bilateral dialogue, the trade in goods grew rapidly in prominence, such that in 1978 the first trade agreement between the two blocs was signed, the signing of the “1985 EC-China Trade and Co-operation Agreement” being the apogee of this. Since this time, worldwide changes have prevented further progress in bilateral dialogue. But in early 2007, there was evidently a need to reach a Partnership and Cooperation Agreement (PCA), as the natural consequence of the rapid growth of trade between UE and China. Indeed, the increase in bilateral trade balance has made it more necessary than ever to unlock political, economic and trade dialogues. In this adventure there is only one possible scenario: win-win, no losers, no dominants, mutual respect and mutual trust.

In this context environment and energy are interlinked policies that represent important challenges for EU/China relations. Even though they are enclosed within a broader strategy of promotion of sustainable development, the protection of the environment and the promotion of renewable energies have deep implications in other sectors of the political dialogue, mainly regarding the integration of China into the world economy and trading system, research and development policy, and the promotion of an open and healthy society, i.e. the integration of China in the international community.

Environmental degradation is a very serious problem in China. Until 2005 climate change was not on the top of the Chinese agenda and even today the country's economic growth is often at the expense of the environment, causing future liabilities for clean-up measures. Simultaneously the EU, as the main destination for Chinese exports, has a responsibility for avoiding serious environmental problems in China. The EU has a consolidated experience in the protection of the environment and since the Agreement on Trade and Economic Cooperation of 1985 this area has been included in the political dialogue between the EU and China. The EU environmental policy cooperation with China includes subjects such as climate change, chemicals and eco-design of globally traded goods, as well as the encouragement of Chinese authorities to remove barriers to the take-up of environmental technologies in China.

In this paper, firstly we will discuss the evolution of the political dialogue between the EU and China, and secondly we will analyse the impact of this dialogue on trade and environmental/energy issues. Finally we will make some concluding remarks, including policy recommendations.

1. EU-China: looking for a strategic partnership

1.1. EU policy towards China

China started to look towards Europe in the '70s at the same time as its rapprochement with the United States began. Official relations were established in 1975; Christopher Soames was the first European Commissioner to visit China.

During the eighties, China encouraged bilateral relations with the big European members: Germany, France and the UK. The '80s were key years in China's development. For example, from 1978 to 1988, poverty in rural China declined by 154 million people, and it is believed that the early reforms of the 1980s were fundamental in understanding these numbers.

Formal relations were established under the *1985 EC-China Trade and Economic Co-operation Agreement*. This document continues to be the main legal framework for EU-China relations in 2010. This agreement, which replaced the previous trade Agreement between the European Economic Community and the People's Republic of China of 03/04/1978, focused on economic and trade relations, as well as on the EU-China co-operation programme, and set up a Joint Committee with the following tasks:

- to monitor and examine the functioning of this agreement and review the various cooperation schemes implemented;
- to examine any questions that may arise in the implementation of the agreement;
- to examine problems that could hinder the development of trade and economic cooperation between China and the EC
- to examine the means and the new opportunities of developing trade and economic cooperation;
- to make recommendations that may help to attain the objectives of the agreement.

With regard to trade cooperation, the terms of the Agreement are the same as those of the 1978 Trade Agreement, including the most-favoured-nation clause. In the area of economic cooperation, the Agreement states that the contracting parties will develop cooperation in the following areas: industry and mining; agriculture; science and technology; energy; transport and communications; environmental protection; cooperation in third countries.

The parties also agree to encourage the various forms of industrial and technical cooperation, promote investment and improve the climate for investment. In addition, they agree to facilitate and promote, among other activities, the following: joint productions and joint ventures; common exploitation; the transfer of technology; cooperation between financial institutions; visits, contacts and activities for promoting cooperation between individuals, delegations and economic organizations; seminars and symposia, etc. Prior to 1985 there were some moments to highlight. In 1979 the first agreement on textile trade was signed; in June 1980, there was the first inter-parliamentary meeting between delegations of the EP and of the National People's Congress. The first science and technology cooperation program was launched in 1983, and the following year the first political consultations at ministerial level, in the context of European Political Cooperation, took place.

The 1985 agreement was complemented, in 1994 and 2002, by means of exchanges of letters establishing a broad EU-China political dialogue. However, the development of the relationship was not without its problems during the early period, with China's rapid economic rise leading to calls for EU protectionism. The issue of human rights in China has also been present on the Sino-European agenda. The European reaction to the Tian An Men incidents of 4 June 1989 was politically significant. The EC froze its relations with China and imposed a number of sanctions, including an arms embargo, that is still in force despite Chinese pressure for removal.

By the 1990s, the EU-China relationship had significantly altered and expanded with a broader set of dialogues being developed, including the establishment of the first Joint Working Group on Economic and Trade Matters (1993), the establishment of regular meetings between the EU Troika and Chinese ministers, and annual EU-China summits since 1998. The decade of the '90s, with the entry into force of the Maastricht Treaty in 1993, was essential in the consolidation of the European integration process, such that China started to realise that the EU was becoming an international actor with influence on the economic and trade sphere.

1.2. European Commission policy towards China

The Commission presented in 1995 a Communication called *A Long Term Policy for China-EU Relations*¹.

This document described China's progress since 1945. The Tiananmen Square events were succinctly mentioned, arguing that, *the time has come to redefine the EU's relationship with China*.

The Commission also emphasised the need for Europe to develop an *action-oriented, not a merely declaratory policy*, in order to reinforce that relationship. The Communication concluded that the EU should encourage China to become a country fully integrated in the international community, to expand political dialogue to include all issues of common interest and global significance, to support China's WTO membership, to contribute to reform inside China, to pursue EU concerns on human rights, to promote economic and social reform, and to improve the business environment for EU firms in China. However, there were criticisms of the Commission for a lack of guidance regarding how these objectives were to be achieved.

Although the main ideas of the 1995 Communication remained relevant, a number of significant events occurred and gave rise to a need to "upgrade" the EU-China relationship.

Here one could mention the celebration of the 15th Chinese Communist Party Congress in 1997 where the political Chinese elite expressed its commitment to the market-oriented economy. China decided to pursue a more responsible role in foreign policy. The successful Hong Kong devolution process, as well as China's role in the Cambodian peace process, were good examples of this new Chinese approach to the international scene.

In the EU dimension, the single currency and the eastern enlargement gave it new and renewed ambitions in the international level. The Treaty of Amsterdam reinforced its tools and resources within a limited and timid European foreign policy.

In this context, the Commission presented a second communication on China, which was entitled *Building a Comprehensive Partnership with China* (1998)². The Commission's paper emphasised once

¹ *A Long Term Policy for China EU Relations*, 24.6.1995 COM (1995) 295.

² *Building a Comprehensive Partnership with China* (25.03.98) COM (1998) 181.

again China's economic transformation, but highlighted that the economic growth was accompanied by *a significant evolution in China's civil society, even if the full respect for universal standards in the field of human rights remains incomplete.*

The new EU-China partnership was expected to engage China *through an upgraded political dialogue; supporting China's transition to an open society based upon the rule of law and the respect for human rights; integrating China further in the world economy and by supporting the process of economic and social reform underway in the country.*

The Commission believed that one of the most important European external policy challenges was the integration of this new Asian power in the international community.

China-Europe relations have increasingly improved in the last few decades; however there have been continual concerns about the respect for human rights and rule of law, China's concern with the US/NATO involvement in the Yugoslavia conflict (here one must remember the accidental bombing of the Chinese embassy in Belgrade), etc³. 2001 was a turning point in EU-China relations, when both formally declared their intention to forge a strategic partnership.

In this context, the Commission entitled its communication as: *EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a More Effective EU Policy.*⁴

The Commission argued the need to “define concrete and practical short and medium term action for EU policy”. The Communication stated the following principles:

- Strengthening the political dialogue with China to ensure greater coherence and continuity in discussions at all levels.
- Supporting China's transition to an open society through a more focused and results-oriented human rights dialogue, working with China to support relevant reforms under way; implementing and preparing human rights-related assistance programmes.
- Further integrating China in the world economy by finalising China's WTO accession
- Strengthening the sector-specific dialogues and agreements in key areas such as information society, environment, energy, science and technology; and developing new areas of co-operation as well as enterprise policy, industrial standards and certification, customs, maritime transport, securities and competition policy.

Since such time, Europe-China relations, also at bilateral level with EU members, have significantly intensified. Two years later, the Commission made public another Communication named *A Maturing Partnership-Shared Interests and Challenges in EU China Relations (Updating the European Commission's Communications on EU China Relations of 1998 and 2001)*⁵.

³ Gill, B. and Murphy, M.: China-Europe Relations. Implications and Policy Responses for the United States. CSIS Freeman Chair in China Studies, May, 2008, p. 4.

⁴ *EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a More Effective EU Policy* (15.5.2001); COM (2001) 265.

⁵ *A Maturing Partnership: Shared Interests and Challenges in EU-China Relations* (10.9.2003); COM (2003) 533

The Commission considered there was a need to deepen Sino-European relations through a new communication. The EU had undergone a number of changes during these years with the introduction of the Euro, the next enlargement, the EU involvement in justice and home affairs related to the fight against international terrorism after 11-S, etc.

In addition, China had emerged as a major player in the world economy because of its accession to the WTO. As several authors highlighted in relation to this key moment, a new generation of leaders led Chinese policy and politics, as was observed in the EU-China summit in October 2003⁶.

The Commission's paper made an assessment of progress since 2001 and it suggested several routes for future action. It recommended the improvement of political dialogue *by systematically addressing global and regional governance and security issues*. Moreover, it called for a more result-oriented dialogue on illegal migration and on human rights. In addition, it emphasised the importance of initiating dialogue and cooperation in the fields of intellectual property rights, sanitary standards, competition policy, industrial policy, etc, and the strengthening of existing dialogues regarding the regulation of industrial products, information society, energy and the environment and technological cooperation.

The reinforcement of the steering role of the EU-China Joint Committee was also proposed, introducing within its tasks a number of sector dialogues.

On the EU side, there was the admittance that the difficulties of showing a unified public face of the EU, given internal conflict between member states, continued to confuse Chinese policymakers. In this context, the Communication called for a better coordination of Union and Member State policies.

In 2003, the Chinese Ministry of Foreign Affairs produced its first policy paper regarding the European Union. The document stated that *China was committed to a long-term, stable and full partnership with the EU (...) the EU will play an increasingly important role in both regional and international affairs*⁷. The Chinese document also recognised that there were no fundamental conflicts of interest between EU and China. China wanted to enhance cooperation in several areas such as economic cooperation, political relations, cultural exchanges, etc., through an increase in high-level meetings, and making it more policy-oriented. Since the first annual EU-China summits in 1998, the political dialogue was reinforced with an increasing number of meetings in numerous areas.

Following this new impetus to EU-China relations, several agreements were signed at the 6th EU-China Summit in October 2003 in Beijing.

- Cooperation in the Galileo satellite navigation program
- Industrial Policy Dialogue
- EU-China Dialogue on Intellectual Property.

In 2004 numerous agreements were reached:

- Approved Destination Status (the “tourism agreement”)
- The Customs Co-operation Agreement
- The Research Agreement on the peaceful use of nuclear energy.

⁶ Cameron (2009) and Gill and Murphy (2008).

⁷ China's EU Policy Paper, Ministry of Foreign Affairs of the People's Republic of China, October 2003.

Until this moment, Sino-European relations had undergone a convergence process. Some authors described this as a “honeymoon period”⁸. The international context dominated by US unilateralism in the global war on terror, mainly with the invasion of Iraq in 2003, led to a rapprochement of positions between some EU member states and China. However, after 2005 EU-China relations began a new phase, more complex and difficult, characterised by several disputes both in the political and in the economic and commercial spheres. The growing European perspective that China is engaging in unfair and opaque trade and business practices has remained as a significant obstacle for stronger EU-China relations.

All the circumstances surrounding the EU arms embargo caused major concern on the part of the Chinese government. Initial moves by the EU Commission to lift the arms embargo failed, because of several factors, but the most relevant were probably US pressures. In addition, the European internal crisis relating to the failure in the ratification process of the EU Constitution caused the Chinese government to rethink the possibility of the EU becoming a real strategic actor in international politics.

At the same time, some Chinese events such as the Anti-Secession Law (2005), the non-ratification of the International Covenant on Civil and Political Rights, etc., in addition to the evidence that China already has become a power, has also given impetus to an updated European approach to China.

The 2006 Communication *EU-China: Closer Partners, Growing Responsibilities*⁹ showed a considerable change in EU attitudes towards China. It indicated that China had become the world’s fourth largest economy and third exporter, and these facts are translated into a more active and sophisticated Chinese foreign policy. In the Commission paper, the European political approach is described as *one of engagement and partnership*. It is recognised that China would be the central challenge of EU trade policy in the coming years; however, this key issue was analysed in a trade policy paper entitled *Competition and Partnership*, which accompanied the Communication.

The communication also pushed for a strengthening of the rule of law and the development of a healthy and independent civil society in China. On energy issues, EU priorities should promote and encourage China’s integration into world energy markets and multilateral institutions, and encourage China to become an active and responsible energy partner. It also mentioned the need to build up an EU-China climate change partnership, engaging actively in post-2012 dialogues on international climate change co-operation.

The Commission also introduced development issues, especially on Africa. The paper stated that the EU and China should be engaged in a structured dialogue on Africa’s sustainable development. Regarding economic and trade matters, the Commission paper emphasised that China’s current growth model was also the source of important imbalances in EU-China trade relations. As is well-known, there are doubts about China’s implementation of its WTO commitments, especially on protection of intellectual property, and there are also restrictions on the service sector and protection of a number of industries.

The 2006 Commission document also assessed the numerous bilateral agreements and sector-specific dialogues, describing them as *successful and positive*, but more had to be done; the paper called for increased co-operation in science and technology, migration issues, and more effective bilateral structures.

In global issues, the communication called for an increase in cooperation in areas such as the Middle East, Africa and East Asia, and mentioned transversal challenges such as terrorism and non-proliferation. Regarding the rather sensitive issue of the arms embargo, the paper narrowly declared that *further work will be necessary by both sides*.

⁸ Gill and Murphy(2008)

⁹ COM (2006) 0632 of 24/10/06.

The Commission's policy paper welcomed the decision at the 9th EU-China Summit (September, 2006) to launch negotiations on a new comprehensive framework agreement. It is supposed that this new agreement would offer a single framework for covering the complexity of the EU-China relationship. Negotiations on this agreement (PCA) started in January 2007 and are still on-going, having reached the half-way stage in January 2009.

a. European Parliament

It can be said that the European Parliament (EP) has opted for a critical approach to China's transition to democracy.¹⁰ The European Commission, and most of the Member States, have maintained a more pragmatic position.

This different approach can be observed in the various critical Parliament resolutions regarding the record of China's actions.¹¹

For example, during the arms embargo affair, the Parliament adopted Resolution (2003)¹² opposing any arms sales to China until there was a significant improvement in human rights. The EP has repeatedly mentioned that, regrettably, EU-China relations had only made progress in the trade and economic dimensions, leaving at a subsidiary level the strengthening of human rights and the rule of law. In April 2008, the EP adopted a very critical Resolution as a response to the violent events in Tibet. In October 2008, the EP awarded the 2008 *Sakharov Prize* to the human rights activist and Chinese dissident Hu Jia. This event exasperated the Chinese authorities.

Recently, the EP President Buzek, on the occasion of the 2010 Nobel Peace Prize granted to the activist Liu Xiaobo, mentioned in a press release that Xiaobo is one the "staunchest defenders of human rights who has fought for the freedom of expression using peaceful means. He stands for the values and fundamental freedoms that the European Union and the European Parliament regard as cornerstones of society. (...) Freedom is not a threat, but that the threats to freedom can be many. (...) Advocating for change and for human rights by peaceful means, as set out by Charter '08, must not be punished by a prison sentence. I call on Chinese authorities to release him immediately and unconditionally."¹³ The rest of the European institutions, for example, the President of the European Commission, Barroso, and the High Representative for Foreign and Security Policy, Ashton, at the same time sent their congratulations to Mr. Xiaobo, considering that this prize is "a strong message of support to all those around the world who are struggling for freedom and human rights"¹⁴, but they forgot or failed to mention that he is actually in jail, and to demand the freeing of the activist by the Chinese authorities.

b. EU Members States

Since the rise of China as an economic and international power, significant division towards the Asiatic giant have arisen in EU foreign policy.

¹⁰ Cameron(2009): pp. 57

¹¹ In its Resolution of February 200, the EP called on China to guarantee the constitutional right to freedom of religion and belief, together with the exercise of the associated rights of freedom of conscience, freedom of expression, freedom of association and freedom of assembly. Official Journal of the European Communities (OJ) (01/10/2001); C276/279.

¹² P5_TA(2003)0599

¹³ The press release is available at the EP web site: <http://www.europarl.europa.eu/es/pressroom/content/20101008IPR86243> , October, 2010

¹⁴ Barroso's message to Mr. Liu Xiabo, available at http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/2010/10/20101008_speeches_2_en.htm , October, 2010.

Economic interests make it very difficult for the EU to develop a coherent and consistent policy towards China. It can be said that the EU member states with significant economic and trade interests in China are not working towards pushing for a more comprehensive or strong EU foreign policy that could damage or limit their bilateral relations.

Although Member States have different historic ties and philosophies about how to deal with China's rise, this disunity is increased because EU member states have more to gain from a bilateral approach to China than from an integrated EU policy. In this context, it can be affirmed that this perception is one of the biggest obstacles to a coherent and fruitful EU approach to China.

A recent study by the European Council on Foreign Relations (ECFR) analysed the behaviour and interests of the 27 EU partners regarding China. According to this study and other experts, the main actors in the (lack of) an EU policy towards China are the United Kingdom, France and Germany, The other countries are not key players in the definition of the EU policy on China¹⁵.

In general, EU Member states are divided over China's economic impact and its political and human rights development.

Germany

German involvement in China began in the 1700s. Their economic and commercial relationship shows the relevance that German society gives to China. Germany is also China's largest trading partner in the EU, and its economic interests in China are substantial. The value of Germany's exports to China in 2007 –29.9 billion– was more than three times that of France, almost five times that of Italy, and nearly six times that of the UK.

Traditionally, Germany has criticised China's politics at the same time as it has defended industrial interests or protected jobs from Chinese unfair competition. Politically, there has been a change in German foreign policy with Angela Merkel's government. Merkel's government has given more relevance to human rights than her predecessor Schroeder, who tried to build strong relations with Beijing. The "private" meeting between Chancellor Merkel and the Dalai Lama in September 2007 angered the Chinese government, who decided to cancel several meetings. Merkel's government has received strong criticism, especially from the German industrial lobby. Germany could serve as an example of the great difficulties in balancing economic interest with political and ethical issues in relation to China.

United Kingdom

United Kingdom-China ties reflect a considerable history of relations, with the considerable impact of Hong Kong as crown colony. Until 1984 (the Sino-British Joint Declaration, which led to the return of Hong Kong to Chinese sovereignty in 1997) bilateral ties between Beijing and London did not have a real basis on which to build a fruitful relationship, very important for both.

Within Europe, the UK is in favour of allowing Chinese goods to be freely imported into the EU, which is coherent with its commitment to economic liberalism. Britain is the fourth largest exporter of goods to China in Europe and the second in terms of imports of Chinese products. The UK is usually ready to criticise China on political issues, but some recent events seems to show that its traditional focus on human rights could be altered by commercial interests and issues such as climate change. In 2008, the long-standing formal position on Tibet changed, and the UK finally recognised full Chinese sovereignty over the territory.

¹⁵ Rees, Nicholas (2009): EU-China relations: historical and contemporary perspectives, *European Studies* 27 (2009):31-46, Power; Fox, J and Godement, F (2009): *A Power Audit of EU-China Relations*, ECFR.

France

France was one of the first European states to establish diplomatic relations with China in 1964. However, there were several incidents (for example: the sale of military weapons to Taiwan in '90) that produced strong confrontations with China.

Traditionally, France tends to subordinate politics to economic goals, and believe that good political relations will produce economic and commercial benefit. In recent years, Paris has tried to establish a strategic partnership with China. France wants to promote its mutual understanding through different types of events including a high-level diplomatic visit. Sarkozy's first official visit to China in November 2007 was a great success, and trade agreements were signed. But since then, President Nicolas Sarkozy has adopted a new approach, with open criticism of China's policy toward Tibet, Sarkozy's meeting with the Dalai Lama in December 2008, the doubts over his attendance at the inauguration of the Peking Olympics, etc.

As a consequence, China cancelled the Annual EU-China summit of December 2008. According to some officials in Beijing, the summit was cancelled to let the EU know that there are red lines and that the Tibet issue is an important one¹⁶. However, China acknowledges that France is a swing state in its relations with the EU.¹⁷

As is briefly described above, France, Germany and the UK are competing to become China's more important partner in Europe. They openly criticize the European Commission's trade position on China, arguing that it is too liberal or too protectionist, and ignore its position on political issues. It can be said that the result of this approach is to undermine EU policy¹⁸. The dispute between these three states was very evident regarding whether the EU would try to lift its arms embargo on China. It must be noted that China (as well as other relevant states such as Russia or the United States) has learned to exploit the divisions among EU Member states for its own benefit.

¹⁶ Brown, K and Crossick, S. (2009); *the EU and China: Time for a Change?* Chatham House, pp. 5.

¹⁷ For a broader analysis of EU-27 Member states' attitudes towards China, consult Fox, J and Godement, F(2009): *A Power Audit of EU-China Relations*, ECFR.

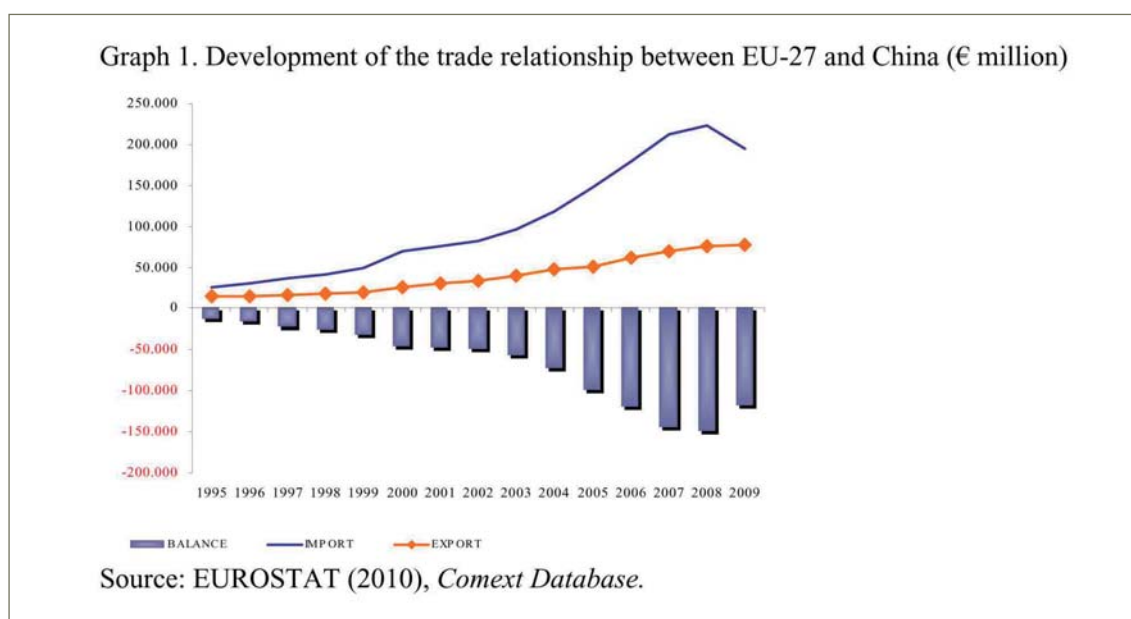
¹⁸ Brown, K. and Crossick, S. (2009), pp. 6. Fox and Godement (2009): pp. 24. Grant, C and Barysh, K (2008). *Can Europe and China shape a new world order?* Centre for European Reform.

2. The importance of economic and trade dialogue in balancing EU-China trade flows

2.1. The evolution of EU-China trade relationships

The growing role that the Chinese economy has on the international economic scene is the clear result of a country with more than 1,300 million people, stretching over 9 million km² and whose rates of GDP growth since 1995 are above 9 percent on average in constant data and 14.7% in nominal terms. These growth rates are occurring with a growing economy, bringing China to the head of the main exporters and importers in the world –from exporting only 2.5% of the worldwide total in the early nineties to 9.1% today, while imports increased from 5.4% of total world imports to 7% now– just behind Germany (for exporters) and the United States and Germany (in imports). These data are repeated in commercial services transactions, the People's Republic of China occupying the third and fourth places among the leading exporters and importers, respectively.

This central role in economic and trade relations was welcomed by the European Union, which wanted to maximize the benefits this could bring to the EU economy. In fact, trade relations between the EU and China have been increasing over the years at a dizzying pace, with the EU's trade deficit rising to 116,571 million Euros (Figure 1), representing a cumulative growth deficit of almost 18% from 1995 to 2009 (growth is greater if we measure only the years of economic expansion, since in this period imports grew on average nearly 17%, as against 13% of exports). Thus China has become the largest supplier of goods from the EU and is in fourth place in destination markets (just behind the United States, Russia and Switzerland), while on the Asian side the EU is the second largest supplier of goods to China and is the main area for sale of their products.



However, this rapid growth of bilateral trade has not been without problems. The large EU market in China to sell their manufactured products and more services, has changed and has become the largest supplier of manufactured goods to the bloc. The interest that these data can generate for future trade negotiations can be better understood with the description of goods exported and imported between both partners. Data from 2009 show that nearly two thirds of the Community's total imports from China are: *Electrical machinery and equipment; Nuclear reactors, boilers, machinery and mechanical appliance, and Articles of apparel and clothing accessories* (Table 1); and the main exports to China by the EU member States are *Nuclear reactors, boilers, machinery and mechanical appliance, Electrical machinery and equipment, Vehicles, Optical, Measuring instruments or precision, and Aircraft, spacecraft, and parts thereof*, all of which constitute more than 60% of total exports.

Table 1. Main Tariff Chapters Traded between EU-27 and China, 2009	
	% TOTAL IMPORTS
85.- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (HTI)	24.87%
84.- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HTI)	20.12%
62.- Articles of apparel and clothing accessories, not knitted or crocheted (LTI)	6.58%
95.- Toys, games and sports requisites; parts and accessories thereof (MLTI)	5.75%
61.- Articles of apparel and clothing accessories, knitted or crocheted (LTI)	5.35%
	% TOTAL EXPORTS
84.- Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof (HTI)	29.46%
85.- Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles (HTI)	13.82%
87.- Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof (MHTI)	10.49%
90.- Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof (HTI)	4.73%
88.- Aircraft, spacecraft, and parts thereof (HTI)	4.37%

Source: Author's own calculations from *Comext* Database, 2010.

HTI: High Technology Intensity

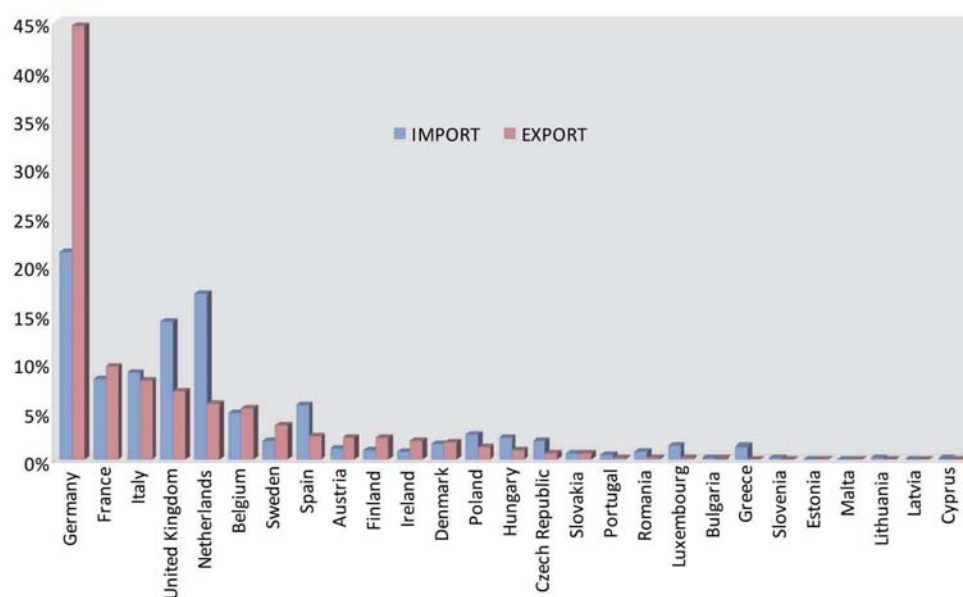
MHTI: Medium-High Technology Intensity

MLTI: Medium-Low Technology Intensity

LTI: Low Technology Intensity

Not all Member States have the same commercial relations with China. Only eight –Germany, France, Italy, United Kingdom, Netherlands, Belgium, Sweden and Spain– account for over 90% of the goods traded by the countries of the EU-15 and more than 80% of EU-27 transactions (Figure 2), being in all cases in a deficit with China, although the largest deficit relates to the Netherlands, the United Kingdom and Italy which represent over half of the entire deficit of the EU-27, amounting in 2009 to more than 69,000 million Euros.

Graph 2. Share of the EU Member States in trade with China (2009)



Source: Author's own calculations from Comext Database, 2010.

These eight countries have seen their trade relations with China increase at a very high cumulative rate, resulting in an increase in their trade deficit at rates above 10%, and in some cases at rates as worrying as those in Italy (20%), Spain (20.21%), Netherlands (25.90%) and Sweden (40.29%) from 1995 to 2009.

This growth in bilateral trade between the major EU countries and China has been transformed over the years. This is not just a quantitative change, as stated above, but also qualitative, ceasing to be inter-industrial trade, having an increasing degree of intra-industry commerce (Table 3). The intra-industry trade index shows the largest volume of transactions between trading countries under the same *tariff headings*. In this case the data were analyzed through the Harmonized System to 4 digits and from the formulation given by Grubel and Lloyd in 1975:

$$ICII_i = \left(1 - \frac{|X_i - M_i|}{X_i + M_i} \right) * 100$$

$$ICII_{Global} = \frac{\sum(X_i + M_i) - \sum|X_i - M_i|}{\sum(X_i + M_i) + \sum|X_i - M_i|}$$

where X_i are the EU exports to China in the tariff heading, and M_i are the purchases made by the EU to China in tariff heading i . Thus a high level of intra-industrial trade shows more similar production structures among the countries surveyed, and a mutual demand for goods classified under the same name.

Table 3. Intra-Industrial Global Trade Index with China (%)

	Germany	Belgium	Spain	France	Netherlands	Italy	U. Kingdom	Sweden
1995	13.6	17.0	10.1	13.5	16.7	17.3	25.7	8.0
2009	25.2	38.4	41.0	33.6	37.9	44.5	36.9	29.4

Source: Author's own calculations from Comext Database, 2010.

In Table 3, one can see that these eight countries have clearly raised their intra-industrial global trade index. Especially striking is the case of Sweden, Spain or Italy, which have tripled or quadrupled their indices.

Everything discussed thus far clearly illustrates the desire that both blocs may have to intensify political, economic, trade and investment dialogue. Any progress that is made in this direction would improve such transactions and would bring great benefits to all stakeholders. On this basis, what interests us is how negotiations can or should be arranged and in which fields should there be a greater emphasis in order to maximize mutual benefits.

2.2. Economic and trade dialogue as a means to achieve mutual growth

In 1985, the European Economic Community signed a *Trade and Economic Cooperation Agreement* with the People's Republic of China, which came to replace the trade agreement of 1978, and where the following topics were included: industry and mining, agriculture, science and technology, energy, transport and communications, environmental protection and cooperation in third countries. But it was a first generation agreement, obsolete and not suited to the new scenario, developed throughout all these years. The objective proposed was “to introduce a new stage, to promote and intensify trade and to encourage the steady expansion of economic cooperation in the mutual interest of both parties”¹⁹. It reaffirmed the application of a Most Favoured Nation treatment between the parties, which was a concession to not being a member of the World Trade Organization until 2001. The agreement, still in force, provided a framework for bilateral relations and established the legal conditions for the development of trade flows.

Since then, negotiations have not been abandoned and regular meetings have been held in the context of increasingly open markets for the movement of goods, services and capital, especially direct investment. Since the first Euro-Asian Summit (ASEM) there has been a clear political will to attain a deeper and more complex dialogue, which was highlighted in 2003 when China and the EU heralded their intention to enter into a *Strategic Partnership*, clearly directed, first toward a political dimension –issues relating to global scope, reduction of weapons of mass destruction, security of energy supply, and international terrorism– and on the other hand, an economic dimension, which required the union of two equal partners to achieve the maximum benefits.

Now all this commercial development between the two partners is not without its problems and obstacles that prevent trade and investment flows from being fully exploited. In this sense, both partners have tried to impose their own criteria and, in some areas, these disagreements have been partly responsible for deals not being reached.

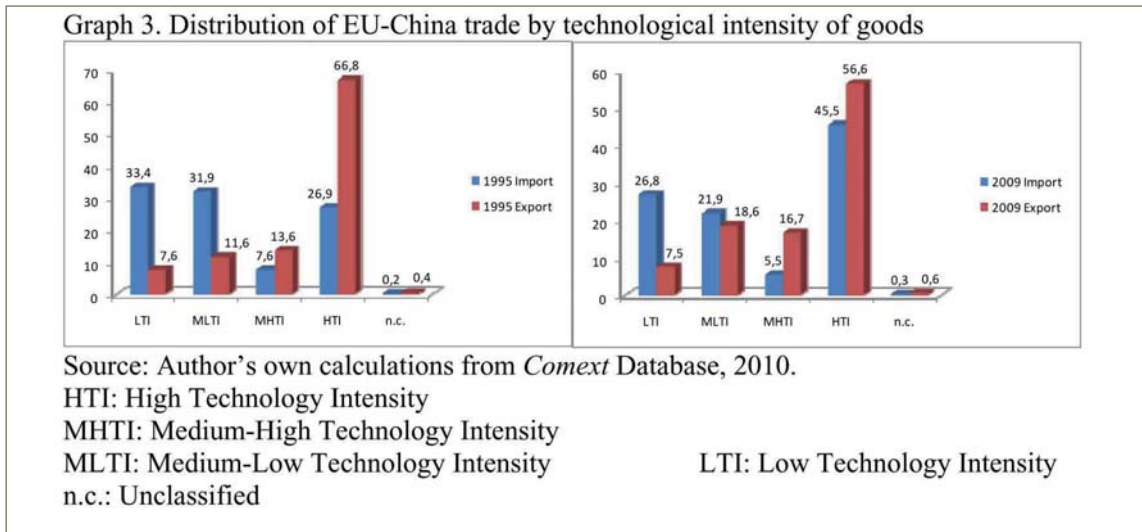
The vision of European Union

The European Union is clearly concerned about the rapid growth of its external deficit. The disproportionate acceleration of imports and exports has taken the trade deficit to a cumulative growth rate of over 23 percent from 1995 until the onset of the international crisis. The European Commission argues that it is difficult to increase exports since China restricts the access to products with high added value or a high technological intensity.²⁰

¹⁹ Council Regulation (EEC) No. 2616/85 of 16 September 1985 concerning the conclusion of a Trade and Economic Cooperation Agreement between the European Economic Community and the People's Republic of China.

²⁰ EAL-ARCAS, R. (2010): “European Union-China Trade Relations: Current Difficulties and Ways to Improve Them” *International Security Forum*, 13 April.

If we analyze the distribution of bilateral trade by technological intensity of products traded (Graph 3), we note that in 1995, 80% of European exports to China were products with high or medium-high technological intensity, compared with 65% of our purchases which were goods with a low to medium-low technological intensity. Over the years this rate has changed, China has become an exporter of technologically advanced products –from 34.5% of our imports to 51%– reducing both our sales and this type of product to 73%, as we have made purchases of goods of low technological intensity, almost twenty percentage points²¹.



The European Union has reiterated its interest in a balanced and sustainable development of China, urging China to take its rightful role in the international economic scene. But at the same time, it still maintains trade barriers, as shown in Table 4 in the *Trade Facilitation Index* published by the World Economic Forum for 121 countries. Although in the global ratings it is behind Italy, it shows the seriousness of the situation regarding access to markets, being positioned at number 103.

Table 4. The Enabling Trade Index. 2009

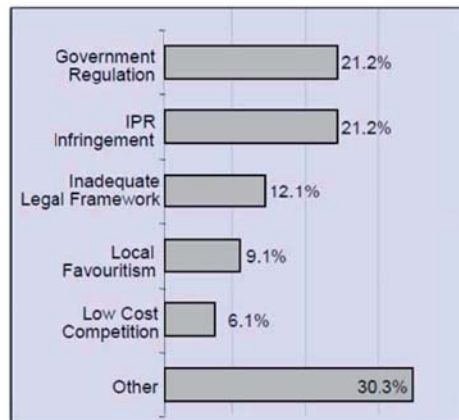
	OVERALL INDEX		SUBINDEXES							
			MARKET ACCESS		BORDER ADMINISTRATION		TRANSPORT AND COMUNICATION		BUSINESS ENVIROMENT	
	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Sweden	5	5.44	88	3.81	2	6.41	4	5.63	7	5.9
Netherlands	10	5.27	87	3.81	4	6.04	2	5.64	15	5.59
Germany	12	5.24	90	3.79	11	5.65	1	5.77	10	5.75
France	17	5.02	89	3.81	19	5.46	7	5.54	23	5.26
U. Kingdom	20	4.93	79	3.84	14	5.62	11	5.47	39	4.81
Belgium	21	4.92	80	3.82	29	5.02	12	5.45	20	5.4
Spain	27	4.72	75	3.86	28	5.07	18	5.13	38	4.82
Italy	45	4.3	66	3.94	48	4.25	25	4.75	66	4.27
China	49	4.19	103	3.6	43	4.43	38	4.16	49	4.58

Source: WORLD ECONOMIC FORUM (2009), *The Global Enabling Trade Report 2009*, pp. xvi-xvii.

This reduced access to the Chinese market for European companies can be seen in Graph 4, which shows the great difficulties faced by European companies in developing business in China, with government regulations and violations of intellectual property rights that make up over 40% of the complaints made.

²¹ Part of this change in sales from products with higher technological content is due to the increasing presence of European companies producing in the Chinese market, partly to avoid the high barriers to entry of the Chinese market.

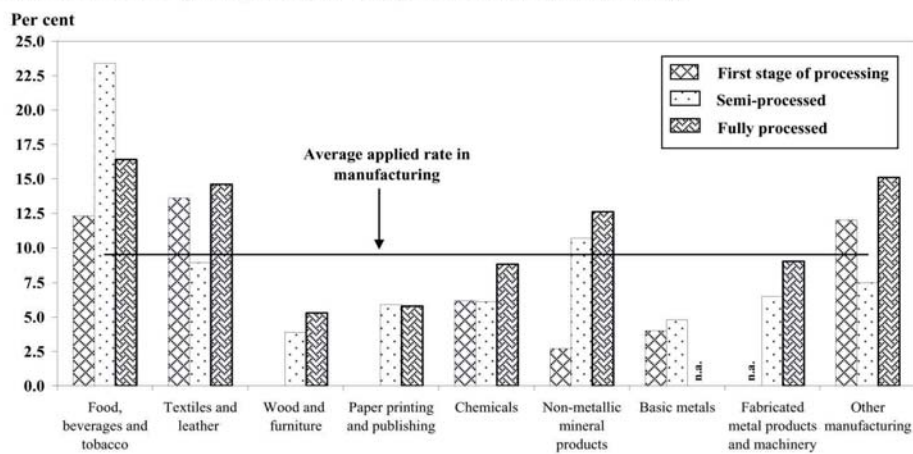
Graph 4. Market Access Obstacles for European Companies in China: Survey Results.



Source: Emerging Markets Groups; DEVELOPMENT Solutions (2007).
 Note: Scores denote number of times mentioned in survey.

This reduced access to markets is observed not only in a tariff that might be somewhat higher than those of other countries²² (Graph 5a and 5b), but in the high level of non-tariff barriers²³ and lack of standardization with international standards, which in many cases prevents the free movement of goods. In fact, China has created its own technical standards, introducing new discriminatory elements, and maintaining the unjustified subsidies to domestic firms which puts foreign companies operating in the country (including European ones) at a disadvantage²⁴.

Graph 5a. Tariff escalation by 2-digit ISIC industry, 2009. (%)



n.a. Not applicable.

Note: Calculations exclude in-quota and specific rates, and include interim duty rates.

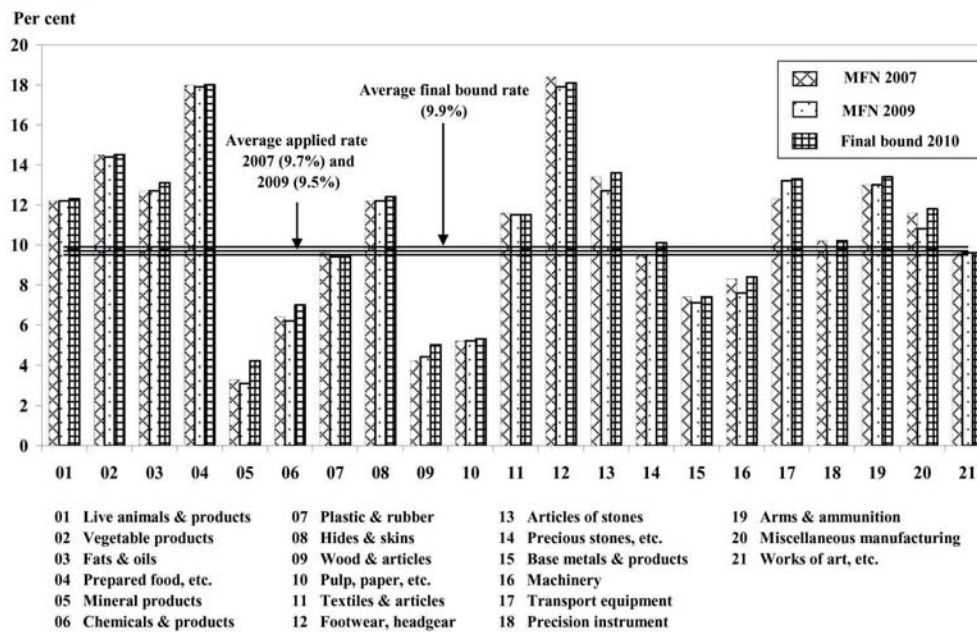
Source: WTO Secretariat calculations, based on data provided by the Chinese authorities.

²² Not so much if you look at the average rate applied to manufacturing, which stood at 9.7%, but tariff peaks can reach levels above 60%, as is the case of some *Food, beverages and tobacco* or certain *Cereals and Other products of the milling industry*, or reach a maximum of 50% in the case of *Sugar* or some *Non-metallic mineral products*.

²³ It has been estimated that the costs to exporting companies in Europe is about 12.5 billion in lost exports in 2004 as a direct result: Opportunities of Non-tariff Barriers in China. EMERGING MARKETS GROUP, DEVELOPMENT SOLUTIONS (2007): *Study of the Future Opportunities and Challenges in EU-China Trade and Investment Relations 2006-2010*. European Commission, Brussels.

²⁴ DREYER, I. & ERIXON, F. (2008): "An EU-China trade dialogue: a new policy framework to contain deteriorating trade relations" *ECIPE, Policy Briefs No. 03/2008*.

Graph 5b. Average MFN applied and final bound tariff rates, by HS section, 2007, 2009, and 2010



Note: Calculations exclude specific and in-quota tariff rates and include the *ad valorem* part of alternate rates. Applied averages are calculated including interim duty rates.

Source: WTO Secretariat calculations, based on data provided by the Chinese authorities.

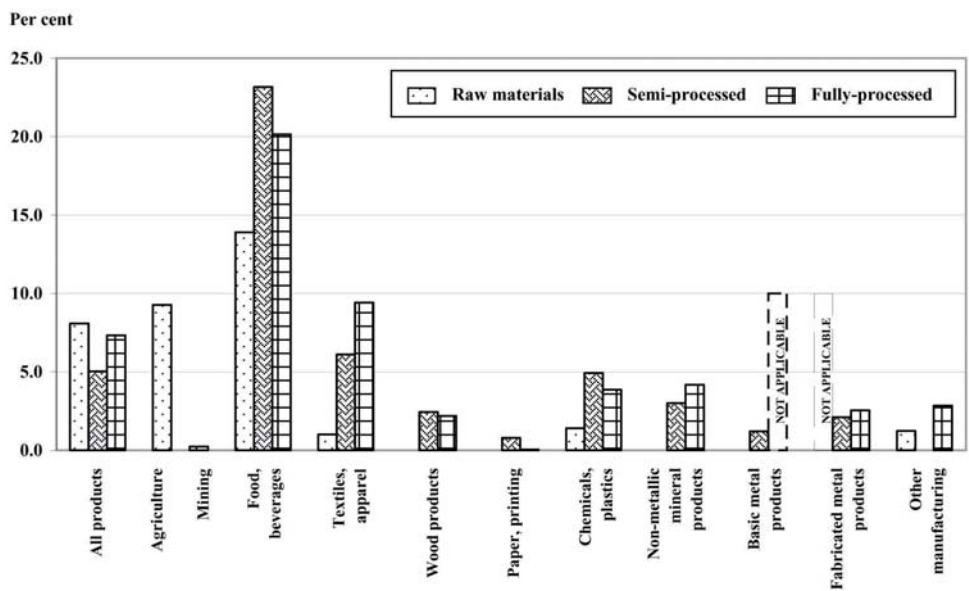
This type of action allows Chinese companies to grow in international markets (some of them being traditional export markets of European companies such as Africa, Middle East or Latin America), especially in those sectors of manufactured goods and increasing value added and technological content. This has led the EU to demand stricter compliance with the commitments in the WTO, especially regarding trade in services (GATS) and intellectual property rights, areas where China has postponed the enforcement of its obligations under the WTO since its accession²⁵.

The vision of the Chinese authorities

For its part, China has issued serious criticism of the Community's actions. For some years, the EU has pressed for the implementation of protectionist barriers to certain products from the Chinese market. Firstly, it is claimed the EU uses a variety of trade defence measures, which are not always justified, and the application of stringent sanitary and phytosanitary standards. In this context, China has highlighted EU actions in terms of anti-dumping measures: only in one year, more than 40 complaints were made to the WTO. Secondly, it claims the EU has imposed high tariffs in some agricultural goods (Graphs 6a and 6b).

²⁵ In addition to all these issues, one must add one more element: the evolution of the exchange rate of Renminbi against major international currencies, which has been interpreted as a measure to become competitive in foreign markets. Some have even attributed responsibility for the favourable performance of exports and trade surpluses to the undervaluation undertaken by the Chinese authorities. ZHANG, Z.Y. & SATO, K. (2009): *How Effective Is The Renminbi Devaluation On China's Trade Balance*, 18th World IMACS / MODSIM Congress, Cairns, Australia 13-17 July 2009.

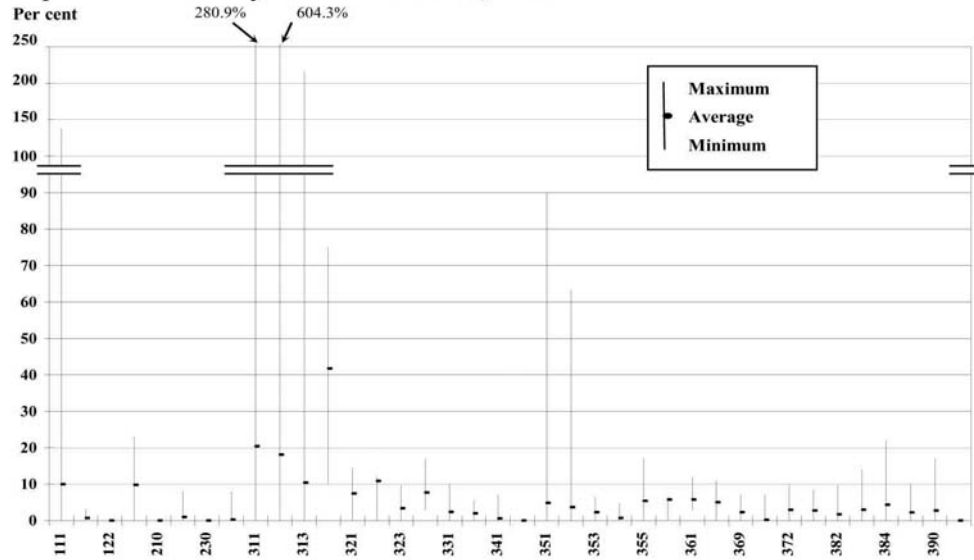
Graph 6a. Tariff escalation by ISIC 2-digit industry, 2008



Source : WTO Secretariat estimates, based on OJ L 286, 31 October 2007.

Source: WTO (2009) *Trade Policy Review, European Communities*. Report by the Secretariat, p. 42.

Graph 6b. EC Tariff by ISIC classification, 2008



International Standard Industrial Classification, Revision 2

Description	Description
111 Agricultural and livestock production	351 Industrial chemicals
121 Forestry	352 Other chemicals, including pharmaceutical
122 Logging	353 Petroleum refineries
130 Fishing	354 Manufacture of miscellaneous petroleum and coal products
210 Coal mining	355 Manufacture of rubber products n.e.s.
220 Crude petroleum and natural gas production	356 Manufacture of plastic products n.e.s.
230 Metal ore mining	361 Pottery, china and earthenware
390 Other mining	362 Manufacture of glass and glass products
311 Food production	369 Other non-metallic mineral products
312 Other food products and animal feeds	371 Iron and steel basic industries
313 Beverages	372 Non-ferrous metal basic industries
314 Tobacco manufacturing	381 Fabricated metal products, except machinery and equipment
321 Textiles	382 Non-electrical machinery including computers
322 Manufacture of wearing apparel, except footwear	383 Electrical machinery apparatus, appliances and supplies
323 Leather products, except footwear and wearing apparel	384 Transport equipment
324 Footwear, except vulcanized rubber or plastic footwear	385 Professional and scientific equipment
331 Wood and wood products, except furniture	390 Other manufacturing industries
332 Manufacture of furniture and fixtures, except primarily of metal	410 Electrical energy
341 Paper and paper products	
342 Printing, publishing and allied industries	

Source: WTO Secretariat calculations, based on EC OJ L286, 31 October 2007.

Source: WTO (2009) *Trade Policy Review, European Communities*. Report by the Secretariat, p. 124.

The other big issue is recognition of China's full Market Economy Status, which prevents it being dealt with in negotiations as an equal, placing the Chinese economy at a distinct disadvantage at the bilateral and multilateral level.

2.3. The road to a win-win agreement

At all times, the European Union has ensured full political and economic dialogue in the future *Partnership and Cooperation Agreement* (PCA). Certain issues directly related to trade, such as, among others, state intervention, the massive use of non renewable energy resources, the negative effects of unsustainable industrialization to the environment, human rights, or intellectual property must be addressed.

China's membership of the World Trade Organization (WTO) in 2001 has been one of the greatest responsibilities that this country has among the main exporting and importing countries in the world. However, this role cannot be at the expense of an illegitimate comparative advantage. Thus every year the globalization process is forcing companies to find new niches where they can gain more advantages at international level, given the high level of global competition, i.e. companies look for areas to locate part of their production in order to attain lower production costs. It is here where China cannot maintain an outdated economic structure, with clear government intervention in business, either by way of the continued use of export restrictions, as in the national industrial policy that receives a host of government subsidies for exported products, or restricting the full entry of direct investment. Thus, Chinese products are given advantages in terms of competition, driving out some producers and European businessmen who have no such aid.

The rapid increase in complaints against China in breach of anti-dumping measures is a common concern in the latest report by the WTO Secretariat's Trade Policy Review of China which indicates that in 2008 WTO Members initiated 93 anti-dumping, countervailing, safeguard, and product-specific safeguard investigations against Chinese exports, at a value of US\$6.1 billion, an annual increase of 69.4 per cent²⁶. Moreover, many of the technical, sanitary and phytosanitary measures have become obstacles to exports from China, affecting more than 15% of exporting firms²⁷, which highlights the need to adapt national legislation to the standards required by the vast majority of its trading partners. In this regard, there has been an emphasis on the importance of collaboration between the EU and China on customs matters for the treatment of goods moving between the two blocks which have the same accessibility.

It is at this point that the EU is making a greater effort in terms of dialogue, especially as it affects the rights of intellectual property and the rapid growth of cases of counterfeiting and piracy of products from the EU market. It has highlighted the necessity of reaching a consensus on the harmonization of policies and regulations affecting such important issues as utility models and patents; ever more frequently, Chinese companies are making copies or slight modifications of European technology, giving rise to a number of complaints.

Other aspects to be included in the bilateral political and trade dialogue directly affect environmental and social aspects. In the first case, the accelerated process of China's industrialization is associated with a disproportionate consumption of environmentally unsustainable energy sources, raising global concern about the increasing pollution of the country and the emissions of polluting gases into the atmosphere. Therefore, the EU wants to promote primarily the mutual trade in goods and services that respect the environment, and therefore calls for enhanced investment –both in terms of domestic and foreign capital–

²⁶ WTO (2010): Trade Policy Review. China, p. 46.

²⁷ To this fact we must add the continued appreciation of the renminbi and rising labour costs which will lead to Chinese products losing competitiveness in world markets.

on projects that are in accord with sustainable development and those industries with lower CO₂ emissions, and is willing to enhance cooperation for the transfer of technologies that follow these principles.

And the role that renewable energy could play in the process of economic development of the country it is not negligible²⁸; it could supply a greater percentage of the population with electricity at somewhat lower costs by reducing the pressure on more polluting fossil fuels.

The second aspect concerns social dialogue. All the growth experienced by the Chinese economy in recent years has been associated with a lack of redistribution of income among its inhabitants, which has dramatically increased the number of poor in the country, and has not been offset by an improvement in the conditions of employment of Chinese workers and increased social and employment rights for them. The abundance of labour in China means that labour costs are lower than those of most developing countries, attracting direct investments that will benefit from these advantages. However, the major criticism to be made is that China cannot attract the funds if what drives lower labour costs is a breach of international standards in these areas, since this situation would lead to it obtaining an illegitimate comparative advantage in international trade and an inflow of investment that would promote these illegal practices²⁹.

For this reason, the EU wants China to ratify the main conventions of the International Labour Organization, especially Conventions 29, 87, 98 and 105 (Table 5), that refer to trade union rights and forced labour.

	I. Freedom of Association, Collective Bargaining, Industrial Relations		II. Forced Labour		III. Elimination of Child Labour and protection of children and young persons		IV. Equality of Opportunity and Treatment	
CONVENTION	C. 87 Freedom of Association and Protection of the Right to Organize Convention, 1948	C. 98 Right to Organize and Collective Bargaining Convention, 1949	C. 105 Abolition of Forced Labour Convention 1957	C. 29 Forced Labour Convention, 1930	C. 138 Minimum Age Convention 1973	C. 182 Worst Forms of Child Labour Convention, 1999	C. 100 Equal Remuneration Convention, 1951	C. 111 Discrimination (Employment and Occupation) Convention, 1958
Date of adoption	9-7-1948	1-7-1949	17-1-1959	28-6-1930	26-6-1973	17-6-1999	29-6-1951	25-6-1958
Ratification by China	---	---	---	---	28-4-1999	8-8-2002	2-11-1990	12-1-2006

Source: ILOLEX (2010), Database of International Labour Standards.

However, this practice of obtaining legitimate comparative advantages should also be followed by firms in Chinese territory, demanding the best practices of corporate social responsibility as in the home countries of these European investments, in order that European direct investment in China will lead to a stream of good labour practices and promote social dialogue between both partners.

The negotiations should continue along the lines started in April 2008: *High Level Economic and Trade Dialogue Mechanism*. To this end, emphasis should be on two aspects: the institutional and the mutual liberalization of trade and investment, avoiding the recent escalation of protectionist measures.

²⁸ Biomass, wind, photovoltaic, and even tidal currents might be interesting.

²⁹ Some of the criticisms that were made against European companies trying to take advantage of these lower labour and environmental standards.

In the first case, the institutional position of the two blocks should be aimed more towards a model of *multipolarity* –as China wants– as opposed to *multilateralism* –as the EU calls for– in which there is no dominant position in the negotiations. In this sense, it would be necessary to clarify the leadership of the EU³⁰ and the role played by each of the Member States in these negotiations. The individual criticisms and even the politicization that some of them are making commercial relations are not benefiting progress in economic and trade dialogue.

Secondly, mutual liberalization of trade and investment must be followed by the more controversial issues: greater access to Chinese markets, limited anti-dumping measures, freedom of direct investment without state intervention and equal conditions with domestic firms.

If the items on the agenda of negotiations are not entirely clear, the steps for them to succeed are even more uncertain and doubtful. Consideration should be given to dealing with the *trade agreement* outside the PCA, in order to close it as soon as possible and to take advantage of spill-overs. The strictly commercial negotiation should not be mixed with other open issues within the economic and trade dialogue –whether environmental, social, or regulatory– that could delay the process and avoid the deal being done.

³⁰ Since the entering into force of the Lisbon Treaty in December 2009 this has been resolved, in part, with the appointment of President of the European Council (Herman Van Rompuy); but two heads are still talking, if we include the European Commission President, and maybe even more if we consider the role of the High Representative of the Union for Foreign Affairs and Security Policy.

3. Political dialogue on energy and the environment

EU-China development and cooperation on the environment has improved considerably since the establishment of a policy dialogue between the Commission's Directorate-General for Environment and China's State Environmental Protection Administration (SEPA) and an EU environment counsellors group in Beijing. Cooperation on climate change has the highest priority. The *Climate Change Partnership* of 2005 has strengthened the dialogue in this field, particularly regarding international climate change negotiations, and it has encouraged low carbon technology development in China. Although this Partnership covers all areas of climate change policy, it is mainly focused on energy matters: energy efficiency, renewable energies, and a near-zero emissions coal technology through carbon capture and storage. Climate change and energy security have become the first issue in the EU-China relationship where the EU has been able to shift the fundamentals of Chinese policy. Also, *EU-China development and cooperation on energy* is founded on the policy dialogue between the Commission's Directorate-General for Transport and Energy and the Chinese authorities in charge of Energy: the National Energy Administration (NEA).

The EU has a binding unilateral commitment to cut greenhouse gases by at least 20 per cent by 2020 compared with 1990 levels. In addition, the EU aims to achieve a 20 per cent share of renewable energies in overall EU energy consumption by 2020 and, by the same date, its aim is that all member states could obtain a 10 per cent minimum binding target for the share of bio-fuels in transport consumption. However, an important part of the goods and services consumed in the EU produces CO₂ emissions in the exporting countries, particularly in China. Consequently, global objectives of the European Union cannot be achieved without our third country partners, especially when they are important trade partners and, at the same time, big energy consumers such as China.

For this reason the EU is encouraging China to move to a *low carbon economy*. In this context the EU strongly supports China's objective to reduce energy intensity by 20% from 2006 to 2010 for each GDP unit under the 11th Five-Year Plan.

This can be achieved by energy saving technologies and renewable energies, both of them priority areas for EU-China cooperation under the current Energy & Environment Programme, the 7th Research Framework Programme, and the EU-China Partnership on Climate Change.

3.1. First steps of the political dialogue on energy and the environment

Energy and environmental protection were two of the spheres for which it was agreed to develop economic cooperation in the first *Agreement on Trade and Economic Cooperation*³¹ of 1985. At this early stage of the political dialogue, the cooperation on energy and environment was included in the comprehensive goal of development of industry and agriculture.

However it was not until the European Commission Communication *Long term policy for China and Europe relations*³² of 1995 that these spheres of cooperation were developed in specific lines of actions. The first one was the commitment of EU business and technical expertise "in a dialogue on the environment,

³¹ Agreement on Trade and Economic Cooperation between the European Economic Community and the People's Republic of China, Official Journal L 250, 19/09/1985 P. 0002 – 0007, especially Art. 10.

³² Communication from the European Commission: "A long term policy for China-Europe Relations" COM(1995)279 final.

with a transfer of EU expertise in environmental policy-making and technology relevant to Chinese circumstances in key sectors such as energy". The same document identified as structural problems infrastructure bottlenecks and the environmental degradation risk, both of which could undermine sustainable long term economic growth in China. On the one hand, the European Commission believed that problems of "acute energy shortages, a transport system which is clearly inefficient and unable to meet demand, and primitive telecommunications, are bound to get worse as economic growth gathers speed and investment in these key sectors lags far behind" . On the other hand, environmental deterioration was seen as an already serious problem and, despite the government's awareness of the dangers of long-term damage, there was concern that China's economic development strategy was only focused on rapid wealth creation, leaving the consequences to be dealt with for future negotiations. For all these reasons, environmental cooperation was one of the five traditional pillars of EU-China cooperation set out in the 1995 Communication³³.

During the '90s measures concerning energy and the environment were interlinked with the idea of cooperation for development. China still was a developing country and the EU policy on environment and energy in relation to China was conducted through conditions of sustainable development included in aid measures. For example, China was the main beneficiary of the EU's Generalised Scheme of tariff Preferences (GSP), with more than 30% of the value of all beneficiaries' imports in 1997. This scheme integrated non-economic conditions such as international standards of labour rights and environmental protection (International Timber Organisation standards on sustainable management of tropical forests).

Moreover, the EU did not have a policy on energy and the environment specifically designed for China but, by contrast, this was included in the general one for Asia. The communication *Building a Comprehensive Partnership with China*³⁴ (1998) urged an updating of the objectives of the EU-China cooperation programme in keeping with the reforms and economic growth of China.

Concerning the environment, there was encouragement of the development of the areas set out in the *Communication on a Europe-Asia Cooperation Strategy in the Field of Environment*³⁵ (1997), especially cooperation projects focused on clean production methods, waste minimisation, environmental standards, and training and environmental management capacities, as well as an appropriate technology transfer. For the first time, the European Commission introduced greenhouse gas emissions among the priorities. China was no longer a developing country but an emerging industrialized one.

Regarding energy, the communication of 1998 also recalled another general document for Europe-Asia, the Commission's *Communication on a Europe-Asia Cooperation Strategy for Energy*³⁶ (1997). Priorities were the promotion of energy efficiency and developing clean coal technologies and alternative energy resources, in particular natural gas. In order to reach these goals, Europe should offer environmental and energy *know-how* and develop synergies with international financing institutions for achieving these purposes.

³³ The others were human resources development, administrative and social reforms, business and industrial cooperation, rural and urban poverty alleviation.

³⁴ Communication from the European Commission, "Building a Comprehensive Partnership with China" COM(1998)181 final.







³⁵ Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee on a Europe-Asia Cooperation Strategy in the Field of Environment COM(97) 490.

³⁶ Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee on a Europe-Asia Cooperation Strategy for Energy COM(96) 308.

The communication of 1998 established the grounds of a Comprehensive Partnership with China and identified the content of the cooperation for the following stage. It clearly interlinked the environment and energy through the common aim of reducing gas emissions, which will become a central element of the EU-China relations in this area.

3.2. The emerge of climate change as a central issue

When the Kyoto Protocol was signed in 1997, China was included among the developing nations that did not have any numerical limitation, because they were not main contributors to the greenhouse gas emissions in the pre-treaty industrialization period. However, since that time, China has become the largest greenhouse gas emitter:

	Country	Annual CO ₂ emissions (in thousands of metric tons)	Percentage of global total	Per Capita (metric ton)
-	World	28,431,741	100.0 %	4.4
1	 China	6,103,493	21.5 %	4.62
2	 United States	5,752,289	20.2 %	18.99
-	 European Union	3,914,359	13.8 %	8.07
3	 Russia	1,564,669	5.5 %	10.92
4	 India	1,510,351	5.3 %	1.31
5	 Japan	1,293,409	4.6 %	10.11

Source: United Nations Statistics Division, Millennium Development Goals indicators: [Carbon dioxide emissions \(CO₂\), thousand metric tons of CO₂](#) and [Carbon dioxide emissions \(CO₂\) per capita](#).

For this reason climate change has become a central element of the political dialogue. Even shortly after the signature of Kyoto, in the *Report from the Commission to the Council and European Parliament on the Implementation of the Communication 'Building a Comprehensive Partnership with China'*³⁷ (2000), the European Commission described the climate change dialogue as “a major feature of EU-China relations over the coming years”. During the implementation of the Comprehensive Partnership Communication of 1998, EU and Chinese experts worked together in studies such as “*Energy Policy and Structure in the People's Republic of China*”³⁸ (1998), which included priorities for energy policy that were taken into account in the 10th 5-year plan for the period 2001-2005. On the other hand, meetings of the EC-China Energy Working group explored key areas of cooperation, including cleaner coal, energy efficiency and promoting renewable sources of energy.

In this period China had become the world's second largest consumer of energy and the third largest producer. The impact of the Chinese energy sector was no longer perceived as marginal but as “a matter

³⁷ Communication from the Commission EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy, COM(2001) 265final.

³⁸ Andrews-Speed, P. et al., *Energy Policy and Structure in the People's Republic of China*, Rheinisch-Westfälisches Inst. f. Wirtschaftsforschung.

of great international importance, particularly for air pollution and climate change³⁹. Estimates of the cost of pollution on the Chinese economy could be as high as 18% of GDP⁴⁰. To prevent such harm, on the one hand, the EU offered expert assistance (firstly to control the causes of environmental degradation and secondly, in the medium to longer term, to reverse the harm and to bring about environment improvements). On the other hand, China in the 10th 5-year plan agreed to increase GDP spending on environmental protection from 0.93% to 1.2% by 2005 and 1.7% by 2010 (USD 90 billion).

The first EU *Country Strategy Paper: CHINA*⁴¹ (2002-2006) introduced a special strategy for the poorest western regions of China, where 70% of national reserves of minerals are situated and economic structures and the ecological environment are particularly fragile.

The “Great Western Development Strategy” is conceived as an answer to the imbalance in expansion and a re-adjustment of regional economic structures, especially in favour of the rural economy and its ecology.

For this period (2002-2006) EC financial aid was focused only on three objectives⁴², the most important one being the “prevention of environmental degradation; conservation of the natural environment; and the integration of environmental considerations into other policy areas...”, particularly in western areas. Concerning interactions between energy and the environment, the paper focuses on the promotion of energy efficiency, as well as on transferring energy technologies, e.g. clean coal, natural gas, nuclear fission, and alternative energy technologies, notably in the fields of new and renewable energies.

However, actions linked to the environment (Priority 2: Environment and Sustainable Development) were funded only with 45 million Euros, clearly an insufficient amount for all the goals expected.

The document of 2003, *A maturing partnership - shared interests and challenges in EU-China relations*. European Commission’s Communications on EU-China relations of 1998 and 2001⁴³ (2003) recognised, for the first time, the central role of China as a global player in environmental aspects. The EU and China have “shared responsibilities in promoting global governance”, particularly “on global environmental challenges, including enhanced cooperation on the Kyoto protocol and climate change, and on follow-up to the World Summit on Sustainable Development”. China is not just a developing country towards which the EU provides financial and technical support on environmental issues but also an equal partner that plays a leading role in the global environmental arena.

In this connection, the *Joint Declaration on Climate Change between China and the European Union*⁴⁴ (2005) fixed two cooperation goals by 2020 for climate change. The first one is the support of clean coal technologies, mainly through carbon capture and storage. The second is the promotion of energy efficiency and renewable energies. Taking into account that 70 percent of Chinese energy consumption comes from coal, it is clear that carbon capture and storage initiatives are a key element of cooperation.

³⁹ Communication from the Commission EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy, COM(2001) 265final.

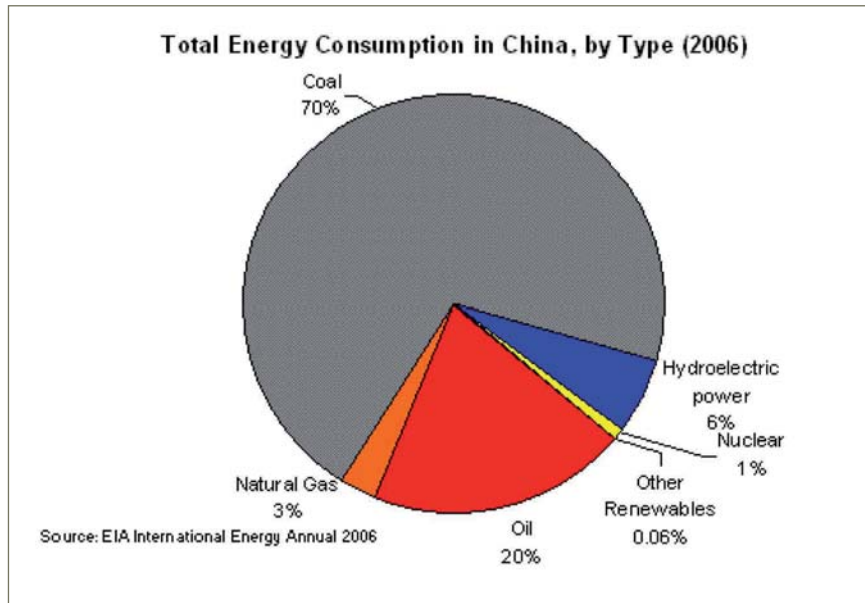
⁴⁰ Smil and Mao Yushi (coordinators) *The Economic Costs of China's Environmental Degradation* (Boston MA: American Academy of Arts and Sciences, 1998).

⁴¹ Commission Working Document Country Strategy Paper: China (2002-2006), available on http://ec.europa.eu/external_relations/china/csp/02_06_en.pdf

⁴² (1) Support for the social and economic reform process to ensure sustainable economic development and the fight against poverty, and China's integration in the world economy, with special emphasis on WTO implementation; (2) Prevention of environmental degradation; conservation of the natural environment, integration of environmental considerations into other policy areas, actions to pursue improved balance between environmental protection and social development in the context of rapid economic growth; and (3) Support for the transition to an open society based on the rule of law and respect of human rights, through the promotion of good governance and democracy and human rights-related policies.

⁴³ Commission Policy Paper 'A maturing partnership - shared interests and challenges in EU-China relations. Updating the European Commission's Communications on EU-China relations of 1998 and 2001' COM(2003) 533 final

⁴⁴ Joint Declaration on Climate Change between China and the European Union Brussels, 7 September 2005, 12009/05 (Presse 226)



The communication of 2006, *EU-China: closer partners, growing responsibilities*⁴⁵, introduced onto the agenda European concerns about the rapid growth of China's demand for energy and raw materials in international markets. It was clear that China's development could have an environmental impact not only inside its own boundaries but also in third countries, particularly exporters of raw materials in Africa and Latin America. For that reason the EU, on one hand, offered to ensure China's integration into the world energy market and, on the other hand, encouraged China to become an active and responsible energy partner. This partnership should include the improvement of security in exporting countries, including Africa⁴⁶, as well as the reinforcing of bilateral and international cooperation under the Climate Change Convention and Kyoto Protocol, particularly in the dialogues on international climate change co-operation post-2012.

In the same year, in its conclusions on the *EU-China Strategic Partnership*⁴⁷, the Council reaffirmed the strategic interest in China-Africa cooperation and the Near Zero-Emissions Coal technology. Concerning the reinforcement of international environmental governance, the council asked for Chinese support in the possible transformation of UNEP into a UN agency for environment, recognising its important role as a global player.

In the last *Country Strategy Paper 2007-13*⁴⁸, the European Commission reaffirmed all the objectives already described in previous documents, but introduced a specific goal related to the flagship Near Zero Emissions Coal Project: to develop a NZEC demonstration plant with carbon capture and storage in China by 2020.

In 2007 China established a National Leading Group on Climate Change that developed a programme centred on energy efficiency, renewable energies and reforestation⁴⁹.

⁴⁵ Communication from the Commission EU – China: Closer partners, growing responsibilities, COM(2006) 632 final.

⁴⁶ Concerning Africa, according to the document, "The EU and China should: engage in a structured dialogue on Africa's sustainable development. There should be transparency on the activity and priorities of both sides, providing a basis for full discussion; support regional efforts to improve governance in Africa; [and] explore opportunities for improving China's integration into international efforts to improve aid efficiency, co-ordination and opportunities for practical bilateral co-operation on the ground."

⁴⁷ Conclusions on the EU-China Strategic Partnership, 2771st Council Meeting General Affairs and External Relations, Brussels, 11-12 December 2006, Press Release 16291/06 (Presse 353)

⁴⁸ Commission Working Document Country Strategy Paper: China (2007-2013), available on http://ec.europa.eu/external_relations/china/csp/07_13_en.pdf

⁴⁹ House of Lords "Stars and Dragons: The EU and China" 7th Report of Session 2009-10 - European Union Committee.

In 2008 the Chinese government published a white paper on *China's policies and actions on climate change*⁵⁰. In this document China recognized that climate change has brought substantial threats to the natural ecosystems as well as the economic and social development of the country. However, as support for China's individual vision, its *National Plan for Coping with Climate Change* cites the "historical responsibilities" of industrialized countries, in conjunction with the principle of "common but differentiated responsibilities" of the UNFCCC, and its relatively low-ranking position among per capita emissions. Concerning the control of greenhouse gas emissions, this plan includes a target of reduction of energy consumption per unit GDP of 20 percent by 2010 compared to that of 2005, a rise of the proportion of renewable energy (including hydropower) by 10 percent for 2010, the freezing of the emissions of nitrous oxide from industrial production at 2005 levels, and an increase by 20 percent of forest coverage rate by 2010 from 2005 levels. These objectives were welcome but they are so ambitious and the periods of implementation so short that they would appear very difficult to achieve.

In the *Copenhagen Conference* the EU did not achieve its objectives⁵¹ which were not supported by the Chinese delegation. The final accord, drafted by the US, China, India, Brazil, and South Africa, recognizes the scientific case for keeping temperature rises below 2°C, but does not contain commitments for reduced emissions that would be necessary to achieve that aim. However in February 2010, China, confirming its voluntary commitments under the Copenhagen Accord, declared its aim to lower its carbon dioxide emissions per unit of GDP by 40–45% by 2020 compared to the 2005 level; to increase the share of non-fossil fuels in primary energy consumption to around 15% by 2020; and to increase forest coverage by 40 million hectares and forest stock volume by 1.3 billion cubic metres by 2020 from 2005 levels.⁵²

3.3. The example of Carbon Capture and Storage (CCS) projects

Carbon capture and geological storage (CCS) is a technique for trapping carbon dioxide before its release to the atmosphere, compressing it, and transporting it to suitable storage sites. Even though it is a promising technique, it is not free of risks. The first one concerns storage places for cached CO₂. Geological storage (oil and gas reservoirs, un-mineable coal seams, and deep saline reservoirs) would appear to guarantee isolation from the atmosphere. However there are doubts about the implication on health and ecosystems in the long term in the event of escapes.

Another important issue is the cost of capture. Flue gas from coal- or gas-fired power plants contains relatively low concentrations of CO₂⁵³, and the energy required to capture at such low concentrations is very high, significantly increasing the cost of the process. That is why nowadays in the few experimental plants currently existing, captures do not exceed 85% of CO₂ released, because a high threshold would be too expensive.

However the EU is supporting the initiative both by adopting a legal framework for the environmentally safe geological storage of carbon dioxide (Directive 2009/31/EC⁵⁴), and providing funds⁵⁵ for CCS demonstration plants in order to decrease costs and accelerate their commercial scale development.

⁵⁰ An official English version is available at: http://www.china.org.cn/government/news/2008-10/29/content_16681689.htm

⁵¹ These objectives addressed three key challenges: targets and actions; financing [of "low-carbon development and adaptation"]; and building an effective global carbon market. Communication from the Commission "Towards a comprehensive climate change agreement in Copenhagen" COM(2009) 39 final.

⁵² Fox J., Godement F. "A Power Audit of EU-China Relations" European Council on Foreign Relations, 2009.

⁵³ 10-12% for coal, and 3-6% for gas.

⁵⁴ Directive 2009/31/EC of the European Parliament and of the Council of 23 April 2009 on the geological storage of carbon dioxide and amending Council Directive 85/337/EEC, European Parliament and Council Directives 2000/60/EC, 2001/80/EC, 2004/35/EC, 2006/12/EC, 2008/1/EC and Regulation (EC) No 1013/2006 (Text with EEA relevance), OJ L 140, 5.6.2009, pp. 114–135.

⁵⁵ There are two EU funding mechanisms: the New Entrants Reserve under the Directive 2009/31/EC (300 million) and the European Economic Recovery Programme (1 billion).

Europe has built the world's first CCS coal plant in the industrial area of Schwarze Pumpe⁵⁶ (Spremberg-Germany) and thanks to the financial support of the EU in the following years there will be 18 CCS demonstration projects.

China is also very interested in CCS, because it would be a perfect solution to its high dependency on coal as an energy resource and its environmental commitments regarding climate change. In fact in 2009 China has launched its own CCS plant in Beijing⁵⁷.

Taking into account the experience and financial support of the EU of CCS and the strategic interest of China in the technique, CCS would seem to be a perfect area for cooperation, involving the energy and environmental aims of the political dialogue, as well as cooperation in R&D.

The EU-China Near Zero Emissions Coal (NZEC) agreement was signed at the EU-China Summit under the UK's presidency of the EU (2005) in the context of the EU-China Partnership on Climate Change. The aim is to create a NZEC technology economically viable through CCS by 2020.

Although the project has the support of the EU, it is led by British institutions, showing once again the fragmentation of the EU external policy towards China. In the first period the project aims to build capacity for CCS technology in China. In the second, European and Chinese scientists will study options for CCS and coal-fired power generation in China. Finally, in the 3rd phase, a demonstration plant will be built in China (by 2015).

The NZEC initiative is working hand in-hand with the COACH project (COoperation Action within CCS CHina-EU), an EU funded project under the 6th Framework Programme that aims to prepare the ground for implementation in China of large-scale energy facilities with options for coal-based electric power generation as well as the production of hydrogen and synthetic fuels.

These projects do not only involve governments⁵⁸ and research institutions⁵⁹, but also energy companies⁶⁰ and development companies⁶¹, making the integration of the foreign policy into business opportunities a reality.

Both NZEC and COACH are excellent examples of practical cooperation between the EU and China on questions in common. Moreover, they show that environmental and energy issues are well-integrated and could be a vehicle for increased R&D cooperation.

⁵⁶ "Germany leads 'clean coal' pilot" BBC News, Wednesday, 3 September 2008.

⁵⁷ "China Puts Fizz In Bid To Reduce Carbon Emissions", American National Public Radio, 10 April 2009.

⁵⁸ The European Union, the UK's Department of Energy and Climate Change (DECC), and the People's Republic of China Ministry of Science and Technology (MOST).

⁵⁹ Cambridge University, Herriot Watt University, Imperial College, Chinese Academy of Sciences (Institute of Geology and Geophysics), Centre for Energy and Environmental Policy (CEEP), China University of Petroleum Beijing, China University of Petroleum Huadong, Department of Environmental Sciences and Engineering at Tsinghua University (DESE TU), Department of Chemical Engineering at Tsinghua University (DCE TU), Department of Thermal Engineering at Tsinghua University (DTE TU), Energy Research Institute (ERI), Institute of Engineering Thermophysics, Chinese Academy of Sciences (IET), North China Electric Power University (NCEPU), BP Tsinghua University Clean Energy Research and Education Centre, Thermal Power Research Institute (TPRI), 3E Institute Tsinghua University (WP2 Leaders), Wuhan University (WHU), Zhejiang University (ZJU).

⁶⁰ BP, Shell, China United Coalbed Methane, GreenGen, and PetroChina.

⁶¹ Alstom, Schlumberger and Doosan Babcock.

Conclusions

Although relations between the EU and China have developed rapidly in recent years, there are several controversial areas such as human rights, the arms embargo, the trade imbalance, market economy status (MES), currency levels and intellectual property rights (IPR).

European division is translated into a lack of a clear political impulse in the EU policy toward China. Within this context, the EU has focused its diplomatic efforts on the construction of an institutionalised framework, characterised by a number of meetings, summits, dialogues, cooperation projects, etc. Many examples of very good cooperation can be found, such as on clean coal technology, the Galileo satellite project, etc.

At the same time, the EU places great significance on symbolic issues that have had a negative impact on the development of other important matters, such as access to the Chinese market, China's role in Africa's development, and climate change.

Increased contact has helped to increase the understanding between both sides but there remain considerable misperceptions between China and the EU. Despite the significant number of meetings, summits, etc., the difficulties of reaching a partnership and a cooperation agreement show the limits of this approach and the need to change it.

One fact that must be highlighted is that the EU has been playing a major role in China's economic development. The EU opened its market early to Chinese exports in manufactured goods, especially through the Generalised System of Preferences (GSP), and endorsing China's entry in the World Trade Organisation (WTO). In addition, EU firms invested heavily in China. As has been described above, the EU-China trade link has dramatically increased over the last decade. It is believed that the strong and dynamic trade and investment relationship between Europe and China is both a cause and effect of China's successful economic model.⁶²

In this context, the EU must realise that the only aspect with regard to which it has enough weight and scope is in trade and economic issues. The international community (including China) does not see the EU as a real player, except in the economy and trade. Even in climate change issues, the European Union was marginalized from the final agreement in the past Copenhagen summit in December 2009.

The problem is that commercial partnership does not automatically translate into stronger political ties. For this reason, it is fundamental for the future of the EU-China relationship that the so-called big three (Germany, France and the United Kingdom) agree to pool their efforts and strongly support the EU position towards China. Other matters, such as energy, must be reinforced and strongly developed as a new horizon for bilateral cooperation.

As is recognised by politicians and academia, there is no real European foreign policy, and obviously China is no exception to this. The constant failure of 27 partners to agree common positions is profoundly frustrating and has caused disillusionment to many Chinese officials. Expectations are high that the Lisbon Treaty and the new institutional architecture (reinforced High Representative, permanent president of the EU Council, European External Action Service, etc.) will give impetus and coherence to the EU's external actions. But it is also recognised that the Lisbon treaty is not enough to solve the problems relating to the lack of international relevance of the EU. More factors and facts must be introduced into the analysis.

⁶² Defraigne, P (2007): *The Chinese spur and the EU horse in EU and China*, Ludow, P.(2007), European Strategy Forum, pp.14.

It is very difficult to try to “predict” what kind of international arena we will have in the next few years. International experts speculate about multilateralism, (see the Telo and Lodge/Carpenter chapters, for example), and an interpolar, multipolar world. Despite these uncertainties, there are some facts that cannot be contested.

The financial and economic crisis has accelerated a series of changes in the international arena that had been brewing for some years. After two years of crisis, there are some countries that are emerging as clear winners, and others as losers, and China (along with other emerging countries like India, Brazil, Turkey, etc) is very aware that is among the winners. The United States and the European countries are in the other group, with serious financial problems, finding it difficult to retake the path of growth that they need to reduce the high levels of unemployment on both sides of the Atlantic. The crisis has only been one factor that has accelerated the loss of power of the traditional transatlantic pole, and the emergence of the East and South. Despite several facts (the consolidation of the G-20, the negotiations held in Copenhagen in December 2009 on climate change, the war of currencies around the refusal of Beijing to devalue the renminbi, etc.) that reinforced the general perception of this change, there is a lack of ability in the EU to make a critical assessment of the geopolitical context and turn them into lessons learned, and to guide a change in its attitude towards new actors such as China. This does not mean that Europe, and the EU in particular, cannot be a major player on the international scene. Furthermore, the EU has the responsibility to tackle the challenges facing Europe’s citizens.

The position of some Chinese experts is clear; the relationship with the EU has relevance to multiple issues as has been described in several chapters of this book. This situation confirms the need to strengthen political links between the EU and China. In these circumstances, the Foreign Ministers’ informal debate on Emerging Powers (prior the EU-China Summit in October 2010) can be seen as a very positive step from two perspectives; first of all, it shows that the new framework Institutional Issues in Foreign Affairs are working, and second, it is an acknowledgment that the geopolitical map of the world has changed, and that countries such as India, China, Brazil, and Russia are playing an increasing role.

Another fact that also needs to be emphasized is that the interests and actions of China are global. China is currently developing a global foreign policy, with particular emphasis on raw materials and energy security, key issues in its aim to maintain its current high level of growth. As some experts have stated, the European Union must be a major player in those regions where Chinese and European interests are present. To this end, the EU must overcome internal and institutional constraints in order to articulate a foreign policy consistent and coherent with its interests and values.⁶³ Although the Lisbon Treaty is essential in this new stage, it is not enough. Therefore, a thorough review of the interests and criteria that should guide its external action is fundamental.

It is necessary to give a complete diagnosis of current EU-China relations, the issues that may be improved in the short and medium term, and also the long term. It is also important to mention again that the European division towards China is a major weakness which not only undermines the credibility of the EU, but also harms the future perspectives of those Member States that hope to take advantage of their special and close ties with China. The constant failure of the 27 member states to come up with common positions is profoundly frustrating, and many leaders in China have considered the EU as a marginal actor. However, a number of Chinese experts constantly stress, for example in terms of trade, technology and aid, that the UE has been a real partner.⁶⁴

⁶³ See Godement, F: “A Global China Policy”, Brief Policy 22, ECFR, June 2010.

⁶⁴ Brown and Crossick: *The EU and China: time for a Change?*, ASP PP 2009/03, Chatham House, November, 2009; pp 6.

It is very important to understand the general interests of the Popular Republic of China's foreign policy and what particular benefits China hopes to obtain in its relations with the European Union. Despite the risk of simplifying the complexity of Chinese foreign policy, there are some elements that must be remarked on. On the one hand, there is an uncompromising defence of the principle of "One China" and the respect of its territorial integrity and its sovereignty, without acceptance of any kind of erosion of this principle. On the other hand, the Chinese regime needs to maintain the development process and economic growth. Economic and social development is perceived as essential to the sustainability of the Chinese political regime, structured around the Chinese Communist Party (CCP)⁶⁵. The base of the legitimacy of the Chinese leadership has little to do with communism (and the class struggle) and much to improving the living conditions of millions of Chinese citizens. Therefore, the Chinese Communist Party articulates the priorities of Chinese foreign policy to meet its national targets for economic and social development. This is, and will remain, at least in the medium term, the driving force behind China's external action, so that any European action in this area must take account of these two elements and not create high expectations about the possibility that China might accept any blurring of these red lines.

In this context, it is also important to highlight what China specifically seeks from the EU. Here we must mention two main issues highlighted by a number of European and Chinese analysts.

The first is that Europe should accord China full market economy status. This issue relates to anti-dumping cases in the context of China's WTO membership agreement, in relation to which China agreed to be considered a non-market economy until 2016, because of the difficulties out of assessing the true price of goods.⁶⁶ China's perception is that the EU has applied "double standards", Chinese officials pointing to the fact that market economy status has been granted to Russia despite its economy being less market-oriented than that of China. Currently, the MES is a political instrument used to pressure the Chinese government in other matters, such as the need to appreciate the renminbi, etc.

The second is the EU arms embargo that was imposed on China following the events in Tiananmen Square. As is recognized by a number of reports, the embargo is not a traditional one, it is not legally binding, and each country applies it in a different manner. It consists of two lines in a European Council Declaration (June 1989): "interruption by the Member states of the Community of military cooperation and embargo on trade in arms with China (...)"

The embargo is a symbolic issue for the Chinese government and also for the EU. The embargo is not the main instrument for regulating arms exports to China, because the EU has more effective legislation in its recently Common Position⁶⁷ on arms exports which replaced the 1998 EU Code of Conduct on Arms Exports, which is legally binding on all the European partners, and there is a dual-use regulation which controls the exports of sensitive technologies to third countries including China⁶⁸.

As mentioned above, the EU arms embargo is perceived by the Chinese authorities as a humiliation, because they are treated in the same way as Sudan or Zimbabwe. Likewise, on the European side, it is considered as an instrument for putting pressure on China in relation to human rights and the scope of the rule of law, and is a very sensitive issue in European relations with other partners such as United States or Japan. The last attempt to lift the embargo in 2003, backed by France and Germany, was a turning point in EU relations. It was very badly managed and communicated. The lack of consensus within the EU, and

⁶⁵ See Song, Xinning, "Domestic Politics and its impact on Chinese Foreign Policy" in *Leadership in a Changing China*, New York: Palgrave Macmillan, 2005 and also his chapter in this book.

⁶⁶ Stars and Dragons, *The EU and China*, pp 48

⁶⁷ Common Position Defining Common Rules Governing the Controls of Exports and Military Technology and Equipment, 2008.

⁶⁸ The Dual Use Regulation 428/2009

how the information was transmitted to our partners, caused a significant imbroglio. The perception of the Chinese side was that the arms embargo was not lifted because of US pressure, and without taking into consideration other factors such as the position of the EP, European public opinion on the human rights situation in China, or the position of certain Nordic EU member states. The consequence of this impasse has been an increase in the political and symbolic price for lifting the arms embargo.

The European agenda toward China can be addressed on two levels. The first could be called global, including topics such as promoting democracy, respect for human rights, China's role in the world as a "responsible stakeholder" in regions such as Central Asia, Africa, or Latin America, and also on issues such as nuclear non-proliferation, the conflict with Iran and the fight against climate change. The other level that should be taken into account is more linked to specific European interests, such as improved access to Chinese markets, diversification of Chinese investment in Europe, non-transparent and protectionist Chinese industrial policies, energy security in central Asia, and the appreciation of the renminbi. This does not mean that there are not many other important issues in the Sino-European political dialogue. But these are the most sensitive and that could produce tension and friction, and therefore to which most attention should be paid and political relevance given.

The mutual interest in the signing of an EU-China Partnership Co-operation Agreement is evident. However, disparity between the economic structures and the very significant differences in economic systems that govern both partners prevents negotiations from progressing more quickly.

The growing role of China on the international economic scene and the increased power of sales in global markets is affecting the more developed countries. The EU has very little time to grow in its trade deficit with China, while other Asian markets, seen as similar, are not opening their borders to products and investments.

Although the positions are at odds, since 2008 China has opened High Level Economic and Trade Dialogue and intensified it in areas such as trade policy, trade in textiles, competition,, industrial and regulatory policy, intellectual property rights and customs cooperation .

Agreement will not be reached unless both partners are aware of the major issues pending resolution. China must liberalize access to its market for both goods and services and direct investments. The EU must avoid the protectionist policies being implemented in recent years. The negotiations in the WTO allow conditions to be met by both homogeneous and common law.

If the trade agreement is signed at the margins of an EU-China Partnership, a Co-operation Agreement would allow progress in other subjects and spill-overs would bring benefits to the overall negotiation. Thus, cooperation in enterprise-level measures could also give impetus to the trade agreement.

The EU has successfully introduced climate change into its dialogue with China. Climate change has become an essential element in the relationship, and China has transformed its domestic policy in this area thanks to the EU initiative. Now China recognises the threat of climate change, and reducing carbon and energy intensity is an economic priority. However, China has made clear that while it sees climate change as a major problem, it will not compromise its economic growth to fight it.

The main challenge for China is how to combine the transition to low-carbon economies with the protection of its economic growth. The EU has offered investment and technologies to help China to move to a sustainable development economy, as well as funding to help those regions that will be hardest hit by climate change. On its own, China has taken important steps on energy efficiency, but issues remain such as state subsidies for electricity that create a disincentive for energy efficiency.

There have been some disappointments, particularly in the negotiations of the post-Kyoto settlement. The global economic crisis may have had some influence on the attitude of China in Copenhagen, keeping its attention on short-term economic policies that require high-carbon infrastructure and industrial protectionism. Copenhagen is a good example of the marginalisation of the EU, and Chinese leadership of the developing world. However, China's new and ambitious unilateral targets of February 2010 could mean a greening of the Joint Declaration of 2005. On the other hand, until now the EU has failed to persuade China to agree to a global stabilisation goal or economic tools such as energy pricing. Reduction in energy intensity are welcome but without targets for emission reductions it would be very difficult to achieve the Copenhagen objectives of a 2 °C limit of global average temperature increases.

Taking into account Chinese dependency on coal, the EU wants China to prioritise the development of clean coal technologies, including carbon capture and storage. Initiatives such as “low-carbon zones”⁶⁹ cannot be launched until the agreement of tariff reductions for trade of low-carbon products towards and from these zones.

To sum up, the strategic vision should be a win-win for both partners, allowing them to play their proper role in international relations in a multipolar world.

Recommendations

Finally, we propose some guidelines aimed at strengthening the Sino-European Strategic Partnership. The difficulties in institutionalizing and improving this partnership show the limits and restrictions in relation to both “partners”. Nobody doubts that EU-China dialogues are strategically important, but this has not a natural and automatic translation to a Strategic Partnership as was initially envisaged. The so-called “strategic partnership” is not strategic in the strict sense of the word. This kind of relationship should be based on a mutual perspective in basic values, interests and approaches to key issues. Regrettably, on important issues such as climate change, energy security, the role of international institutions in global governance, the rule of law or the respect of human rights, there is currently no clear consensus between China and the EU. These differences must not be underestimated.

However, there are several reasons for preserving this strategic partnership, despite its limitations. First of all, the serious and worrying economic situation in Europe in general, and the Eurozone in particular, is a fundamental reason why Sino-European strategic partnership rhetoric should be maintained and pursued. It must be taken into consideration that the EU needs global financial support, and China has played a key role in helping to solve the debt crisis of Greece, and later on Portugal. The constant declarations from the Chinese side stressing the need to maintain the Sino-EU strategic partnership are very significant. Despite the 2008 “annus horribilis”, the Chinese government persisted in reinforcing EU-China strategic ties. Recently, on the occasion of the 35th anniversary of EU-China diplomatic relations, the Chinese leader, Hu Jintao, stated that China has always regarded the EU as one of its most important partners, and is willing to further promote political dialogue at all levels with the EU, to enhance political and strategic mutual trust, broaden areas of cooperation, and elevate their cooperation to a new high.⁷⁰ In this context, the strategic partnership must be considered as an incentive for both partners, and also as a framework that must be filled in. There is no doubt that the global challenges that we are facing need strong and solid ties with China (and other international powers).

⁶⁹ Fox J., Godement F. “A Power Audit of EU-China Relations” European Council on Foreign Relations, 2009.

⁷⁰ See “China-EU leaders exchange greetings on the 35th anniversary of bilateral ties”, in Xinhuanet, May, 2010. http://news.xinhuanet.com/english2010/china/2010-05/06/c_13281041.htm

Therefore, it is necessary for the EU and its Member States to rethink their international strategy towards the emerging powers, and especially China.

- The EU must recognize that China has become a global actor with global interests that affect European interests.
- The EU must recognize that its relevance as a trading partner does not translate into political influence in China. Thus, European influence in China is very limited and narrow. This is compounded by the European divisions, and disloyalty among its members, which leads to further fragmentation of European power and loss of influence and credibility with China and other international actors.
- As a consequence, China (together with other countries) does not see the EU as real player in relevant geographical areas such as Africa or Latin America. These circumstances will not change until the EU becomes a significant international actor. Europe must strengthen ties with emerging powers, establishing coordination mechanisms that enable it to act consistently with these countries.
- The current EU-China relations with a multiplicity of instruments and dialogue in more than 30 sectoral issues should be reconsidered. The aims that are most feasible in terms of achieving specific agreements must be streamlined and strengthened.

Given the EU's experience in a variety of policy areas that are relevant to Chinese domestic development, China largely sees Europe as a useful friend and a valuable adviser, a situation that Song indicates in his chapter.

- The EU must strengthen its cooperation with the United States in terms of EU policy towards China. It is also very important to strengthen the relationships with other regional powers in issues such as nuclear non-proliferation, the disputes with Iran, the fight against climate change, etc. The bigger and stronger the consensus is around this matters, the more attractive it will be to China to be part of it, while the more expensive it will be to block the initiatives in these areas.⁷¹
- The field of human rights is a point of great controversy in Sino-European relations. From the European perspective, human rights mean civil and political rights. This represents one of the pillars of the European integration process, and is considered a central element of European external action. However, China considers the EU's position in this area as an unacceptable interference in its sovereignty and they also emphasize the importance of economic and social rights.⁷² Accordingly to some studies, the Chinese people have a very positive perception relating to their human rights. Within their priorities, political and civil rights for the Chinese have less importance than for European citizens.⁷³ Perhaps new aspects should be explored, for example the issues relating to the democratization process within political parties, the empowerment and decentralization of local governments, transparency and the fight against corruption, issues more related with the worries of Chinese citizens.
- The EU must improve its coordination in situations relating to human rights, the rule of law, and minorities (the relationship with the Dalai Lama), not only between the EU institutions but also with Member States. It should establish some kind of protocol for predictable situations. If the EU wants to remain credible in this area, situations like those experienced with the awarding of the Nobel Peace Prize to Liu Xiaobo, who is in jail for incitement to subvert state power, must be avoided.⁷⁴

⁷¹ See Godement, F: "Por una política global de la UE hacia China", in *Política Exterior*, September/October 2010.

⁷² See Freeman and Geeraerts "Europe, China and Expectations for Human Rights", *BICCS Asia Paper Vol 5* (1).

⁷³ See Freeman and Geeraerts, pp 10.

⁷⁴ Torreblanca commentary, "A reed in the wind", *ECFR*, October 2010 http://ecfr.eu/content/entry/commentary_a_reed_in_the_wind/

- The EU should strengthen its presence in China and the resources it allocates to this relationship. The roles of the High Representative and Vice-President of the Commission, and therefore the European External Action Service, are essential for improving the coordination between the EU and its Member States towards China. Coordination with the European Parliament is also very significant.

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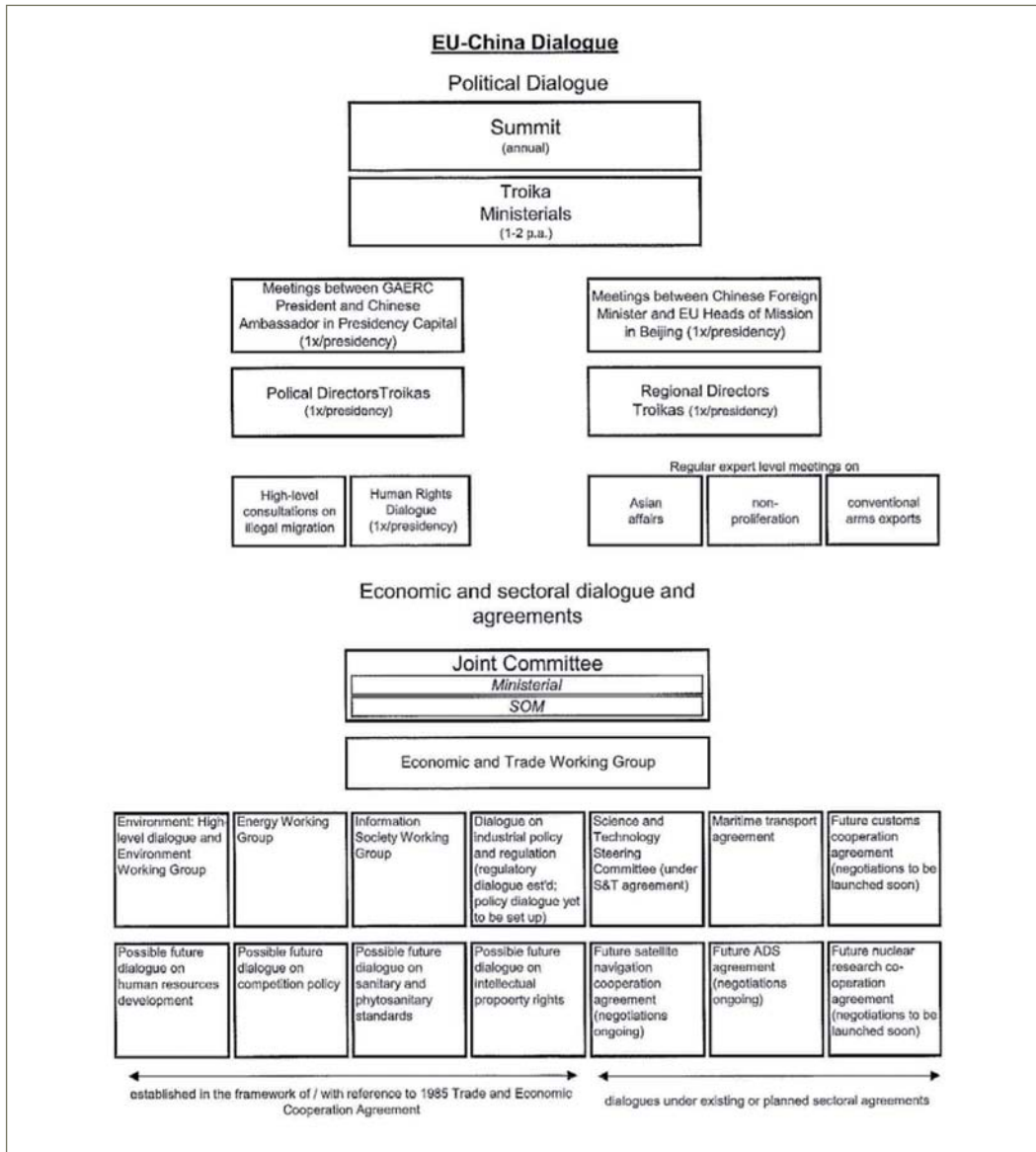
Annex 1: EU-China Relations		
1975	May	Diplomatic relations established. Christopher Soames first European Commissioner to visit China
1978	2 May	Trade agreement EEC-China signed. Inter alia, establishes Joint Committee
	18 July	(First) agreement on textile trade
1985	21-23 May	Agreement on trade and economic cooperation signed
1989	June	As a reaction to Tian An Men incidents of 4 June, EC freezes relations with China and imposes a number of sanctions, including an arms embargo
1995	15 July	European Commission publishes first Communication "A long-term policy for China-Europe relations"
1998	25 March	European Commission publishes Communication "Building a Comprehensive Partnership with China"
	2 April	1st EU-China Summit, London
	22 December	Agreement on scientific and technological cooperation signed
1999	21 December	2nd EU-China Summit, Beijing
2000	19 May	Bilateral agreement on China's WTO accession signed in Beijing
	24 October	3rd EU-China Summit, Beijing
2001	15 May	European Commission publishes Communication "EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy"
	5 September	4th EU-China Summit, Brussels
	11 December	China becomes the 143rd Member of the World Trade Organisation

	1 March	Release of China country Strategy paper 2002-2006
	24 September	5th EU-China Summit, Copenhagen
	6 December	EU-China maritime transport agreement signed
	10 September	European Commission adopts policy paper "A maturing partnership: shared interests and challenges in EU-China relations"
	13 October	EU Council of Ministers endorses Commission policy paper "A maturing partnership"
	13 October	China releases first ever policy paper on EU
	30 October	6th EU-China Summit, Beijing: Agreements signed on - cooperation in the Galileo satellite navigation program –Industrial Policy Dialogue– EU-China Dialogue on Intellectual Property
	12 February	Signing of MOU on Approved Destination Status (the "Tourism Agreement")
	8 December	7th EU-China Summit, The Hague: the EU and China signed - Joint declaration on Non-proliferations and Arms Control –EU-China Customs Cooperation Agreement– Agreement on R&D cooperation on the peaceful use of nuclear energy
	5 September	8th EU-China Summit, Beijing: the EU and China signed: –MoU on labour, employment and social affairs Joint Statement on cooperation in space exploitation, science & technology development– Joint declaration on climate change
2006	January	EU-China MoU on food safety is signed in Beijing
	20 February	Commission and Chinese Government sign a MoU on cooperation on near-zero emissions power generation technology

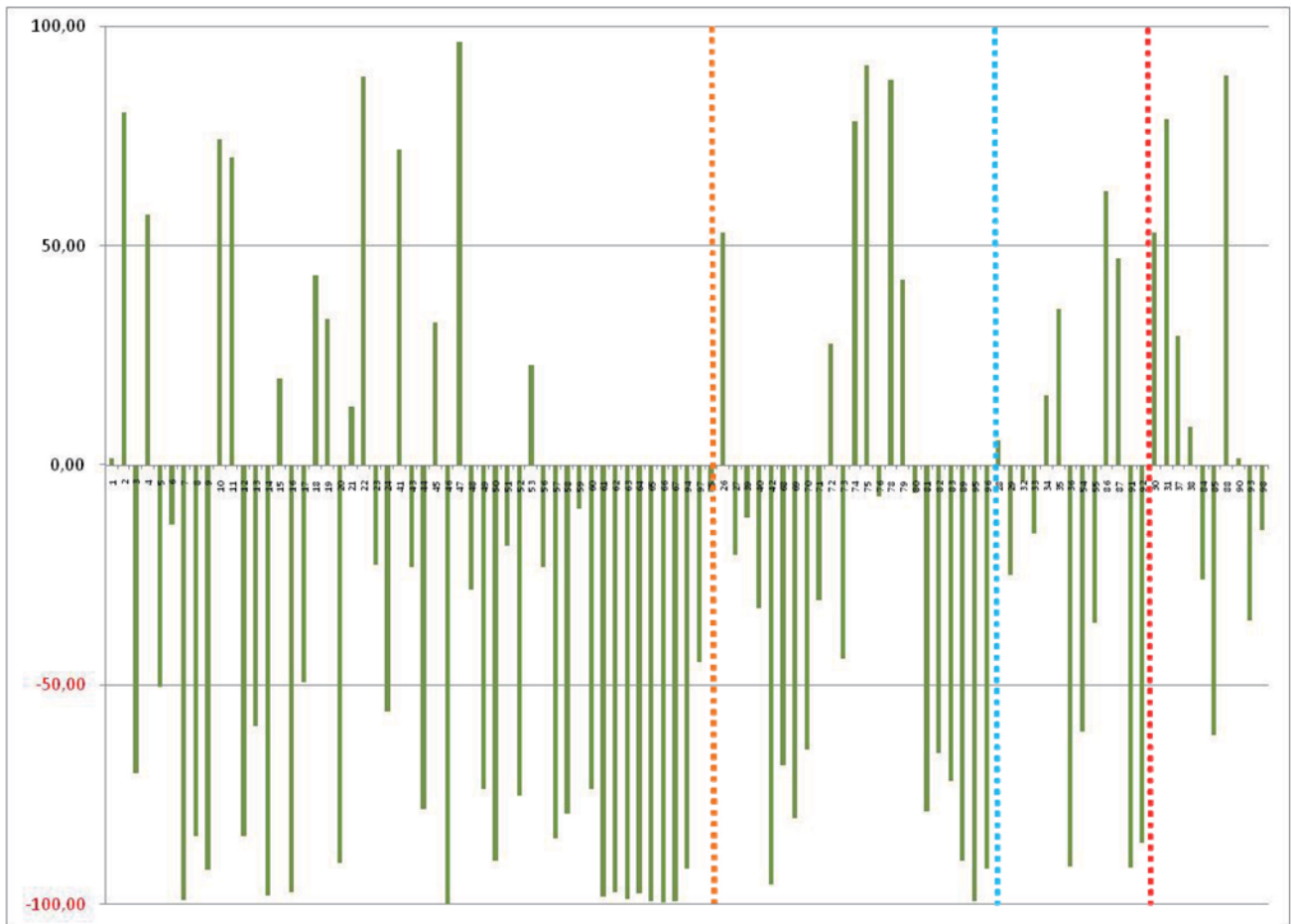
	9 September	9th EU-China Summit, Helsinki: the EU and China agree on opening negotiations for a new comprehensive framework agreement
	24 October	Commission adopts Communication “EU-China: Closer Partners, growing responsibilities” and a policy paper on trade and investment
	28 November	10th EU-China Summit, Beijing: the EU and China – established High Level Economic and Trade Dialogue– agreed to enhance cooperation on climate change
	20 May	11th EU-China Summit, Prague, Czech Republic: the EU and China addressed the issues of the financial crisis and climate change.

	30 November	12th EU-China Summit, Nanjing, China: the EU and China –agreed to speed up the negotiations on the Partnership and Cooperation Agreement– agreed to strengthen people-to-people exchanges and cultural cooperation
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Annex 2: EU-China Political Dialogue Framework



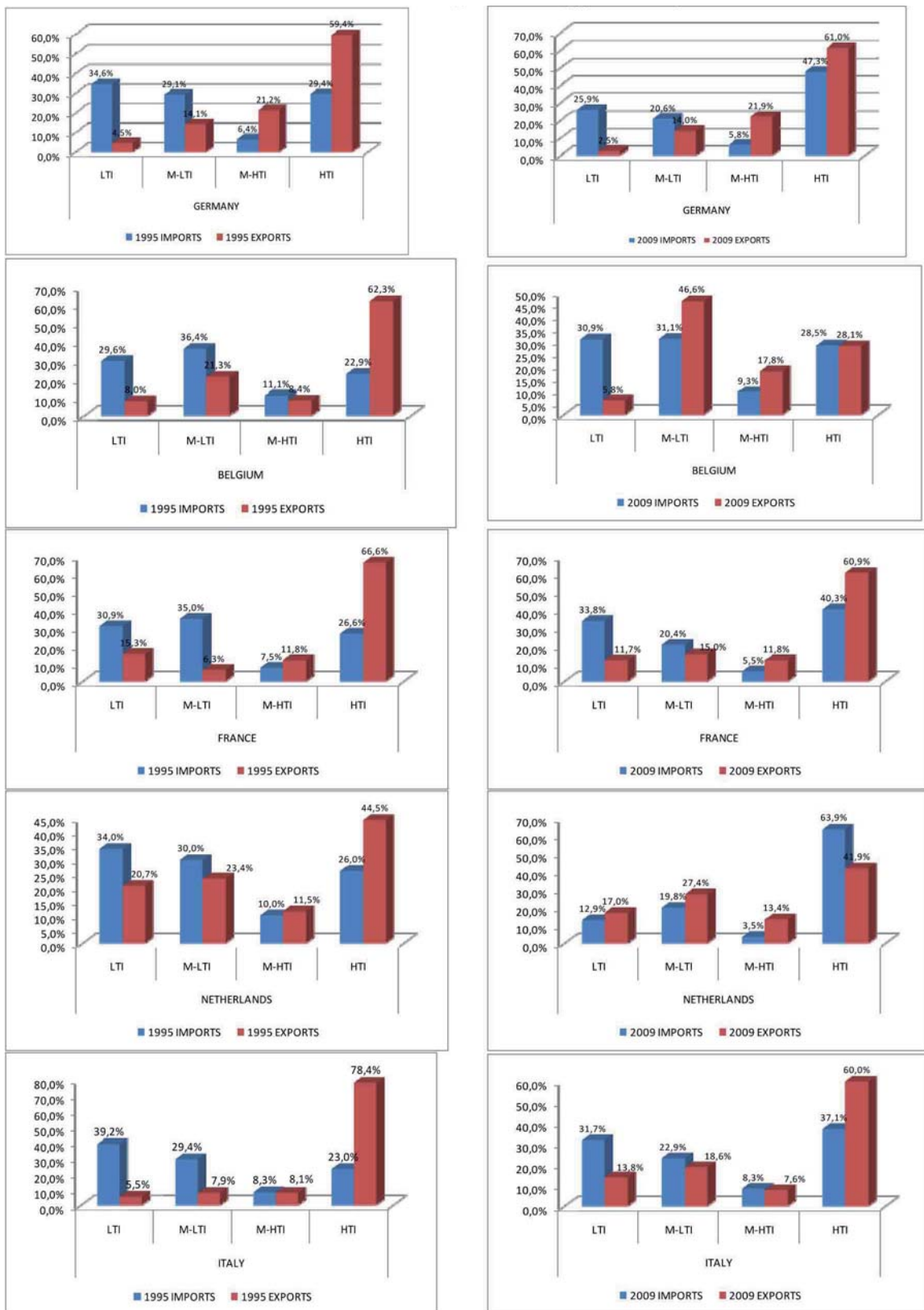
Annex 3. EU-China's Revealed Comparative Advantage Index, 2009

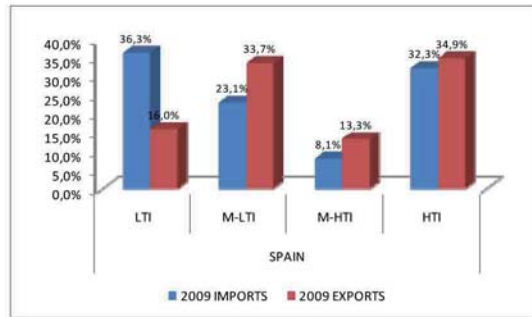
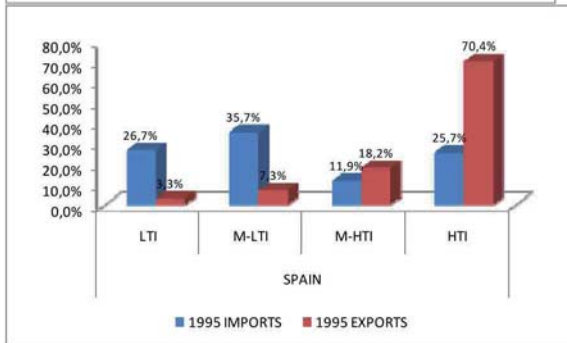
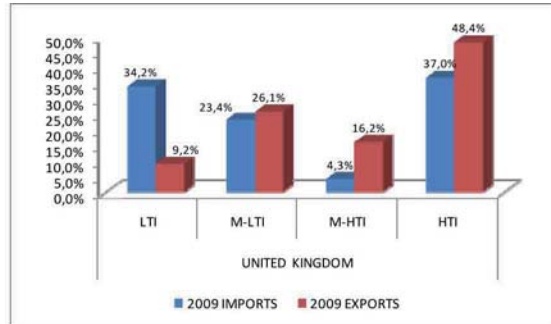
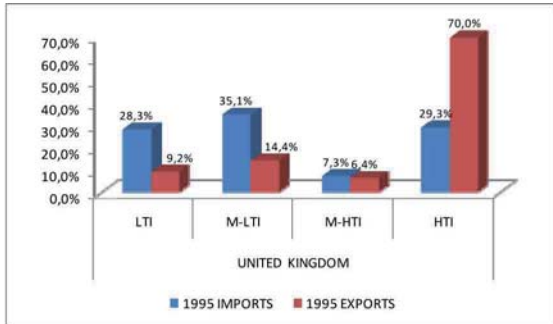


Source: Authors' own calculations from *Comext Database*, 2010.

The index ratio ranges from -1, exports from EU are 0 (comparative disadvantage), to +1, where EU's imports are 0 (comparative advantage). The first block (until orange line) shows LTI; the second block is tariff chapters with MLTI (between orange and blue line); the next block is MHTI (between blue and red line); and the last block (from the red line) represents HTI.

Annex 4. Distribution of trade with China by technology intensity and Member States





Source: Authors' own calculations from *Comext Database*, 2010.



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Resumen: Las relaciones de la UE con China se establecieron en 1975 y en la actualidad están gobernadas por el Acuerdo de Cooperación y Comercio de 1985. En los noventa, las relaciones entre la UE y China crecieron significativamente, con el establecimiento de una serie de diálogos en ámbitos de interés común. Después de varias décadas de contactos y cooperación, el lanzamiento del “Partenariado Estratégico” en 2003 significó un avance crucial de tales relaciones.

Sin embargo, la construcción de un *Partenariado* no siempre es fácil. Desde 2005 surgieron dificultades en relación con temas sensibles tales como las disputas comerciales, el embargo de armas, el creciente déficit comercial o la cuestión de los derechos humanos. En este documento se estudiará, en primer lugar, la evolución del dialogo político entre la UE y China. En segundo término, se analizará el impacto de dicho diálogo en el comercio y en los temas de medioambiente y energía. Finalmente se realizarán unas conclusiones que incluirán unas recomendaciones de los autores.

Palabras clave: Relaciones exteriores de la UE, relaciones UE-China, diálogo político, comercio UE-China, medioambiente, cambio climático, energía.

Abstract: EU relations with China were established in 1975 and are governed by the 1985 EU-China Trade and Cooperation Agreement. By the 1990s, the EU-China relationship had significantly altered and expanded with a broader set of dialogues being developed. After several decades of contact and cooperation, the establishment of a “Strategic Partnership” in 2003 was a significant upgrade in the relations.

However, building a partnership is not easy. From 2005 onwards there have been difficulties arising from sensitive issues such as trade disputes, the arms embargo, a growing trade deficit, and the human rights dossier. In this paper, firstly we will discuss the evolution of the political dialogue between the EU and China, and secondly we will analyse the impact of this dialogue on trade and environmental/energy issues. Finally we will make some concluding remarks, including policy recommendations.

Keywords: EU external relations, relations EU-China, policy dialogue, commerce EU-China, environment, climate change, energy.

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