

China EU Relations: Where to Now?

Pr Kerry Brown

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Since a period of mutual idealism in the early 2000s, the European Union (EU) and China have used their disappointments in the period over 2003 to 2016 to craft a relationship which is now much more pragmatic and structured on tangible outcomes. It is based on a clear understanding by each of the relationship's value as well as their goals. This article looks at the way the relationship has developed through a series of high level strategic documents, notably the two White Papers issued by the

Chinese State Council, and the two Communications issued by the EU Commission in 2006 and 2016. It shows the progress these documents attest to in the relationship, but also looks at the potentially highly destabilizing impact that the United Kingdom's attempts to exit the EU following the June 23rd 2016 referendum. While the foundations for EU-China relations have never been more soundly thought through and deliberated on, therefore, the future between both still looks challenging and potentially highly complex.



The statistics are very well known. The EU was China's largest trading partner in 2015, transacting 1.5 billion euros in two way trade every day. In 2014, EU exports were 170 billion euros to China, with 350 billion euros exported back. In the same year, 15 per cent of all Foreign Direct Investment (FDI) into China came from the EU, even though this only constituted 4.5 per cent of the stock of European outward investment globally. The EU was China's largest destination for outward investment in the same year, coming to 19 per cent of the total it committed (not inclusive of Hong Kong) at a value of 12.1 billion euros. These are impressive figures¹.

But the relationship between the two entities is about much more than trade and investment, however important they are. A series of documents produced by both sides over the last decade, since the announcement of the EU China Comprehensive Strategic Partnership in 2003, map out the complex and dense connections between the two. These now include two White Papers, produced by the State Council of the Chinese central government in 2003 and 2014 respectively, two Communications from the European Parliament on EU-China relations in 2006 and 2016, and one shared statement, the EU China 2020 Agenda for Co-Operation issued in 2013. Alongside these sit the communications that come out every year as a result of the High Level Dialogue between the two, and the 100 or so associated lower level dialogues. What story can one detect from a reading of these documents about where the relationship now stands, and where it is heading?



The early 2000s - the Era of Mutual Idealism

The EU and China in an early phase of their relationship had what can be typified as a highly aspirational relationship. Their trade and investment figures, innovation partnership, people to people and intellectual links through universities and think tanks prove that despite enormous differences, they have a lot of common ground and potential to work with each other. The White Paper produced by the Chinese State Council in 2003 exemplified the era of earlier optimism where the potential between the two seemed boundless. 'The European integration process is irreversible,' the 2003 Chinese paper declared, 'and the EU will play an increasingly important role in both regional and international affairs.' It went on: 'China and the EU have developed an ever closer consultation and fruitful cooperation in the political, economic, trade, scientific, cultural and educational fields. China-EU relations now are better than any time in history.'²

1- All figures from 'EU China Factsheet', issued by the European Union External Action Service June 2016, available at http://eeas.europa.eu/factsheets/news/eu-china_factsheet_en.htm

2- China's EU Policy', White Paper issued by the Information Office of the State Council, PRC, 2003, available at <http://www.china.org.cn/e-white/20050817/p2.htm>

The EU itself engaged in its own form of idealism towards China, issuing its main high level strategic document in 2006, a Communication from the Commission to the European Parliament, simply entitled 'Closer Partners, Growing Responsibilities.'³ The sequencing of aspirations in this paper was telling. At the head was 'supporting China's transition towards a more open and plural society.' Following this was the second objective, sustainable development. Only then came trade and economic relations, with the fourth and fifth being strengthening bilateral cooperation and enhancing international and regional affairs. Throughout the paper, there is an emphasis on the need for the EU to promote its values with the Chinese, and, through its actions, within China.

One can see the 2003 and 2006 documents as marking something approaching a high tide of idealism about how the EU might be a transformative partner for China. This percolated through to bilateral strategies, with the UK producing its own heady announcement in 2008 where it urged policy towards China to be focussed on creating and strengthening the rule of law, creating a more democratic, pluralistic society. As such, the UK was seeking opportunities to create conditions via engagement for China to adopt a more liberal democratic order, as prevailing in North America, Europe and the democratic world.

We now know that these words from both sides were a little precipitate. Even before the 2006 document had been issued, the EU had irritated China by proving unable to lift the arms embargo imposed on China following the Tiananmen Square massacre in 1989. A little later, the meetings between Angela Merkel in Germany and Nicolas Sarkozy in France with the Tibetan exiled religious leader the Dalai Lama caused the cancellation of a high level summit in 2008. The EU refused to grant China market economy status throughout this period despite persistent Chinese political and diplomatic pressure. In addition, the EU engaged in a lengthy trade and market access argument, firstly over textiles in 2005 (called the 'bra wars' in the media), and then over solar panels reportedly flooding the European market from China in 2013. All of this culminated in the impact of steel overproduction through 2015 into 2016, where China was accused in Europe (and elsewhere) of glutting the global market, pulling down prices and leading to job losses and factory closures.

That the EU and China were able in 2013 to produce a joint declaration was testament to just how much common ground they needed to find despite the arguments. The priorities for this document were grouped into four sections: Peace and security, prosperity, sustainable development, and people to people exchange. But the tangible outcomes spelled out for some of the sections were few and far between. For peace and security, the objectives were dense with language about strengthening dialogue, reinforcing co-operation, deepening exchange, with nothing specific spelt out. People to people exchange merited only one half page. For prosperity, there were evidently happier alignments of joint interest, with partnerships over food security, transport, infrastructure, industry and information technologies announced. Sustainable development

3- Available at http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130875.pdf

also took up a large space, running from science and technology partnership, energy efficiency joint projects, more cooperation on climate change, environment, oceans, water, the Copernicus remote sensor and Galileo Beidou navigation satellite. Interestingly, social progress and public policy, areas surely belonging to the realm of values and political discourse, were elided into the sustainability section, rather than, as in the EU Communication of 2006, having their own designated place⁴.



Post 2009 - The Dawn of Realism

A result of the accumulation of new experiences, along with new disappointments towards each other resulted in the issuance by the Chinese and the EU respectively in 2014 and 2016 of two new, revised high level documents. For the Chinese side, these scaled down the heady expectations of a decade before of an EU that would be a force to stand against US dominance in a multi-polar world where China would have more opportunities for a voice and be able to work in new partnerships that carved out space for itself away from the United States' constant solicitude. Instead, there was a more focussed notion of what the EU might mean to China in a world where its economic imprint was still immense, but where it had experienced new and often unexpected challenges. The background to this was the Eurozone crisis, ongoing from 2009, where the EU had seemed to struggle from one period of turmoil to another. Where once the language of the EU helping China in its challenges to create a stable, sustainable system - as it had appeared in the 2006 Communication - had at least some force, in its new situation, the EU seems more in need of help than able to give it.

Typifying this new situation, in 2009, Wen Jiabao, the then Chinese Premier, felt needed to express moral support for the EU being able to face down what appeared like a perpetual economic crisis, stating that China 'stood ready to help where necessary'. This was one reason why the 2014 Chinese White Paper, with the clunky title 'Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation' contained the line: the 'EU is facing the most serious challenge since the end of the Cold War and has to urgently address a series of deep-seated structural and systemic issues'. This followed on from an admission that 'China remains a developing country that suffers from severe lack of balance, coordination and sustainability in its development' and one therefore that was 'committed to comprehensively deepening reform'. The implication was very simple.

The EU had no reason, nor any right, to position itself comfortably as superior to China. It had endured its own huge internal problems, and therefore had to be

4- See 'EU-China 2020 Strategic Agenda for Co-operation', issued by the European External Action Service, at http://eeas.europa.eu/china/docs/eu-china_2020_strategic_agenda_en.pdf

more modest in how it envisaged and spoke to others, particularly China⁵.

This point was followed in the 2014 White Paper by a further demonstration of the new Chinese mindset towards the EU: language on investment and trade, on economic cooperation and trade, finance, urbanisation, education, sustainability, and technical cooperation were all granted discrete sessions. But before these, there was a large section on political cooperation. The stress on reciprocity was made at the start - but on China's terms, not the EU's: 'China stands ready to work with the EU to better align China's comprehensive deepening of reform with the EU's reform and readjustment, draw upon each other's reform experience, share reform dividends, jointly improve the ability of reform and governance, and actively participate in the formulation and reform of the rules of global governance.' The two were to work in this vision as equal partners, not with one being put in the position of needing to learn from the other, student to teacher style. And in the political cooperation list, the language on abiding by the One China principle over the status of Taiwan, on 'properly handling Tibet related issues' and on the need for mutual respect in discussing human rights was assertive, demanding that the EU 'view China's human rights situation in an objective and fair manner, stop using individual cases to interfere in China's judicial sovereignty and internal affairs.'

The forcefulness and prominence of the language on political and values issues were partly connected to the more powerful position China had found itself in economically and geopolitically in 2013. But it was also clearly the result of narratives supported by the elite leadership, firstly around Hu Jintao and then Xi Jinping, of US led foreign strategies of manipulating and seeking to destabilise China through support of civil society, rights lawyers, dissidents and their work in China, something the EU was regarded as complicit with. Had politicians and officials in the EU subscribed to the idea of Chinese political reform through engagement and benign interaction in the 2000s, then the Xi leadership delivered a series of curt (sometimes brutal) corrections once it became more embedded in 2013. Diktats went out to academics prohibiting them from promoting what were termed universalist (and therefore Western) values. Rights lawyers were rounded up. The tightening of the political space that had started under Hu from 2009 and the clampdown on figures around the Charter 08 demand within China for more political freedoms only intensified. China's leader's conviction about external threats only deepened as a result of the Arab Spring from 2010 onwards. With Xi Jinping, therefore, the categorical rebuttal of any attempts by partners like the EU to try to promote their political values in China through trade, technical collaboration or other means was rebuffed.

This makes the new Joint Communication to the European Parliament and Council issued by the European Commission on 22nd June 2016 entitled 'Elements for a New EU Strategy on China' all the more striking. In some ways, it is a response both to the Chinese assertive demands on the 2014 paper, but also to the urge for

5- The 'China's Policy Paper on the EU' is available on the Chinese Ministry of Foreign Affairs website, http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wjzcs/t1143406.shtml

greater reciprocity in a speech which President Xi Jinping made at the College of Europe in Bruges during the first ever visit by a Chinese Head of State to the headquarters of the EU in Brussels in March 2014. In that speech, Xi had accorded the relationship the moniker of 'civilisational partnership.' And while pleasingly flattering, this was too abstract to make much sense of from a policy point of view. The June 2016 paper therefore is the first in a decade to formally spell out where EU China relations now stand – for the EU side at least.

What is interesting about the 2016 paper is that it is much more direct, and clear sighted, about its own objectives and its need to defend its own interests, but also clearer that the previous language used in the 2006 paper about how rights and values issues, which still important, needed to be handled differently. The paper sets out very clear principles of engagement – that of reciprocity, action based on rule, and greater unity within the EU on China policy, which acknowledging China's demand for 'One China' support, but also defend the EU's support for 'democracy, rule of law, human rights and respect for the UN Charter and international law', an implicit reference to the UN Convention on the Law of the Sea (referred to elsewhere in the document). However, the focus in the more detailed part of the paper is on areas which are explicitly presented as ones where the EU can see direct benefits coming back to it from engagement with China. As the world's second largest economy, therefore, China needs to take a bigger role in supporting global public goods, and contributing to global financial and economic sustainability, largely because it is one of the main beneficiaries of the stability these provide. Behind the EU sense of needing very real returns on its relations with China is a simple economic reality: the persistently low rates of growth that the EU has seen since 2009 and the need to find some areas of the world where growth prospects are better for it to export to, and invest in. Even with its own challenges from falling growth, China still falls into this category.

The 2016 Communication sets out aspirations towards a good quality Free Trade Agreement, and the completion of a Comprehensive Agreement on Investment. While it also deploys the language of 'engaging China in its reform process' it does so more in the context where this will allow China to be a 'more balanced partner in a multipolar world', one where in the security domain at least it can support common agenda on non-proliferation, counter-terrorism, and cybercrime and espionage which clearly also deliver things for the EU. The EU, the Communication states (p. 6) 'should continue to actively support and encourage economic, environmental and social reform in China towards a more sustainable and inclusive growth model.' In this sentence, 'growth' is the key word, with the implication that China's growth is of huge importance to a challenged EU, and that this growth (that China itself also profoundly needs and wants) will best happen within a context of rule of law, regulations, integration into the global economy, and the requisite labour and social standards. The more negotiated tone of this language is a development from 2006, where the advocacy to China for its need to reform and change was presented as something intrinsically necessary and right, due to the superiority of EU values, rather than as something that had to be argued for and promoted for material benefits it might bring.

The 2016 paper concludes with a section on how the EU itself needed a more joined up approach towards China. The EU, it states, 'must therefore project a strong, clear, unified voice' because the EU now knows what it wants as well as the limits of what it can achieve in China. It also has a clearer strategic objective – something defined at the very start of the paper, where it states that it needs to 'reinforce the EU as a global actor', to 'seize new opportunities' in China, and 'to engage China in its reform process.'⁶

One of the most important elements of the 2016 Communication was a clear recognition of the power of intellectual collaboration and partnership between both entities, and the ways in which China had received so much benefit from technology and research links into Europe. The EU, if it means nothing else to Chinese, is its largest technology transfer partner. And its universities are hugely important for their research and development links for Chinese. The acknowledgement of China's desire to create a knowledge based economy and an area where it can demand reciprocity in terms of intellectual property rights protection, reform of protectionism within China, and relaxation of restrictions on research and development regulations.



June 2016 Brexit: A Shocking Blow

Part of the reason why the Communication from 2016 is a much more satisfying and compelling document is because, when its predecessor was released in 2006, there was no External Action Service, or High Representative, mandated with the responsibility to coordinate the diplomacy of the Union. That came into being with the passing of the Lisbon Treaty in 2009. This later statement therefore emanates from a transformed diplomatic actor. Even so, the residual air of aspiration, and the responsibility to continue talking of promoting EU's values, democratic and legal principles, albeit recalibrated, did make a clear appearance. The imperative to maximise EU coherency and effectiveness in dealing with China was even more striking – something which appears in the opening section of the Communication and at the end.

Frustration at the EU's lack of unity on matters around China had ran from the inability of the Union to coordinate investment attraction policies among themselves, to the clearly different attitudes between members states towards Chinese investment and potential security or commercial threats it carried, to the more contentious issues of what to do about China's actions in the South and East China Seas from 2011, where it was seen as being increasingly assertive, to its stance on Tibet, Taiwan and human rights. From the late 2000s, there had been

6- High Representative of the Union for Foreign Affairs and Security Policy, Joint Communication, available at http://eeas.europa.eu/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf

noticeable differences within the EU on these issues, ranging from actors like the Czech Republic who were regarded as being very vocal in criticising China, to Malta or Romania who were regarded as very conciliatory and soft.

The hunt for EU unity on China had proved arduous. But it is supremely ironic that only one day after the Communication was issued on 22nd June expressing and exemplifying some of this unity, the UK held its referendum on membership of the Union, with the outcome that the majority decided they wished to leave. Brexit, as it has been called, raises a host of challenges across many areas – but with the EU China relationship, they are particularly clear.

First of all, Brexit undermines the image of unity that the EU presented in its latest statements towards China. The decision by the UK to attempt to leave the Union after over four decades of membership within it will mark the first time that one of the member states has decided to go. The EU story, as the 2003 Chinese White Paper stated, was for ever greater integration, and expansion of membership. With this move, that narrative is disrupted. It also raises questions above whether other members might also seek to depart. It raises questions in the minds of Chinese (and others) about the inherent stability of the EU project.

Secondly, Brexit raises difficult questions about the EU's values; and the fractious debate in the build up to the June referendum in the UK about the Union focussed on its lack of accountability, lack of democracy, and lack of representativeness, all things that the EU states it profoundly believes in and represents when facing partners like China. Brexit therefore creates division and raises questions about the real belief in the values of the EU within the organisation itself. It shows a member wishing to leave partly because it feels that the EU's democratic values and credential are not powerful enough rather than the reverse. This makes the EU as a moral and values actor in China even more compromised and weakened.

Thirdly, the ambition of the UK once it does manage to leave the EU is to sign Free Trade Agreements (FTA) with other partners – one of the most important of which will be China. With the EU-China FTA now stuck in seemingly interminable debate and difficulty, the UK - Europe's second biggest economy after Germany - could unilaterally sign a FTA which will place it in a more competitive place than the rest of the EU. This brings about the possibility that the EU will have to compromise even more to achieve a final trade agreement.

Fourthly, in view of the stress placed on intellectual partnership and research and development collaboration in the 2016 Communication (see above), the fact that the UK is home to many of the world's top ranked universities means the withdrawal of this cohort, along with other research and commercial bodies, will threaten to weaken the intellectual and technology offer of the EU overall. It will become a slightly reduced partner in this critically important area, and its leverage through using this asset to get other benefits when dealing with China will be diluted.

Finally, Brexit creates a systematic, embedded fragmentation within Europe, meaning that there will be the EU bloc, and the UK, with China being able to diplomatically play the two off against each other when it suits it, by offering inducements, benefits and advantages to one or the other. A perfectly possible scenario would be for the UK, fresh from its so called Golden Age with China from 2014, when it already made unilateral moves to be closer to the People's Republic by largely focussing on trade and economic links at the expense of any values or rights exchange. With the realisation of Brexit, willingly or under duress, the UK will be in a position to pursue a more adventurist, unilateral approach towards China, one which aggravates, competes, and sometimes directly antagonises that of the rest of the remaining EU.

The question of just how receptive China will be to engaging with a UK outside the EU, as and if this ever happens, is hard to answer at the moment. China has some clear core interests in the UK – the role of London as a major finance centre and a hub for RMB trading; research partnership with British universities, where the majority of Chinese students coming to Europe have gone; investment opportunities into infrastructure and other sectors leveraging off the UK's greater openness towards Chinese money. For Chinese government and business, a Brexit deal which manages to preserve the stability of these interests will be one they would welcome. But they have clear views on their interests, and have been unsettled by the decision by the government of Theresa May to review the potential Chinese invested nuclear power station at Hinkley Point despite their belief this had already been approved in August 2016. Chinese officials consistently, but quietly, stated before Brexit they felt it was in China's interest for a UK within the EU because it gave greater coherency over regulations, economic engagement, and security. But they also accept it is an internal matter, and understand the anxiety by the UK about sovereignty. Despite this, they have found Brexit has supplied unwanted and unwelcome uncertainty in a part of the world they expect and seek stability from.



Conclusion

High expectations followed by low returns was always the endemic problem between the EU and China in an earlier era. But in the decade after the early 2000s which marked the high tide of the idealistic era in the relationship between the two, after a lot of argument and contention, they arrived at a more mutually pragmatic consensus. The EU's more zealous language on rights and values was calibrated. The Chinese expectations towards a Europe that might help them strategically upend a US dominated unipolar world were replaced by acceptance of a more nuanced, complicated international situation.

The Communication of 2016 from the EU to China is perhaps the most clear-sighted, detailed document on what their expectations towards each other are which has ever been produced. It is informed by the experiences (negative and positive) they have had with each other over

the previous decade, but also by a more deeply thought through philosophical framework where reciprocity is more clearly asserted, and the balance between values, political issues and economic matters more clearly stated.

It is a huge pity that this moment should arrive just as another benchmark occurs – the UK's abrupt decision to attempt to terminate their membership of the EU. This offers a whole new raft of challenges to the EU-China relationship. It might be that ironically, with the UK's place more clearly articulated, as an outsider that still, in many ways, tries to remain within the rubric of the EU, this story has a happy ending. The UK can experiment with agreements, approaches and tactics towards China that, if they work, can then be adopted with the rest of the EU. But likelihood is that the future of EU China relations will become more contested, more fragmented, and harder to encapsulate in some overarching narrative. This will be yet one more unfortunate, and wholly unavoidable, outcome of the fateful decision made by the British on June 23rd.