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## China and the European Union: future directions

José María Beneyto  
Xinning Song  
Chun Ding  
(Editors)



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### **China and the European Union: future directions**

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## Chapter 7

# EU-China political dialogue: looking for a strategic partnership

Alicia Sorroza and Justo Corti

### 1. A brief introduction to EU-China relations

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 when Christopher Soames became the first European Commissioner to visit China, and in 1978 the EEC and China signed the first trade agreement<sup>1</sup> which, at the same time established the first Joint Committee.<sup>2</sup>

Even though during the 80s China encouraged bilateral relations with the big European members (Germany, France and the UK) it was not until the middle of the decade when formal relations were established under the 1985 EC–China Trade and Economic Co–operation Agreement, which continues to be the main legal framework for EU–China relations<sup>3</sup>.

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 Tiananmen 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 its removal.

By the 1990s, the EU–China relationship had significantly altered and expanded with a broader set of dialogues being developed, including a Joint Working Group on Economic and Trade Matters (1993), regular meetings between the EU Troika<sup>4</sup> 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 and also in the global agenda. However, more than ten years later, it can be said that these expectations have not been reached yet. The EU is not a credible global actor in many areas that it is supposed to be.

In the 2000s, the EU entered in a complex and bittersweet process of institutional reform needed to tackle the many challenges that enlargement and the international context presented in that years. Without going into details, and beyond the nuances that can be done, it is to be hoped that European foreign policy could enter into a new phase, marked by the appointment of the High Representative (HR) and the creation of the European External Action Service (EEAS). However, it is still early to make an overall assessment in this regard and in particular on the EU–China relationship.

## 2. The two dimensions of Europe-China Relations

The purpose of the following lines is to analyze the two dimensions in the EU–China relationship. Therefore, we will refer to the relations between China and the EU, on the one hand and to the relations between China and EU member states, on the other hand<sup>5</sup>. Trade and economic aspects are mainly carried on by EU institutions<sup>6</sup>. As it is known, the Foreign and Security Policy remains an intergovernmental issue, consequently it is not surprising that some member states, particularly the big ones, try to carry on their own strategy towards China and, at the same time, intent to introduce their national interests in the EU policy. Moreover, inside the EU there are different priorities depending on the institution, which make the developing of a coherent common European strategy even more difficult to achieve.

In this section we will analyse different stresses of policy towards China not only inside the EU but also among the ‘Big Three’ (France, Germany and United Kingdom) and their influence in the Europe–China political dialogue.

### 2.1. European Commission policy towards China

Until the enter into force of the Lisbon treaty, the European Commission was central in the definition of the EU strategy towards China, taking into consideration that many years ago the EU–China relations were based fundamentally on trade and development issues. Now, with the ‘double hat’ of the HR under the Lisbon Treaty the European Commission has lost the vast majority of its competences on external relations. It just maintains competences on trade and development. However the political and strategic impulse of the Common Foreign and Security Policy (CFSP) is under the HR and the President of the Council, as well as the resources. This is a big difference in comparison with the Pre–Lisbon situation.

A relevant document is the 1995 Communication called ‘A Long Term Policy for China–EU Relations’<sup>7</sup>. This document described China’s progress since 1945. The Commission also emphasised the need for Europe to develop an action–oriented, not a merely declaratory policy, in order to reinforce that relationship. Although the main ideas of this 1995 Communication remained relevant, a number of significant events occurred and gave rise to a need to ‘upgrade’ the EU–China relationship. In this context is important to 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, and 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 in 1998 a second communication on China, which was entitled ‘Building a Comprehensive Partnership with China’<sup>8</sup>.

The new EU–China partnership was expected to engage China through an upgraded political dialogue; however there have been continual concerns, particularly about the respect for human rights and rule of law.

2001 was a turning point in EU–China relations, when both formally declared their intention to forge a strategic partnership. The Commission considered there was a need to deepen Sino–European relations through new communications. The first was entitled ‘EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a More Effective EU Policy’. There, the Commission suggested ‘ways of developing EU–China relations by defining concrete and practical short and medium term action points for EU policy to progress more effectively towards the long term aims defined in 1998’<sup>9</sup>.

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)’<sup>10</sup>. The Commission recommended the improvement of political dialogue by systematically addressing global and regional governance and security issues. In addition, it emphasised the importance of initiating dialogue and cooperation in the fields of intellectual property rights, sanitary standards, competition policy, industrial policy, among others, 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.

The EU had undergone a number of changes during these years with the introduction of the Euro, the 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. As several authors highlighted in relation to that key moment, a new generation of leaders led Chinese policy and politics, as was observed in the EU–China summit in October 2003<sup>11</sup>.

Since 2002, Chinese officials noted that the European integration process seemed to be consolidated. Therefore, they found it necessary to devote time and resources to understand and cultivate its relationship with Brussels. 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 and that the EU would play an increasingly important role in both regional and international affairs<sup>12</sup>. Since the first annual EU–China summit 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 and also in 2004.

Until this moment, Sino–European relations had undergone a convergence process. Some authors described this as a ‘honeymoon period’<sup>13</sup>. 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<sup>14</sup>.

In addition, 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 events happening in China, such as the Anti–Secession Act (2005) or the non–ratification of the International Covenant on Civil and Political Rights (1966); as well as the evidence that China had already become a global power, have also given impetus to an updated European approach to China.

In this context, the Commission launched the 2006 Communication EU–China ‘Closer Partners, Growing Responsibilities’ that showed a considerable change in EU attitudes towards China<sup>15</sup>. It indicated that China had become the world’s fourth largest economy and third exporter, and these facts were translated into a more active and sophisticated Chinese foreign policy. This document also assessed 7 formal Agreements, 22 sectoral dialogues, covering diverse and important issues from aviation and maritime transport to regional and macro–economic policy, describing them as successful and positive. The paper called as well for increased co–operation in science and technology, migration issues, and more effective bilateral structures.

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 was supposed that this new agreement would offer a single framework for covering the complexity of the EU–China relationship. Negotiations on a Partnership Cooperation Agreement (PCA) started in January 2007 and are still going on<sup>16</sup>.

## **2.2. European Parliament**

It can be said that the European Parliament (EP) has opted for a critical approach to China’s transition to democracy<sup>17</sup>. In contrast, the European Commission, and most of the Member States, have maintained during the last decades a more pragmatic and critical position. This different approach can be observed in the various critical Parliament resolutions regarding the record of China’s actions<sup>18</sup>.



For example, during the arms embargo affair, the Parliament adopted Resolution P5TA(2003)0599<sup>19</sup> opposing any arms sales to China until there was a significant improvement in human rights respect. 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<sup>20</sup>. 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.

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<sup>21</sup>. 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’, 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<sup>22</sup>.

### **2.3. EU Members States**

Beyond the intention of European institutions, and after the Lisbon Treaty entered into force, it seems that China would have reached the conclusion that Brussels was important for trade and investment issues, but that in foreign and security issues they must continue to talk with France, Germany and the UK<sup>23</sup>. There are some many doubts about the role that the European External Action Service will play on these issues.

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

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 do not work 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.

Several studies have pointed out that the main actors hindering the setting up of a common EU policy towards China are the United Kingdom, France and Germany. Other countries, by contrast, would not be key players in the definition of the EU policy on China<sup>24</sup>. In general, we can assert that 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 2010 –53,7 billion–<sup>25</sup> 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. Consequently 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 an important history of relations, with the considerable impact of Hong Kong as crown colony. Until 1984 –when the Sino–British Joint Declaration 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, that could be 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 European exporter of goods to China and the second in terms of imports of Chinese products. The UK is usually ready to criticize 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 this territory.

## 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 the 1990s) that produced strong confrontations with China.

Traditionally, France tends to subordinate politics to economic goals, and believes that good political relations will produce economic and commercial benefits. 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. President Nicolas Sarkozy’s first official visit to China in November 2007 was a great success, and trade agreements were signed. But since then, 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 Beijing Olympics, among others, are illustrative examples of this policy shift.

As a consequence, China cancelled the Annual EU–China summit of December 2008. According to some officials in Beijing, the decision was taken to let the EU know that there are red lines that should not be crossed and that the Tibet issue is an important one<sup>26</sup>. However, China acknowledges that France is a swing state in its relations with the EU<sup>27</sup>.

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 (France) or too protectionist (United Kingdom and in lesser extent Germany). It can be said that the result of this approach is to undermine EU policy<sup>28</sup>. The dispute between these three states was very evident regarding whether the EU should lift its arms embargo on China. In that sense, 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.

## 3. Political dialogue on environment, energy and climate change: a little success with some question marks

It is often argued that the EU has difficulties to focus its priorities in Foreign Policy, and particularly in obtaining results. However the EU has been relatively effective in the introduction of the environment’s protection and the climate change as a central issue of the EU–China political dialogue. This is a little story of success of the European diplomacy which, however, still has some question marks.

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 CO<sub>2</sub> emissions in the exporting countries, particularly in China. Consequently, global objectives of the European Union cannot be achieved without its 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*.

### 3.1. First steps

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 of 1985<sup>29</sup>. 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 1995 European Commission Communication *Long term policy for China and Europe relations* that these spheres of cooperation were developed in specific lines of actions<sup>30</sup>. The first one was the commitment of EU business and technical expertise 'in a dialogue on the environment, with a transfer of EU expertise in environmental policy-making and technology relevant to Chinese circumstances in key sectors such as energy'<sup>31</sup>. 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'<sup>32</sup>. 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 Communication<sup>33</sup>.

During the 1990s measures concerning energy and the environment were interlinked with the idea of development cooperation. 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 System 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 Tropical Timber Organization 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 1998 communication *Building a Comprehensive Partnership with China* urged an updating of the objectives of the EU-China cooperation programme in keeping with the reforms and economic growth of China<sup>34</sup>.

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* (1997), especially cooperation projects focused on clean production methods, waste minimisation, environmental standards, and training and environmental management capacities, as well as appropriate technology transfer<sup>35</sup>. 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 1998 communication also recalled another general document for Europe-Asia, the 1996 Commission's *Communication on a Europe-Asia Cooperation Strategy for Energy*<sup>36</sup>. The priorities set up in that document were the promotion of energy efficiency and the development of 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 in order to achieve these purposes.

The 1998 communication 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 has 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 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 then, China has become the largest greenhouse gas emitter<sup>37</sup>. For this reason climate change has become a central element of the political EU–China dialogue. Even shortly after signing 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'* (2000), the European Commission described the climate change dialogue as 'a major feature of EU–China relations over the coming years'<sup>38</sup>. 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*' (1998), which included priorities for energy policy that were taken into account in the 10th 5-year plan for the period 2001–2005<sup>39</sup>. 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 of great international importance, particularly for air pollution and climate change'<sup>40</sup>. Estimates of the cost of pollution on the Chinese economy could be as high as 18% of GDP<sup>41</sup>. 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, in the 10th 5-year plan, China agreed to increase spending on environmental protection from 0.93% to 1.2% by 2005 and to 1.7% by 2010 (USD 90 billion).

The first EU *Country Strategy Paper: CHINA* (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<sup>42</sup>.

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 objectives, 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<sup>43</sup>. 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.

In the 2003 document the European Commission recognised, for the first time, the central role of China as a global player in environmental aspects<sup>44</sup>. 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'<sup>45</sup>. 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* (2005) fixed two cooperation goals by 2020 for climate change<sup>46</sup>. 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.

The 2006 communication, *EU–China: closer partners, growing responsibilities*, introduced onto the agenda European concerns about the rapid growth of China's demand for energy and raw materials in international markets<sup>47</sup>. 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 African countries<sup>48</sup>, 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*, the Council reaffirmed the strategic interest in China-Africa cooperation and the Near Zero-Emissions Coal technology<sup>49</sup>. Concerning the reinforcement of international environmental governance, the council asked for Chinese support in the possible transformation of United Nations Environment Programme (UNEP) into a UN agency for environment, recognising its important role as a global player.

In the last *Country Strategy Paper 2007-13*, the European Commission confirmed all the objectives already described in previous documents, but introduced a specific goal related to the flagship Near Zero Emissions Coal Project (NZEK): to develop a NZEK demonstration plant with carbon capture and storage in China by 2020<sup>50</sup>.

In response to these initiatives, in 2007 China established a National Leading Group on Climate Change that developed a programme centred on energy efficiency, renewable energies and reforestation<sup>51</sup>. In 2008 the Chinese government published a white paper on *China's policies and actions on climate change*<sup>52</sup>. In this document China recognized that climate change has brought substantial threats to the natural ecosystems as well as to the economic and social development of the country. However, as support for China's individual vision, its 2007 *National Plan for Coping with Climate Change* cites the 'historical responsibilities' of industrialized countries, in conjunction with the principle of 'common but differentiated responsibilities'<sup>53</sup> of the UNFCCC (United Nations Framework Convention on Climate Change), and its relatively low-ranking position among countries' per capita emissions. Concerning the control of greenhouse gas emissions, this plan includes a target of about 20% reduction of energy consumption per unit GDP 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 seem very difficult to achieve.

In the *Copenhagen Conference* China did not support EU objectives<sup>54</sup>. The final agreement, drafted by the US, China, India, Brazil and South Africa, recognises 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 intention 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<sup>55</sup>. The first analysis on the *Durban Conference* insinuates that things would not be very different<sup>56</sup>.

Although the achievement of the European diplomacy in putting the environmental issue on the Chinese agenda, it seems that things are changing rapidly. The new context of the financial crisis is reducing the power of bargain of Europe and, for the first time, the question is not how to influence China but how to reduce the increasing power of China in writing European Foreign Policy.

#### **4. China's relevance in a never-ending financial crisis: a new puzzle of interest within EU**

The map of European-Sino relations described above is rapidly changing in a context of a deep and severe crisis of the EU, especially for the Eurozone.

It is well known the excellent (but also with a stormy horizon in the future) economic performance of the also called emerging (emerged could be more exact) countries or powers during this international economic crisis. In this context, we want to reinforce the idea that China will be a relevant partner for the EU, but also the opposite, the EU market for China will still be significant for the Chinese products.



As Bustelo noted, in recent years, China has been the true engine of the world economy even more than other larger economies<sup>57</sup>. China as the others emerging countries, in the current international financial crisis, has the 'cash' that the rest of the developed economies need these days. And China knows and exploits these advantages. A recent piece of analysis argues some kind of a 'scramble for Europe'. The authors stress that 'China is buying up Europe'<sup>58</sup>. Maybe this declaration is a bit exaggerated. However it is a fact that Europe needs China and welcomes its presence. On one hand, the EU needs to improve market confidence in public debt, to save companies and jobs. On the other hand, China seems willing to invest in Europe, especially in peripheral countries.

China is also purchasing public debt (or announced it) in peripherals EU member's states and it uses this readiness as a tool for public diplomacy<sup>59</sup>.

China seems to have understood that it needs closer ties and has to be more influential in Europe if it wants to improve its access to European markets through others channels<sup>60</sup>. China is taking advantage of this critical juncture and it is launching a strategy already applied in developing countries.

As it is known, during the past years China has focused on outbound investment in Asia and in other developing regions, like Africa and South America. Europe has hardly seen any activity whether in merger and acquisition (M&A), bank loans or trade & cooperation agreements. Clearly, this has changed.

According to the Grisons Peak China Outbound Investment research report, this tendency has changed during the past months. Chinese investment in Europe, and especially in Mediterranean countries, has grown significantly. In 2009 the first major trade agreement with Germany was signed, meanwhile Bank loans, with a focus on Mediterranean Europe, were granted in the second semester of that year. During 2010 there was a significant increase in merger and acquisitions and equity investment across Europe. The European Mediterranean countries were the chosen partners of numerous Trade Agreements and this tendency has continued throughout 2011. Mediterranean countries represent approximately 30% of total Chinese investments in Europe, a very important average considering the size of these economies<sup>61</sup>.

According to an recent report, Chinese companies are preparing for a wave of new investments in Europe in engineering and technology as part of an effort to find new markets and gain greater control of global supply chains<sup>62</sup>.

In accordance with the same source, Chinese investments in the last quarter of 2010 and the first quarter of 2011 reached \$64.3bn. This is more than double that the previous 11 ones. According to banking experts, many Chinese companies see European deals as a 'short cut to a customer base'. China's presence in Europe creates many problems in terms of competition, mainly because this direct investment is made by Chinese state-owned companies that may (or not) receive large subsidies<sup>63</sup>. The lack of transparency is usually the rule. It has also opened a debate in EU about the need to establish a vetting process of direct foreign investment especially in areas that are considered strategic.

As it is mention before, since the eurozone debt crisis broke out in 2010, China has been buying bond from southern member states as Greece, Portugal and Spain, and also made promises to the Irish and Hungarian government<sup>64</sup>. However, we must be cautious with this numbers, because China only publishes its total currency reserves, and not the composition by country. In addition, Europe does not publishes aggregate data on foreign purchasers of public debt of their EU member states.

This opacity and lack of transparency allow a sort of financial 'game of blind poker'<sup>65</sup>, whose main beneficiary is China, whose intentions and potential capabilities are often overestimated, and it could also produce a competition between EU member states for attracting Chinese sovereign funds, making an EU coherent policy towards China more difficult. Beyond the actual data (or lack of it) regarding the bonds, China's strategy seems to be quite clear about this. China is gaining influence in Europe to strengthen ties and has greater interest in some European countries in order to reduce its exposure to the U.S. economy. According to Chinese authorities, the counterpart that China searches, beyond the benefits of its investments, is related, on one hand, to the advantage of obtaining the status of a market economy earlier than expected and, on the other hand, to the reduction of the current pressure on the appreciation of the renminbi. Others issues as the arms embargo lift and the human rights issue are also being mentioned, but they seem to be less important. Speaking at the opening of a three-day summer session of the World Economic Forum in the Chinese port city of Dalian, the 14 September 2011, Chinese Premier Wen Jiabao said China would continue to expand its investment in Europe.

Wen said that EU and major European leaders should consider their relations with China from a strategic point of view. Despite the World Trade Organization's intent to give to China full market economy status in 2016, Wen said that European nations could demonstrate their sincerity and friendship by according China the full status several years earlier. As it is largely described in others chapters in this book, and mentioned in this document, China is constantly demanding that EU grants the full market status to Chinese economy. For the EU, and despite the economic concerns over the lack of transparency in several sectors of Chinese market, the access to the EU market is a tool for pressing Chinese authorities in order to obtain European claims regarding China's market access for European companies<sup>66</sup>.

Despite the difficulties to compare data on the real dimension of China's presence in European countries, we can see a change in the Chinese approach to the EU and particularly to some European countries, especially eastern and southern peripheral regions. These countries that until a couple of years ago did not have any relevant interests in China are following UK, Germany and France in the design of EU policy towards China.

A good number of these countries now seek to draw the attention of the Asian giant in terms of investment and the purchase of debt as a tool to overcome the crisis, without greater demands on human rights issues or in the improvement of the access to the Chinese market.

China has focused on Europe, and is using all the tools at its disposal to be not just as a mere trading partner. This new Chinese approach, essentially bilateral, but expanded to other countries beyond their traditional European partners, can positively influence the interest of European leaders of the main EU member states, to strengthen the EU dimension in their relationship with China. It is becoming clearer that without a clear policy it will be very difficult to press China to improve conditions for market access, prevent dumping, and so on.

However, in practical terms, the reality is that new interests and actors are on the negotiation table, so it will surely be more difficult to reach a European consensus (EU policy) on this matter<sup>67</sup>.

Both sides, China and Europe, pretend to maximize profits. China, of course, acts motivated by its economic and political interests. But the European members states should act differently, they should assume that they need to agree a common position to address the challenges posed by China in economic and political issues.

## 5. Conclusions

Relations between the EU and China have developed rapidly in recent years. However, there are several controversial areas such as human rights respect, the arms embargo, the trade imbalance, market economy status (MES), currency levels and intellectual property rights (IPR), where it has not been possible to achieve intra EU consensus. European division has led to 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, and so on. Increasing contact has helped to enhanced understanding, but there remain considerable misperceptions. Difficulties of reaching a partnership and a cooperation agreement show the limits of this approach and the need to change it.

It is true that many examples of very good cooperation beyond trade and investment can be found, such as on clean coal technology, or even some kind of European influence in the Chinese environmental policy, for instance on climate change. However these cases are marginal and the final results of the influence of the EU in the Chinese internal or international policy have many question marks.

Moreover, the role of the EU in the incorporation of China in the trade economy (including trade and investment flows) could not be qualified as a real policy but a consequence of China's successful economic model<sup>68</sup>.

This conclusion is really worrying, since as it was reaffirmed in several chapters of this book, the only aspect with regard to which the EU has enough weight and scope is in trade and economic issues. Even in environmental issues, the case explained in this chapter, during last years the EU has been losing leadership<sup>69</sup>.

The two main weakness of EU policy towards China are, on one hand, the lack of coordination between the EU institutions and main member states in their policies and, on the other hand, the absence of a clear EU leadership in the conformation of an European policy toward China (EU plus member states).

On the first issue, the EU has to understand 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’s position towards China.

On the second issue, the creation of the European External Service is supposed to be a promising tool for creating real EU leadership. For example, Ms Ashton, following a Van Rompuy’s initiative, declared the strategic partnerships to be one of her main priorities for 2010 and beyond. We have entered in a post–Lisbon era, may be it is still early to know whether this new attempt will give the expected results, but regrettably it seems that this initiative has lost impulse during the last months. The big question is whether the international scenario will give us the time that we need for implementing the Lisbon treaty.

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, an interpolar or a multipolar world<sup>70</sup>. 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 scenario reducing the power of the traditional transatlantic pole, and the emergence of the East and South actors. There seems to be a lack of ability in the EU to make a critical assessment of this new geopolitical context and turn it into lessons learned, in order to guide a change in its attitude towards new actors, like China.

If the EU cannot achieve a coherent policy towards China on time, maybe it will not have enough influence to carry it on.

In this sense, the EU has to realise that nowadays the EU and China compete for obtaining raw materials and markets in same regions of the world, particularly in Africa and Latin America. Consequently the EU policy towards China does not only involve the EU and China, but also third countries. With the risk of simplifying the complexity of Chinese foreign policy, there are some elements that must be remarked. On the one hand, the uncompromising defence of the principle of ‘One China’, including the full respect of its territorial integrity and sovereignty, without any exception. On the other hand, the Chinese regime needs to maintain the development process and economic growth. The economic and social development is perceived as essential to the sustainability of the Chinese political regime, structured around the Chinese Communist Party (CCP)<sup>71</sup>. The base of legitimacy of Chinese leadership has little to do with communism (and the class struggle) and much more with the improvement of the living conditions of millions of Chinese citizens. Therefore, the Chinese Communist Party articulates the priorities of Chinese foreign policy to meet their 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, therefore any European action in this area must take into account these two elements and not create high expectations about the possibility that China might accept any crossing of this red lines.

However, the EU still has important tools to bargain. In this context, it is also essential to highlight what China specifically seeks in the EU. Here we must mention two main issues highlighted by a number of European and Chinese analysts. The first is the market economy status recognition by European countries.<sup>72</sup> Currently, the MES is a political instrument used to pressure the Chinese government in other matters, such as the need to appreciate the renminbi, among others.

The second is the EU arms embargo that was imposed on China following the events in Tiananmen Square. As recognised by a number of reports, the embargo is not a conventional one, it is not legally binding, and each country applies it in a different manner. 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.

Finally, it is recognised that the EU–China dialogues are strategically important, but this does not automatically translates to Strategic Partnership as pretended. The so called ‘strategic partnership’ is not strategic in a strict sense of the word. Regrettably, despite some consensus between China and EU on several issues there are many differences that cannot be under valued. There is no doubt that the global challenges that we are facing need strong and solid ties with China (and other international powers). We believe that the EU institutions, together with the Member States cannot delay rethinking their approach and their strategy towards China.

## 6. Endnotes

- 1 See the Council Regulation (EEC) 946/78. The two main clauses of this agreement are the most-favoured-nation treatment (art. 2) and the balance in trade attainment (art.3). According to the last one, if and obvious imbalance arise, the matter must be examined within the Joint Committee so that measures can be recommended in order to improve the situation.
- 2 The Committee established by art. 9 of the agreement has competences on trade relations only, for example 'to examine means and new opportunities of developing trade between the Contracting Parties and other problems relating to their trade', particularly the correction of the imbalance in trade.
- 3 Council Regulation (EEC) 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, p.1.
- 4 In the EU context before the entry into force of the Lisbon Treaty, 'troika' refers to the trinity comprising the member state holding the Presidency of the Council, the Member State which had held the Presidency in the previous six months and the Member State which would be holding the Presidency in the next six months.
- 5 There could be a third dimension (transnational companies, NGOs, trade unions, etc.). However neither in EU documents nor China ones it is enough developed the role of these stakeholders yet. On this regards see Liu Fei 2007, p. 120.
- 6 There are exceptions, for example issues concerning foreign direct investment (FDI). On this regards, see in this book the chapter of Jeremy Clegg & Hinrich Voss.
- 7 European Commission, 1995.
- 8 European Commission, 1998.
- 9 European Commission, 2001, p.3.
- 10 European Commission, 2003.
- 11 Cameron, F., 2009, p.52; Gill B. and M. Murphy, 2008, p.4.
- 12 People's Republic of China, 2003.
- 13 Gill, B. and M. Murphy 2008, p.30.
- 14 On this regards see the chapters of Enrique Fanjul and Jerónimo Maillo.
- 15 European Commission, 2006.
- 16 Concerning the main issues of these negotiations see Zeng, L., 2009.
- 17 Cameron, F., 2009, p. 57.
- 18 In its Resolution of February 2001, 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.
- 19 EP Resolution P5\_TA (2003)0599 available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P5-TA-2003-0599&language=EN> (accessed on 5 December 2011).
- 20 EP Resolution P6\_TA(2008)0119 available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:2009:247E:0005:0007:EN:PDF> (accessed on 5 December 2011)
- 21 The press release is available at the EP web site: <http://www.europarl.europa.eu/es/pressroom/content/20101008IPR86243>, (accessed 5 December 2011).
- 22 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](http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/2010/10/20101008_speeches_2_en.htm), (accessed 5 December 2011).



- 23 House of Lords, 2010, p 20.
- 24 Rees, N. 2009, pp. 31–46.; Fox, J and F. Godement 2009.
- 25 Federal Republic of Germany, 2011, p. 2.
- 26 Brown, K. and S. Crossick 2009, p. 5.
- 27 For a broader analysis of EU–27 Member states’ attitudes towards China, consult Fox, J. and F. Godement 2009.
- 28 Brown, K. and S. Crossick 2009, p. 6. Fox, J. and F. Godement 2009, p. 24. Grant, C and K. Barysh 2008.
- 29 Agreement on Trade and Economic Cooperation between the European Economic Community and the People’s Republic of China, art. 10.
- 30 European Commission, 1995.
- 31 European Commission, 1995, p. 16.
- 32 European Commission, 1995, p. 21.
- 33 The others were human resources development, administrative and social reforms, business and industrial cooperation, rural and urban poverty alleviation.
- 34 European Commission, 1998.
- 35 European Commission, 1997.
- 36 European Commission, 1996.
- 37 With 215% of total emissions according to the UN statistics division. See United Nations ‘Millennium Development Goals Report 2011’ available at [http://www.un.org/millenniumgoals/11\\_MDG%20Report\\_EN.pdf](http://www.un.org/millenniumgoals/11_MDG%20Report_EN.pdf) (accessed on 5 December 2011)
- 38 European Commission, 2001.
- 39 Andrews–Speed, P. et al. 1999.
- 40 European Commission, 2001.
- 41 Smil V. and M. Yushi, 1998.
- 42 Commission Working Document Country Strategy Paper: China (2002–2006) available at [http://ec.europa.eu/external\\_relations/china/csp/02\\_06\\_en.pdf](http://ec.europa.eu/external_relations/china/csp/02_06_en.pdf) (accessed on 5 December 2011)
- 43 These objectives are (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.
- 44 European Commission, 2003.
- 45 European Commission, 2003, p. 12.
- 46 Joint Declaration on Climate Change between China and the European Union Brussels, 7 September 2005, 12009/05 (Presse 226).
- 47 European Commission, 2006.



- 48 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.' European Commission, 2006, p. 6.
- 49 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).
- 50 Commission Working Document Country Strategy Paper: China (2007–2013), available on [http://ec.europa.eu/external\\_relations/china/csp/07\\_13\\_en.pdf](http://ec.europa.eu/external_relations/china/csp/07_13_en.pdf) (accessed on 5 December 2011). 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 (CO2 Capture and Storage) by 2020. 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.
- 51 Chinese Government, 2007.
- 52 An official English version is available at: [http://www.china.org.cn/government/news/2008-10/29/content\\_16681689.htm](http://www.china.org.cn/government/news/2008-10/29/content_16681689.htm) (accessed 5 December 2011).
- 53 Chinese Government, 2007, p. 2
- 54 These objectives addressed three key challenges: targets and actions; financing [of low-carbon development and adaptation]; and building an effective global carbon market. See European Commission 2009.
- 55 Fox, J. and F. Godement, 2009.
- 56 Fuentes–Bracamontes, R., 2011.
- 57 Bustelo, P. 2011.
- 58 Godement F, and J. Parello–Plesner, 2011, p. 1.
- 59 Foreign Policy Association, 2011.
- 60 Concerning the access of China to European markets as Foreign Direct investor see in this book the chapter of Jeremy Clegg and Hinrich Voss.
- 61 Grisons Peak Merchant Bank, 2011.
- 62 FinancialTimes, 2011. Available at <http://cachef.ft.com/cms/s/0/a9662ca0-6f59-11e0-952c-00144feabdc0.html#axzz1bt1f6l4s> (accessed 28 November 2011)
- 63 Regarding the treatment that European companies are receiving in China see the chapter of Jerónimo Maillo.
- 64 The Economist, 2011, available at <http://www.economist.com/node/18895430> (accessed. 28 November 2011).
- 65 Godement F, and J. Parello–Plesner, 2011, p 4.
- 66 See for example, Orlik, T., 2011.
- 67 For some academics, (see, for example chapter 5 written by Zhimin Chen this is an opportunity to reinforce the EU–China relations, based on strong bilateral relations.
- 68 Ludow, P. 2007, pp.14.

- 69 European Union was marginalized from the final agreement in the past Copenhagen summit in December 2009.
- 70 On this regards see chapter 1, written by Mario Telò and chapter 2, written by Juliet Lodge and Angela Carpenter.
- 71 See Xinning Song chapter on this book.
- 72 House of Lords, 2010, p 48.

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