

THE EU-CHINA STRATEGIC PARTNERSHIP

*Dissertation submitted to Jawaharlal Nehru University in
partial fulfillment of the requirements
for the award of the degree of*

MASTER OF PHILOSOPHY

MAHESH KUMAR



**CENTRE FOR EUROPEAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES
JAWAHARLAL NEHRU UNIVERSITY
NEW DELHI-110067
INDIA
2006**



Date: 26.7.2006

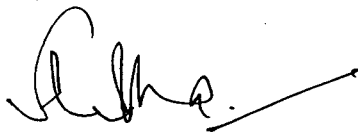
DECLARATION

I declare that the dissertation entitled “**THE EU-CHINA STRATEGIC PARTNERSHIP**” submitted by me for the award of the degree of **MASTER OF PHILOSOPHY** of Jawaharlal Nehru University is my own work. The dissertation has not been previously submitted for any other degree of this University or any other university


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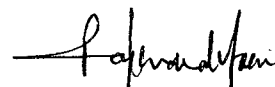
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Prof. S.K. Jha
(Chairperson)



CHAIRPERSON
Centre for European Studies
School of International Studies
Jawaharlal Nehru University
New Delhi - 110067



Prof. R.K. Jain
(Supervisor)



Centre for European Studies
School of International Studies
Jawaharlal Nehru University
New Delhi - 110067

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Acknowledgement

At this hour of my happiness, I take the opportunity to thank all those who have helped me in whatever ways they could in my research work. First of all, I am extremely thankful to my supervisor Prof. R.K. Jain, who has always been a tremendous source of inspiration to me during the course of my research work. His valuable suggestions and criticisms guided me to complete my work on time. I gained a lot from his philosophy of 'work out details' and 'take things under your control'. I would also like to thank the faculty at the Centre for European Studies for their consistent guidance throughout.

I wish to express my gratitude to the staff of the JNU library, Institute of Defence Studies Analysis Library, Teenmurti Library, Library of the European Commission delegation, British Council Library, and American Centre Library, all in New Delhi, for having helped me collect the material required to complete the work.

I am thankful to my friends, Aditya, Ramvir, Sourabh, Sultan, Neetu, Mahesh and Ramakant for providing me necessary help in terms of matter and ideas. I am indebted to Navlendra sir for the kind help and motivation he has provided during my research work. I express my indebtedness to my family without whose support and motivation this stage of academic distinction could not be achieved.

Finally, I thank God for giving me the strength to work on my dissertation.

New Delhi



Mahesh Kumar

PREFACE

In the post-Cold War era, scholars began to speak about a triangle of influence in international politics: the United States, the European Union and Asia. Whereas significant attention has been paid both to US-EU relations as well as to the American relations with Asia, but most of the research that has been done on EU-Asia relations has either focused on comparison with the EU's multilateral counterpart, viz., the Association of South East Asian Nations (ASEAN), or relations with Japan. It is only recently that an increasing degree of attention is being given to EU's relations with China. However, as both the EU and China have recognised each other's importance in the creation of a multipolar world, this recognition has led to the development of a 'strategic partnership', which not only involves engagement primarily in the area of trade and commerce, but also encompasses political and security issues. The economic dimensions of the EU-China relationship have been studied at great length. In terms of political relations, dialogue until very recently, remained focused on the EU's normative agenda of law and civil rights. In the broader political and security relations, there was a noted absence of engagement. After many years of ambiguity however, China and the EU finally declared themselves as strategic partners in 2003. The EU's policy paper of September 2003 urged that the two sides should "work as strategic partners on the international scene" and noted that EU and Chinese interests converge on many issues of global governance, in particular as regards the key role of multilateral organisations and systems. China in its first ever EU policy paper of October 2003 called for political cooperation to strengthen coordination and consultation on major international problems and regional trouble spots.

In the contemporary era, therefore, it seems that the relationship between Europe and China will take on many dimensions but the emerging 'strategic' debate is crucial not only for relations between the two regions but for the future global order. We need to address questions such as: What do the two sides understand by the term 'strategic' partnership? What are the bases and limits of this relationship? Is Europe comfortable with China's emergence as a great power and has it judged correctly that it has the means to shape this? What does Europe think of China's concept of multipolarity? How does China interpret Europe's strategic emergence?

It is important because the contemporary world order posits the European

Union (EU) and China as key actors. To realize its world-view of a multipolar world, the EU has rigorously pursued a policy of 'constructive engagement' with China. The People's Republic of China (PRC) on its part has successfully reciprocated through deepened political dialogue and intensified cooperation. Though, the EU and China have been divergent in their respective international outlook, yet things seem to be in for a change. On the one hand, China is undergoing internal transformation with uncertain results. On the other hand, the EU is grappling with the dual problems of deepening integration through internal reforms and of widening integration by integrating the new market economies in Central and Eastern Europe. Hence, the case for an impending symbiosis gains considerable currency.

The EU has therefore, clearly spelt out these economic imperatives in its Policy Paper of September 2003 on China, as follows "to encourage the integration of China in the world economy through bringing it fully into the world trading system and supporting the process of economic and social reform that is continuing in China." EU is also having sectoral dialogue with China in more than 20 identified sectors. While implementing the internal market reform and laying the foundation for the Economic and Monetary Union, the EU was increasingly feeling the need to develop a more strategically oriented external policy. To that end, China's bid is not to be overlooked.

Of late things seem to be in for a change. In 1998, the European Commission published a Communication on "Building a Comprehensive Partnership with China" which proposed engaging China through an upgraded political dialogue; supporting its transition to an open society based upon the rule of law and respect for human rights; integrating it further into the world economy; encouraging China's interest in regional cooperation; supporting economic and social reform as well as sustainable development; and raising the EU's profile in China.

Following this Communique, the Commission published another Communication on China in 2001 entitled, "EU Strategy towards China: Implementation of the 1998 Communication and future steps for a more effective EU Policy." Two years later, this was followed by another policy paper entitled "A Maturing Partnership – Shared Interests and Challenges in EU-China Relations". The paper called for cooperation between the EU and China on global governance issues, the promotion of sustainable development, global peace and stability, and other issues of high politics. In 2003, the Chinese Ministry of Foreign Affairs responded

with a policy paper on China-EU relations. The Paper stated: “China is committed to a long-term, stable and full partnership with the EU”. Its policy objectives were to deepen China-EU cooperation in the political, economic, trade and cultural fields. The Paper did not mention possible “strategic rivalry” or “strategic competition” with the Union, but instead envisaged a strategic partnership with Brussels.

It is therefore, timely that the political and strategic side of EU’s relations with China and the definition of concrete ‘action points’ should become the core topics for an improved political dialogue. Some of these points are human rights, the issue of the nuclearisation of the Korean Peninsula, the South China Sea, the Burma issue, the question of Taiwan, illegal migration and human trafficking. While developing this relationship, the EU needs to address certain difficult political and strategic issues. They can be counted as, say the removal of the arms embargo as demanded by some member countries of the EU and US resistance therein; developing a coherent China policy by all EU institutions, differing perceptions on the Iranian nuclear issue, the on-going Textile War and subsidy related debates in the WTO, China’s participation in non-proliferation regimes etc. In conclusion then, one can say that the EU is working on a significant China policy, which is linked to the emergence of real political consciousness within the states of the EU and other European Union institutions.

The dissertation therefore will examine the EU-China relations during the Cold War and post-Cold War era with special emphasis on the institutionalization of the relations. Factors, which were responsible for the mutual recognition by both as partners will also be examined. The evolving political framework in terms of strategic partnership with all the possible dimensions will also be studied. The introductory chapter, entitled “EU-China Relations in the Cold War Era” discusses the development of EU-China relations since 1949. Factors responsible for the rapprochement between the two partners has also been examined. Special attention has been accorded to the process of institutionalisation that started from 1975. The second chapter on “ EU-China Relations in the Post-Cold War Era” goes on to outline the impact of both internal dynamics and the external environment on the Sino-European relationship in the post-Cold War era. All the issue areas and the approach of both on them have also been critically examined.

The third chapter on “EU-China Strategic Partnership”, thereupon critically examines the nature, scope, content and prospects of the emerging strategic

partnership between the EU and China. The chapter goes on to show the non-conventional nature of this partnership. The fourth chapter on “EU-China Economic Relations: Recent Trends”, discusses the trade and economic relations of the EU with China. An effort has been made to track the emerging trend in the economic relations, particularly in the context of Chinese accession to the WTO and the EU enlargement. The concluding chapter makes an overall assessment of the likely nature of this relationship and its implications at both, the global and the regional levels. The chapter highlights the fact that despite having a divergent outlook towards many issues the EU and China need to deepen the relationship.

Abbreviations

ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
CCP	Chinese Communist Party
CDP	China Democratic Party
CFSP	Common Foreign and Security Policy
ECSC	European Coal and Steel Community
EEC	European Economic Community
EMU	European Monetary Union
EP	European Parliament
EPC	European Political Cooperation
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HKSAR	Hong Kong Special Administrative Region
IPR	Intellectual Property Rights
MSAR	Macau Special Administrative Region
NATO	North Atlantic Treaty Organization
ODA	Official Development Assistance
PPP	Purchasing Power Parity
PRC	People's Republic of China
SAR	Special Administrative Regions
SCO	Shanghai Cooperation Organisation
TEC	Treaty of the European Community
TEU	Treaty on the European Union
UK	United Kingdom
UNHRC	United Nations Human Rights Commission
UNSC	United Nations Security Council
WMD	Weapons of Mass Destruction
WTO	World Trade Organisation

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CHAPTER 1

EU-CHINA RELATIONS IN THE COLD WAR ERA

- **Introduction**
- **Era Of Ambivalence, 1950-70**
- **The Era of Rapprochement (Since The 1970s)**
- **Conclusion**

CHAPTER 1

EU-CHINA RELATIONS IN THE COLD WAR ERA

Europe discovered China in the 18th century, though China wanted little but Europe had numerous interests – tea, silk and porcelain,¹ to name a few. However the relationship, which was started with an unfavourable balance of trade the Opium Wars of 1839-42, the Treaty of Nan Jung (1842),² and the transfer of the Island of Hong Kong and Macao to Britain and Portugal respectively, has over a period of time, evolved as one based on mutual respect on both sides.

The People's Republic of China was established in 1949. However, despite getting recognized by many European countries as early as the 1950s,³ Europe was at the lowest rung of the Chinese diplomatic ladder.⁴ Factors which are counted for this conspicuous lack of diplomatic interest in Europe were; firstly, inability of Europe to play a meaningful role either in Asia or in the world at large. Secondly, China calculated that Europe did not pose any security challenge to her. Thirdly, Europe was being perceived as a cluster of unfriendly America-dominated capitalist countries. Lastly, for the Chinese Communist Party (CCP), Europe did not mean anything more than marginal in real foreign policy terms.⁵

The relationship therefore between Europe and China has been quite fluctuating since 1949. In fact, Sino-European relations have principally derived from their relations with the two superpowers, viz, Soviet Union and the United States of America. That is to say, relations with European states have not been viewed by China as necessarily worthy pursuits in their own right. Rather they have been considered as adjuncts to Chinese relations with the two superpowers. Whether as a function of China's post-war two camp world-view, the Sino-Soviet and Sino-

¹ See, G.F. Hudson, *Europe and China*, (London: Edward Arnold, 1961), p.9.

² Treaty of Nan Jung signed in 1842. Chinese defeat in the opium wars of 1839-42 led to the treaty. It took Hong Kong away from China. See, J.E., Lazzeerini, *The Chinese Revolution*, (London: Greenwood Press, 1999), p.83.

³ United Kingdom recognized China on January 6 1950 with Norway. Sweden and Denmark Recognised China on May 9, and May 11, 1950, respectively. Finland recognized China on October 28 1950. See, H. Kapur, *Distant Neighbors: China and Europe*. (London: Pinter Publishers, 1990)

⁴ See Mao Zedong, "On the People's Democratic Dictatorship" in his Selected Works, vol.iv, (Beijing: Foreign Language Press, 1961), p.415.

⁵ Op cit, (Kapur: 1990), p.3.

American estrangements, Mao's 'Theory of the Three Worlds',⁶ or Deng Xiaoping's 'Polycentric Diplomacy', Sino-European relations have had a mixed experience.

Consequently an analysis of Sino-European relations during the Cold War years would necessitate a cursory look at their relations in the preceding two and a half decades (1950-1975). Broadly perceived the relations between Europe and China in these years (1950-1990) have passed through two major typologies:

- (i) The era of 'ambivalence' during the 1950-75
- (ii) The era of 'rapprochement' since the 1970s till the Tiananmen Square incident.

This classification should not be seen as a watertight compartment; rather it is a functional classification. But they provide a framework of analysis.

Era of Ambivalence, 1950-70

There had been an air of antipathy in general between the Chinese Communist Party (CCP) and the European Powers. However, since the very inception of the People's Republic of China (PRC) numerous European states have recognized it. The Soviet Union led the process with Bulgaria, Romania, Poland, Hungary, Czechoslovakia and Yugoslavia following suit by October 1949. In January 1950, Norway, Denmark, Finland and Sweden recognized the PRC. The Chinese side however rejected the recognition of the United Kingdom, as the former maintained unacceptable consular relations with the nationalist government of Taiwan.⁷ But, diplomatic ties at the charge d'affaires level were permitted. The Federal Republic of Germany was permitted a resident mission in 1955, but Konard Adenauer and other Western leaders otherwise followed the American-led boycott of the PRC until 1972.⁸

During the 1950s China also entered into extensive barter trade relationships with the East European members of the Soviet dominated Council of Mutual

⁶ In February 1974, Chairman Mao Zedong set forth his strategic thinking of the division of the three worlds. He observed, "That in my view, the United States of America and the Soviet Union belongs to the first world. The in between Japan, Europe and Canada belongs to second world. The third world is very populous. Except Japan Asia belong to the third world, so does the Africa and Latin America". see <http://www.gov.CN/Eng/Ziliao/3602/t18008.html>.

⁷ Bressi Giovamni, "China and Western Europe", *Asian Survey*, vol.12, no.10, October 1972, pp.823.

⁸ David Shambaugh, "China and Europe", *Annals of American Academy of Political and Social Sciences*, vol.519, January 1992, p. 106.

Economic Assistance, in which China was granted observer status.⁹ But much of Sino-East European relations during this decade were less positive for Sino-Soviet relations and Mao's problems with Khrushchev vastly influenced them in particular. Beginning with Mao's denunciation of 'Yugoslav revisionism' in 1954, changes in Eastern Europe became central issues on the Sino-Soviet agenda. The Chinese also denounced Marshall Tito for pursuing ideologically heretical policies.

The year 1956 was a watershed in this ambivalent relationship. The Polish and Hungarian uprising brought contradictory responses from Beijing. In the midst of the brief period of liberalization during the "Hundred Flowers" campaign, the Chinese openly supported Gomulka and his experiments in socialism. The Soviet Union read this as a challenge to their sphere of influence as Mao was beginning to assert his independence from Moscow. But confusion also emanated from the Chinese side. The Sino-Soviet split vastly influenced Chinese relations with Western Europe during the 1960s.

Following Beijing's break-up with Moscow, West European communist parties became a conundrum for the Chinese. Firstly, China continued with sharp attacks on west European communists – particularly the Italian Communist Party because of their continued allegiance to Moscow and Khrushchev's revisionism. The Chinese even attempted to set up an alternative Communist International, but only among European parties and Albania. The French, Italian and Spanish communist parties continued to pursue their strategy of gaining power through elections. Such a tactic was however deemed anathema to the increasingly militant Maoist leadership. Moreover, even the west European communist parties, showed much enthusiasm for Mao's Cultural Revolution. Towards the end of the decade, Chinese leaders began to find some common ground when they mutually condemned the Soviet Union's invasion of Czechoslovakia (1968), and the proclamation of the Brezhnev doctrine.

On the state-to-state level, Charles de Gaulle's diplomatic recognition of China in 1964 was a significant symbolic breakthrough for Beijing, but not much of it came substantively. It did facilitate a modest increase in bilateral trade. But a combination of China's internal convulsions and American pressure blocked any significant expansion of commercial and diplomatic ties through the rest of the decade.

⁹ Harish Kapur, *The Awakening Giant: China's Ascension in World Politics*, (Maryland: Sijthoff & Noordhaoff, 1981), pp.165-166.

American pressure apparently convinced the German Chancellor not to follow Charles de Gaulle and recognize Beijing at that time, a move he had contemplated in 1964.¹⁰

Any potential rapprochement that seemed possible during the first half of the decade quickly disappeared as China lurched leftward into the Great Proletarian Cultural Revolution. Chinese ambassadors were withdrawn from those European countries with which China had diplomatic relations, and remaining embassy staff often tried to incite local Maoists. In Beijing, rampaging Red Guards besieged the British mission. Nor were Red Guard activities in the colony of Hong Kong much appreciated by the British government.

Economic relations were also brought to a grinding halt and in foreign affairs the revolutionary rhetoric became more pronounced. The Chinese press also became highly critical of the European governments. By the end of the decade, China found itself thoroughly isolated from both – Eastern and Western Europe.

The Era of Rapprochement (Since the 1970s)

Mao's death and the arrest of the radical Gang of Four¹¹ in China marked the onset of the rapprochement process with Europe. Tito's visit and the warm welcome by Mao's anointed successor, Hua Guofeng was the perfect, if ironic, symbol to signal Beijing's new conception of a polycentric socialist Community of nations. Marshal Tito's visit in 1977 also signaled an alternation of Chinese economic development strategy. Certain events like the experimentation with worker participation in management, a limited role for the private sector and devolution of economic decision-making power to the republics in Yugoslavia – all intrigued reform minded Chinese economists to rehabilitate themselves from the 'Cultural Revolution' division.

But while China was intrigued by the economic experimentalism in Eastern Europe and encouraged political distancing from Moscow during the 1970s, Beijing found other developments more troubling. The Polish crisis, which culminated in

¹⁰ J.L., Domenach, "Sino-French Relations" in Hush Chun, (ed.), *China's Foreign Relations: New Perspectives*, (New York: Praeger, 1981), p.91.

¹¹ A Group of Communist Party Leaders in PRC, who were asserted and removed from their positions in 1976, following the death of Mao Zedong. They were blamed for the events of Cultural Revolution. The group consisted of Mao's widow Jiang Qing and three of her close associates, Zhand Chunqiao, Yaowen Yuan and Wang Hongven.

1980-81, and the rise of independent trade unions had petrified the Chinese leadership. Deng Xiaoping therefore welcomed the imposition of marital law and suppression of solidarity.¹² But at the same time China also recognized that developing ties with the Balkan could bring pressure on the Soviet Union. Romania and Yugoslavia were the principal targets of this strategy. The Chinese Balkan strategy¹³ also permitted Beijing an opening to the Italian and Spanish communist parties, as both had, by the mid, 1970s established an anti-Soviet axis. Italian communist party leader Enrico Berlinguer visited China in 1979 and his Spanish counterpart Carrillo followed suit a year later, by the establishment of party-to-party ties.

In fact, by now, China had started taking Europe more seriously than ever before on two major grounds. Firstly, the Chinese thought that such relationship might undermine the bipolar pattern of the international system and hence open possibilities for assistance in Chinese modernization. Secondly, an economically autonomous Europe, the Chinese knew would encourage many of the East European states to reorient their economic relations in directions other than Moscow, thereby, generating a certain degree of diffusiveness within the Soviet Union.¹⁴ Moreover, many of China's major areas of conflict with Western Europe were withering away by now with the completion of Asian and African decolonisation by the end of the sixties.

Thus, what is evident is that the early 1970s witnessed the blossoming of full diplomatic relations with rest of the European states. Following the American opening to China, other West European states move quickly to establish ties. Great Britain and the Federal Republic of Germany exchanged ambassadors with China in 1972. However, a major boost in Sino-European relations were seen when the European Community extended recognition to China in 1975 and it conferred preferential trade status on Beijing in 1978. This status and a series of bilateral agreements helped boost in total value of Sino-West European two-way trade to \$5.8 billion by the end of the decade.¹⁵ Accords on scientific and cultural exchange were also signed.

¹² Op. cit. (Shambaugh: 1992), p.109

¹³ D.A. Andelman, "China's Balkan Strategy", *International Security*, Winter, vol. 6, 1979-80, p.67.

¹⁴ F.W.M. Raymond, "Chinese Policy Towards Western Europe: a New Relationship in the 1980s" in the Hsuch, Chun, (ed.), *China's Foreign Relations: New Perspectives*, (New York: Praeger, 1981) .100.

¹⁵ Algeri Franco, "EU Economic Relations with China: An Institutional Perspective", *China Quarterly*, no. 169, March 2002, p. 65-67.

As the decade progressed, Western Europe was perceived in terms of national security by the PRC. It even vociferously advocated for the North Atlantic Treaty Organization (NATO) primarily to deflect Soviet pressure from the tense Sino-Soviet border. In the Chinese conceptualization, Europe belonged to the Second World and as such could be mobilized into a worldwide anti-Soviet united front. China bristled at any western moves towards détente with Moscow. The Chinese condemned Willy Brandt's Ostpolitik strategy in strategic terms. The Chinese thereafter began to cultivate the most hawkish elements in West European circles.

From 1975 to 1980, China dispatched dozens of inspection and shopping missions to NATO member states. The Chinese observed a great deal but bought relatively little. Not unexpectedly, they were primarily interested in NATO's frontier defense planning against a Soviet land invasion, especially the use of battlefield tactical nuclear weapons, and anti-tank technology. China purchased anti-air and antitank missiles from Italy and West Germany, radars from France and jet fighter technologies from Great Britain.¹⁶

Thus, whereas Western Europe was deemed an ally of China in the anti-hegemonic struggle of the late 1970s, it was increasingly viewed as a secure source of technology and capital in the 1980s. This change in perception followed China's reassessment of the global balance of forces. From China's perspective; the expanded exchanges with the Europeans were pursued increasingly in their own right rather than as an adjunct to Beijing's anti-Soviet United Front Policy. Western European states were not considered to have hegemonic views. In the case of eventual conflict, the Chinese believed in the cooperation of the Second and Third World against the First World. Beijing found a growing interest in the economic and commercial capacities of the European Community and its enlargement in 1973, to include Denmark, Ireland and the UK. Yet it was China's admission to the United Nations in 1972 that marked the beginning of improved relations between China and the European Economic Community (EEC) and its members.¹⁷

¹⁶ Op. Cit (Shambaugh: 1992), p. 113

¹⁷ Zhoo Hong, "Development and Reconciliation under Peace: An Explanation of China's Policy towards the European Union", in the Neves, M.S., and Bridge, B. (ed.), *Europe- China and the Two SARs*, (London: 2000), p.211-212.

From 1972 onwards, there was an increase in official governmental visits between the PRC and the EC member states and on 6 May 1975, China and the EEC reached agreement on the establishment of formal relations.¹⁸ By the time, China had – with the exception of Ireland – diplomatic relations with all the then nine member states of the EC. The fact that the EC did not extend the Trade Agreement with Taiwan, which had already expired in October 1973, facilitated the establishment of diplomatic relations with the PRC. The ‘One-China Policy’ would characterize from then on the official European policy.

Since 1975, China and Europe have been moving faster towards each other. In April 1978, the EC and China signed first Trade Agreement.¹⁹ By the end of the 1970s there was increasing interest on the Chinese side for European arms equipment, especially from Germany, France and the UK. Nevertheless, this interest was never translated into a form of cooperation in this field, given the European and American considerations about Soviet protests and possible polarization of the situation with Moscow.

On 1 November 1983, China and the European Coal and Steel Community and the European Energy Community established formal relations.²⁰ This marked the establishment of full diplomatic relations between China and the European Community. In 1985, a “Treaty on Trade and Economic Cooperation” was signed between China and the EC. Economic relations have developed steadily since then. This development has been achieved thanks partly to the efforts from both EC countries and China, partly to China’s newly adopted “Open-door policy” and its full-scale economic reform. China’s interest in the integration process of the West European states grew in the 1980s. In the first half of the 80s, Beijing promoted the idea of a unified and militarily strong Europe to serve as a counterweight to the Soviet Union. Consequently, the enlargement of the EC to include Spain and Portugal was observed with great interest by China.

Although the EC and the PRC established official diplomatic relations in 1975, it was not until 1988 that they made the next logical step. The EC opened its representative office in Beijing in May 1988, and China sent its ambassador to

¹⁸ Op. cit. (Harish Kapur: 1990), p.149

¹⁹ Ibid., p.150.

²⁰ Ibid., p.151.

Brussels in the same year. It is obvious that economic and business exchanges between China and the EC preceded political and diplomatic relations.

In this new multipolar world, Chinese analysts thought Europe constituted one pole. They thought that Western Europe could act as a counterweight not just against Moscow but against the United States as well.²¹ Such an analysis reflected China's desire for the extinction of bipolar international relations and the creation of a world in which regional powers such as China played defining roles.

But, in the case of West Europe, such perceptions seriously underestimated two factors. First, China overestimated the political unity of Western Europe. Organizations like the European Parliament in Brussels and the movement toward the creation of a common market in 1992, no doubt fueled such perceptions, but China's Europeanists repeatedly demonstrated a tendency to inflate the degree of political consultation and shared perspective between West European governments. Chinese analysts and leaders almost invariably spoke of Europe doing this or that, while rarely taking note of divergences between London, Paris, Bonn, Rome and other capitals.

The second misperception on China's part was the perception of West European independence from the United States within NATO. There was an underlying assumption prevalent among many of China's Europe specialists that NATO was an organization forced upon Europeans by the Americans. This misperception had policy implications as China sought to probe and cultivate anti-American sentiments on the continent perhaps to drive a wedge between Washington and its allies.²²

Whereas China sought to cultivate the anti-Soviet elements in Europe such as Franz Josef Strauss²³ during the 1970s, during the 1980s increased efforts were made to woo anti-American and antimilitarist elements. The Chinese press followed the peace movement began inviting Chinese government began inviting Green Party activists and politicians. China did not exactly re-embrace the Baader Meinhof and the Irish Republican Army groups it had supported in earlier years, but it was clear

²¹ Si Kunyang, "The Position and Role of West in Present World Politics", *Journal of Chinese People's Institute of Foreign Affairs*, no.7, July 1988, p.43

²² Op. cit (Shambaugh: 1992), p.111

²³ Generally referred as "Strongman of Europe" by European Media, Franz Joseph Stratus was a German Politician and Long term Minister President of Bavaria.

that a new strategy of cultivating the Left took place during the early 1980s. Proponents of European nationalism and antimilitarists were viewed by Beijing as natural allies in its new strategy to accelerate the world's trend toward multipolarity. Increasingly Beijing deemed any and all strains in American relations with the continent as for the better.

By mid 1980s China's approach to Western Europe had begun to shift again. China began to adopt a more conciliatory attitude toward US-European relations in general and strategic ties in particular. The catalyst was apparently the pending Intermediate Range Nuclear Forces Treaty.²⁴ Soviet SS-20 medium-range ballistic missiles threatened Chinese territory,²⁵ as much as they did to the territory of Western Europe. Consequently, China began negotiations especially with the United States, to include Soviet SS-20s based east of the Urals in any accord, apparently paid off, as these medium-range systems were included in the Intermediate-Range Nuclear Forces Treaty, signed in 1987, and the USSR agreed to dismantle 170-odd SS-20s in the Soviet Far East.

China also began paying more attention to West European businessmen during the 1980s. Perhaps in an attempt to diversify its growing dependence on Japan and North America for technology, China began to increase its trade ties with West Europeans. By 1987²⁶, two-way trade totaled \$13 billion, more than double since 1980s.

Sino-East European relations also expanded during the 1980s. Students from Czechoslovakia, Poland, Hungary, and East Germany returned to China during the 1983-84 academic year, the same year that Soviet students returned for the first time since the 1960 split. China also exchanged visits with many East European heads of state, but party-to-party ties remained frozen – except with Yugoslavia and Romania – until 1986-87.

Aside from reestablishing party ties and normalizing state relations, reforms and commerce were the principal items on the agenda of these visits. Both sides sought to learn about each other's reform policies, while the Chinese perceived

²⁴ Op. cit (Shambaugh: 1992), p.113

²⁵ Ibid., p.113.

²⁶ Op. cit (Algieri Franco: 2002), p.66

Eastern-bloc nations to be a good outlet for Chinese-produced consumer durables. East European technicians were also welcomed back to China, to refurbish plants built during the 1950s. On balance China witnessed a flowering of relations with both Eastern and Western Europe during the 1980s.

However, the violent suppression of students at the Tiananmen Square in 1989 marked a break in Sino-European relations. Sanctions against China were decided in the European summit in June 1989,²⁷ but were lifted gradually from October 1990. The Europeans were riveted by the events unfolding in Beijing and other cities across China during April and May 1989.

At the European Community's summit meeting in Madrid on June 27 1989, Community leaders discussed what steps to take against China. They agreed to impose tough economic sanctions individually and collectively via the Community, suspend all military contacts and arms sales, withhold all ministerial-level official visits to China and defer those already scheduled, freeze all government-guaranteed loans, and release a sharply worded statement condemning the Beijing bloodbath. Member governments also extended visas for 10,000-odd Chinese students who sought not to return China under current conditions.

The French government also gave sanctuary and political asylum to numerous Chinese involved in the democracy movement. The presence of these dissidents in Paris caused severe strains in Sino-French relations, particularly after the French government permitted them a place in the bicentenary parade on Bastille Day.²⁸

Tiananmen also caused particular problems for the British. With 1997 drawing ever closer, the two governments were involved in sensitive negotiations over the content of the Hong Kong Basic Law and other important details related to the handover of the colony to Chinese sovereignty. During 1990, Beijing noticeably increased its pressure on the Hong Kong government.

At issue was Britain's mandate to govern the colony prior to the handover in 1997. This includes the United Kingdom's ability, via its Hong Kong governor, to make all major financial decisions regarding the colony's future. The Hong Kong

²⁷ Kay Moeller, "Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union", *China Quarterly*, no.169, March 2002, p.17.

²⁸ Op. cit (Domenach: 1981), p.94

government's plan to build a new airport is the most illustrative case in point. The Beijing government opposed the project on the basis that it was not consulted as the plan was being drawn up and that it will bankrupt the colony and leaves nothing in its coffers when Beijing takes over. To alleviate the situations, intense negotiations took place throughout 1990 and 1991 before an eleventh-hour agreement was reached in July 1991, permitting the project to proceed while alleviating Chinese fears of depleted Hong Kong financial reserves.²⁹

Eastern Europe's reaction to the Tiananmen massacre varied. The Polish, Hungarian, and Yugoslavian governments made public statements condemning the use of force but did not impose any kind of sanctions against China. The reactionary regimes of Bulgaria, Czechoslovakia, East Germany and Romania made their approval known to the Chinese but generally stifled news of the massacres internally.³⁰ Through the fall of 1989, as East European communist regimes were coming under increasing pressure, China dispatched several officials to consult with the governments of East Germany, Bulgaria and Romania. No doubt these emissaries imparted their recent experiences and counsel to their East European comrades.

The reaction of the post-Tiananmen hard-line Chinese government to the democratic upheavals in Eastern Europe during the fall of 1989 and winter of 1990 was one of shock. As one communist regime after another was overthrown, the Chinese leadership looked on in horror. The summer of 1990 however brought a deep sigh of relief to Chinese as most of the west European sanctions on China resulting from Tiananmen were lifted. Following the G-7 Summit and US President Bush's indication that the United States would not oppose lifting sanctions by its allies, the West European governments moved to slowly reinstate ministerial contacts and government backed loans.

Conclusion

Sino-European relations in the Cold War era was both a source of emulations and stimulation to modern China's development. In a major statement given on June 5, 1984 at the Royal Institute of International Relations of Belgium, Chinese Premier Zhao Ziyang summarized the relations between the Peoples Republic

²⁹ Op. cit (Shambaugh: 1992), p. 119

³⁰ Qu, Xiao, "Hopes and Hurdles in China-EC ties", *China Daily*, (Beijing: December 24, 1990)

of China and Europe as follows: “we will not forget that during the 1950s and 1960s when China suffered difficulties caused by an outside blockage and political pressure European countries establish and maintained diplomatic relations with China and develop mutually beneficial economic relations. That was a token of their friendship towards the Chinese people and also important demonstration deciding their policies independently”.³¹

However, during the Cold War both China and Europe maintained a very ambivalent relationship. Though China could very early free herself from the Soviet influence, and from the 1970s onwards started developing independent policy postures. But Europe was still guided by USA for her stance on several issues, for instance, European countries supported Chinese accession to United Nations and a permanent seat of the United Nations Security Council, only after USA had supported it. During the Cold War years Europe was more important to China both in economic terms and for political aspirations. China was hoping to get technology and capital from Europe.

At the same time, a confident and independent European thinking meant development in the direction towards a multipolar world by China. In this phase of their relationship, both China and Europe were aware of each other’s importance. But mistrust was also there to influence their thoughts. Issues like human rights violations in China, Vietnam war, Chinese support to Khmer rough regime in Kampuchea, European countries’ de facto recognition of Taiwan, etc., hampered the smooth development in the relationship between the two both sided reacted sharply to any thing done or purported to be done by other side, which was perceived as not in the national interests by the other. To further test the strength of this relationship, the Tiananmen square incident took place in 1989 though the next year the Cold War ended and a new world order provided different sets of opportunities and options to both the European Community and china.

³¹ Shouyan, Shen, “Sino-European Relations in the Global Context: Increased Parallels in an Increasing Plural World” *Asian Survey*, vol.26, no.11, Nov.1986, p.1170

CHAPTER 2

EU-CHINA RELATIONS IN THE POST-COLD WAR ERA

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CHAPTER 2

EU-CHINA RELATIONS IN THE POST-COLD WAR ERA

The Tiananmen Square incident along with the end of Cold War period posed a very difficult phase in EU-China relations. Here both parties could show little conviction to restore things back to normalcy, as they found themselves in a difficult situation of coping with and managing the rapidly changing neighbourhood. During this period, most of the West European countries were apprehensive about their security. As large-scale upheaval in the neighbourhood could trigger the influx of political refugees and illegal immigration which can cause civil conflicts.

The Soviet Union and Eastern Europe saw communism crumbling. The Berlin Wall came down and “the third wave of democratization” reached Eastern and Central Europe.¹ The role of the North Atlantic Treaty Organisation (NATO) and American presence in Europe was being increasingly questioned. Yugoslavia witnessed a violent breakup and Europe supported US in the First Gulf War. This meant a lot for China. As during this time, China was facing the problem of high inflation², official corruption and a legitimization crisis of the old ideology. These changes made the People Republic of China more defensive and inward-looking³.

Meanwhile, the European Community (EC) took many steps towards the completion of its integrational project. It was to commensurate with the increasingly proactive role the EC had to play so as to raise its international profile in both moral and material terms. In June 1990, the negotiations were launched in Dublin on the establishment of European Monetary Union (EMU) and a Political Union. Common Foreign and Security Policy (CFSP) also featured on the agenda of the December 1991 Intergovernmental Conference on EMU and European Political Cooperation (EPC) in Rome; at the same time proposals were made for the incorporation of EPC into the EC.⁴ “However prevailing division between Atlanticists and Europeanists and

¹ According to Huntington, the “Third Wave” has started in the Iberian Peninsula as early as 1974. See, S.P. Huntington, *The Third Wave: Democratization in late 20th Century*, (London: Norman OK, 1991)

² See, K. Ishihara, “Inflation and Economic Reform in China”, *The Developmental Economist*, vol.28/2, June 1990, pp.180

³ Kay Moeller, “Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union”, *China Quarterly*, no. 169, March 2002, P.10.

⁴ *Ibid.* p.15

between intergovernmentalists and federalists as well as the pressing political problems of the day, resulted in the postponement of CFSP until the 1991 Maastricht Summit”.⁵

Importance of China for the EU

Europe could very early understand that the post-Cold War unipolarity had very little room for her to assume a greater role in international politics. Thus, while implementing the internal market reform and laying the foundation for the Economic and Monetary Union, the EU was increasingly feeling the need to develop a more strategically oriented external policy so as to discover that room. To that end, Europe viewed China along with two other Asian countries viz., Japan and India, as partners. China also grabbed the opportunity as it was having strained relations with the USA during these years. While India and Japan on their part, still rated the USA over the EU and did not hesitate developing closer ties with the USA. This was however difficult for China. Internal restructuring by China after the end of Cold War transformed its economic and strategic weight, and the EU appreciated this fact.⁶

The EU and its member states are incapable to determine the outcome of conflicts and crisis in Asia. Thus, the EU needs proactive partners like China in this region so as to have a meaningful presence. Whatever progress could be achieved on the issue of nuclearisation of the Korean Peninsula and the role-played by China therein bears testimony to this fact.⁷ China also lacks similar capacity in Europe, and concurs with the European proposition that such incapacity does not mean that they don't have any role, though they might not be having primary role.⁸ This understanding on the part of both the EU and China indicates towards the underlying security and strategic imperatives of this relationship for both parties.

Europe then, was closely observing the challenges and opportunities offered by the rise of China. A strong, stable and developed China was perceived as a likely

⁵Eliassen, Kjell, “Introduction: The New European Foreign and Security Agenda”, in Kjell A. Eliassen (ed.) *Foreign and Security Policy in the European Union* (New Delhi: Sage Publication, 1998), p.5.

⁶ Op. cit. (Moeller: 2002), p.30

⁷ Six Party Talks (EU, USA, Russia, China, South Korea and North Korea), got break through primarily due to Chinese activism on and off the stage. For details, See, Gu Guoliang, “Missile Proliferation and Missile Defense in North East Asia”, <http://www.dir.org/articles/pdf/art2276.pdf>. P.39

⁸ Op. cit. (Moeller: 2002), p.22

responsible actor by the EU, which could offer immense economic opportunities while sharing some of the responsibilities. The EU believed that the economic, social and political reforms in China would be the best guarantee for this dream to be realized. Henceforth this has been the reference point for the EU in its engagement with China.⁹ The size of China, its population, its nuclear and space capabilities, large army, permanent seat in UNSC again highlights the political importance of China in any given political framework. China's role across the whole security was deemed central for global as well as regional security.¹⁰

If a country with one-fifth of the world's total population, behaved rationally, and responsibly, it offered win-win outcomes for all concerned. Accession to and follow up of the various international treaties and other legal instruments regarding human rights, environment, outer space, non-proliferation, intellectual property rights copyrights, etc.¹¹ by a country like China would have had created a congenial atmosphere for peace and prosperity. If Chinese economy (second largest in PPP terms while eighth largest in GDP terms)¹² develops on predictable lines and gets opened up, it would bring immense opportunities not only for Europe but also for the whole world trade as the years immediately after the end of the Cold War, China was the fourth largest exporter and importer from the EU.¹³

The end of the Cold War and the phenomenal rate of growth shown by China spurred the European Community to appreciate the emergence of new opportunities. Before the Tiananmen crisis of June 1989, the European Commission prepared economic packages and initiatives so as to respond appropriately to the changes in China.¹⁴ The Europeans recognized their abiding interest in the continuing viability and growing prosperity of China. If this process comes to a halt or gets reversed, Europe will also feel tremors sooner or later. For the Europeans, the critical security question regarding the rise of China, as a power was precisely the terms on which it

⁹ 'The Union's Action on the International Scene shall be guided by the principles which have inspired its own creation, development and enlargement' – EU external engagement relies on this very principle expressed by the EU constitution.

¹⁰ L., Shaochuan, "China and the International System", *World affairs*, No.4, April 1995, p.819

¹¹ Issues regarding copyright violations and piracy are debated regularly in any EU-China or US-China business and trade dialogue.

¹² For details see, W.N., Morrison, "China's Economic Conditions" *CRS Issue*, January 2006, <http://www.fas.org/sgp/crs/row/ib98014.pdf>, p.1

¹³ Micheal, Yahuda, "Europe and China" in Maull, Hans, et. al. ed., *Europe and Asia*, (London: Routledge, 1995), P.184

¹⁴ *Ibid*, p.184

was going to engage with the international community. The Europeans believed that they could play a constructive role here and on issues like China's entry into the WTO, its embracing the norms of good governance, and its adherence to good international business practices.¹⁵

New Framework for the EU-China Relations

Political dialogue between China and the European Community started officially from 1975 onwards. A biannual dialogue between ambassadors and the country holding the presidency of EC has been taking place regularly since 1983. Meetings between the Chinese Foreign Minister and minister-level troika are also a regular phenomena since 1986.¹⁶ The Tiananmen Square incident resulted in a break in this established framework of discussion. In the following Madrid Summit of the European Community, sanctions were imposed on China. But from early 1991 onwards, sanctions were removed gradually though arms embargo is still there. As, for Europe, China was too important to ostracize on human rights grounds alone.¹⁷

Immediately after the end of the Cold War, the EU has many a time shown its willingness to accommodate the rising China. Thus the communication issued by the EC in 1998¹⁸ calls upon to upgrade the political dialogue with China. It has well-recognized China's increasing eagerness to play an important role in the world politics. This willingness has already been endorsed by the major powers – Russia and the United States.¹⁹ Pursuing these developments, an annual summit has been proposed by the EU and accepted by China. After the first summit in London in April 1998, seven other summits have taken place, last being in September 2005 in Beijing. The Ninth Summit is scheduled to be held in October 2006. These Summits between China and the EU proved to be of great use, especially on two counts. Firstly, the EU has a rotating presidency system. So apart from issues concerning EU-China relations, China could discuss issues pertaining to the country holding presidency in that year

¹⁵ Communication, *A long term Policy for China Europe Relations*, (Brussels: EC, 1995), on July 29, 1995, http://europa.eu.int/com/external_relations/China95_279en.pdf.

¹⁶ Agreement on Trade and Economic Cooperation between the EEC and the PRC- (1985), www.europa.eu.int/com/external_relations/China/Intro/1985_trade_agreement.html

¹⁷ Op. cit. (Yahuda: 1995), p.184

¹⁸ Communication, *Building a Comprehensive Partnership With China*, (Brussels: EC, 1998) on March 25, 1998, http://www.europa.eu.int/comm/external_relations/China/com_98/index.htm

¹⁹ Lixin Xiang, (2001) "An EU Common Strategy for China", *The International Spectator*, Vol.36, p.91

on the margins of these summit meetings. Secondly, summit level meetings proved useful in discussing issues like economic, political and social reforms, trade, international cooperation, human rights, environment, Weapons of Mass Destruction (WMD), non-proliferation, Taiwan by transcending the usual bureaucratic hustles.

The relationship between the EU and China today transcends the traditional bilateral framework. The Asia-Europe Meeting (ASEM) process is a good example to show how bilateral relations between the EU and China can be concluded in an inter-regional cooperation framework. The Asia-Europe summit meeting that took place in Bangkok in March 1996 was the first of its kind between the heads of state or government of the EU member states and the Commission on the one side and the ASEAN countries plus China, South Korea and Japan on the other. The purpose behind the meeting was to create a new partnership, to try and develop better links between both continents and to encourage more trade and investment.²⁰ The follow-up activities of these meetings provides a number of opportunities to pursue relations with China in a regional context.

Policies of the EU

From its very inception in 1975, formal political and diplomatic relations between the EU/ EC and China have been well formulated through timely brought out policy papers. These policy papers reflect the development of the EU-China relations, inject vitality into the relations and help both parties to have clear policy targets. However, a clear understanding requires not only a careful study and analysis of various documents but also an examination of their political viability and acceptability.

A document developed by the European Council in Essen in 1994, regarding the likely Asia strategy of the European Union²¹ systematically reveals the increasing European interest in Asia in the post Cold War era. This paper laid down that “Europe should give a new priority to Asia and carry out a more active and emphatic policy towards Asian countries”. Apart from India and Japan, China was the only country

²⁰ ASEM, EU with ASEAN plus three (China, Japan, South Korea), available at, http://www.europa.eu.int/comm/external_relations/asem/into/index.htm

²¹ Communication, *Towards a New Asia Strategy*, (Brussels: European Commission, 1994), available at, http://europa.eu.int/comm/external_relations/asem_process/com94.htm.

which could have facilitated a logical development in the newly laid out Asia strategy. Foreign policy decision-makers of EU didn't delay the implementation of the idea and in the very next year laid down the terms for "constructive engagement and cooperation"²² with China. This engagement was very important for China as it marked the formal closure of the chapter opened after the Tiananmen Square incident.

The China policy of the European Union is characterized by a positive attitude towards China's internal developments and its increasingly important international status. However, scholars trace the trade interdependence as a reason behind this constructive engagement. The strategy of the EU has been to involve China actively in international affairs and to provide Europe with the full opportunities of the Chinese market.

Following the second Asia-Europe Meeting (ASEM) and just before the EU-China summit in London in April 1998, the Commission presented in March 1998 a policy paper, entitled "Building a Comprehensive Partnership with China"²³. Importance of this document can be gauged by the fact that, its acceptance by the EU Council of Foreign Minister, marked the elevation of its relations with China to the level of its relations with the US, Japan and Russia. This paper envisaged the strengthening of the EU-China political dialogue, cooperation and exchanges in trade and economy and the support for China's entry into the WTO.

Further complementing the process in September 2000, the EC submitted a report to the EU Council and the European Parliament (EP), entitled, "Building a Comprehensive Partnership with China".²⁴ This report argued the expansion of the scope of political dialogue. At the same time, it called upon to help and supervise China to perform her obligation regarding entry into the WTO. On the political front, the 'One China' policy was reiterated while emphasizing a peaceful settlement of the Taiwan question. The Communication issued by the EC in the year 2001²⁵, again harped upon extending the scope of political dialogue. But at the same time it has also

²² Op. cit. (Com: 1995)

²³ Op. cit. (Com: 1998)

²⁴ Op. cit. (Com: 1998)

²⁵ Communication, *EU Strategy towards China: Implementation of the 1998 Communication and future steps for a more effective EU Policy*, (Brussels: EC, 2001), on May 15, 2001, http://www.europa.eu.int/comm/external_relations/China/com/01_265.pdf. ◉

laid down that efforts should be made to ensure that the progress be ensured at the ground level.

The Commission's latest policy paper on China characterizes the PRC as a "major strategic partner", which, "has entered a new and challenging phase in its social and economic reform process" and is at the same time increasingly involved in world affairs. Thus, on the international scene "the EU and China have an ever greater interest to work together as strategic partners to safeguard and promote sustainable development, peace and stability."²⁶

Both the sides are of the view that, it is high time to explore a new framework for the improved EU-China relations. President of the European Commission, Barroso aptly concluded: "China's emerging as a global player across the board and developing this relationship will be one of our external policy objectives during my mandate. I believe it is in the interest of both the EU and China to embark on this long-term strategic partnership. The EU has become China's most important trade partner. This more than anything else gives you an idea of the strength of our relationship. I believe that this should lead us to a new EU-China framework agreement very soon."²⁷

Chinese Response

Europe matters a lot for the Chinese worldview. China has never been comfortable with either the bipolarity of Cold War or with the unipolarity of the post-Cold War era. The creation of a world order where Chinese interests can be forwarded smoothly has been the main reference point of any Chinese external engagement. Thus, for the time being, China views the likely multipolar world order with great hope. Facing the unilateralism of the Bush administration, which also supports the rearmament of Japan and is willing to have Japan share more global responsibilities, China finds it necessary to counterbalance the US-Japan alliance. China turns to Europe, as it firmly believes that Europe is one of the poles in the emerging

²⁶ Communication, *A Maturing Partnership-shared interest and challenge in EU-China Relations*, (Brussels: European Commission, 2003), on September 10, 2003, http://www.europa.eu.int/comm/external_relations/China/comm_03-055/com_533_eu.pdf

²⁷ Speech, 7th EU-China summit- Press Conference, Speech by Jose Manuel Barroso, (The Hague: December 8, 2004), http://www.europa.eu.int/comm/external_relations/China/comm_03055/com/_533_eu.pdf.

multipolar world order. China views the transatlantic relationship with great suspicion, and has been aspiring from the Cold War years, for an independent European personality. China rates the 'egalitarian approach'²⁸ of the EU heavily over the "hegemonic approach"²⁹ of the US, vis-à-vis China in particular and the world in general. Thus, Chinese Premier Wen Jiabo noted that "the two sides share much in common including their commitment to safeguarding world peace security and stability and their belief in multilateralism"³⁰

To that end, China is very optimistic and supportive of the European integration process. This integration process is slowly transforming Europe as an important actor in world politics and world economy. China wants that this process of integration should be irreversible and should be fastened up. Many Chinese still perceive that all European policies particularly on the external front are an extension of US policies. Owing to the philosophical element of the balance of power in her foreign policy, China itself is very calculative about its relationship with the USA. For China, the US-China relationship is as important as its relations with Japan, Russia and India. In fact, for China, the Beijing-Washington interaction is indisputably the most important of the four.³¹

It is the very philosophy of the balance of power, which guides China to forge strong relations with Europe in all possible spheres. In this context China supported the Euro and was among the first countries, which extended faith to the Euro by making it part of her foreign exchange. Some other factors can also be cited for this shift. Firstly, preoccupation with the issues of development at home makes China maintain healthy economic relations with as much countries as possible. In this context, the Euro's emergence as an alternative legal tender will help China to reduce the risk involved in the exchange value of the dollar. Secondly, every development in the acceptability level of the Euro will erode the hegemony of the US dollar. Thirdly, it will foster EU-China trade by facilitating cost reduction. European Economic and

²⁸ David Shambaugh, "China and Europe: The Emerging Axis", *Current History*, vol.103, no.674, September 2004, p.248.

²⁹ The word 'Hegemony' has become the favorable Chinese term for defining America's current role, see, Brozezinski Zbigniew, "Living with China" in Own Harries, *China in the National Interest*, (London: Transaction Publications, 2003), p.7.

³⁰ See, Shao Zongwei, "China EU consolidate Partnership", (Beijing), *China Daily*, March 16, 2004, http://www.Chinadaily.com.cn/english/doc/2004_03/161/content_315365.htm

³¹ Op. cit. (Brozezinski: 2003), p.4.

Monetary integration can also provide China with a more fundamental partner in the international system.³²

Owing to prevailing differences over CFSP or lack of unanimity in foreign policy matters among EU member states, China has to deal with EU member states simultaneously. Diplomatic relations between member states of the EU and China can only be understood in a triangular relationship between the EU policies and competing national interests leading to an uncoordinated and competitive mixture of China policies based on different national (mainly economic) interests.³³ Conflicting foreign policy goals of major member states hampers the overall EU approach of building stronger relations with China. However, China is well aware of the likely problem, which may arise due to the divergent interests of the member states. It may become a problem for China because the UK is Europe's biggest investor in China, while Germany is the biggest trading partner. EU member states position themselves differently to China in relevant issues. Hence it is difficult for China to elaborate a clear and uniformly applicable policy for all the EU member states.³⁴

China's support to the introduction of the Euro in 2002, the enlargement process in 2005, developments in EU defence and security capacities and the Europeans wish to play a ever more active role in world politics through common foreign and security policy mechanism is a catalyst in deepening Sino-European relationship. Chinese Prime Minister Wen Jiabao remarked that, "a strong Europe politically and economically, will constitute an important pole and contribute to a world more peaceful and stable."³⁵

Hence in 2003, the Chinese Ministry of Foreign Affairs responded by publishing a policy paper on the China-EU relations.³⁶ The paper states that China is committed to a long-term, stable and full partnership with the EU. Its policy objectives were to deepen China-EU cooperation in the political, economic, trade and

³² See, M.N. Neves, and B., Bridges, "From Bilateralism to a Common Approach?: The EU-China, Hong Kong and Macau", in Neves, M.N., and Bridges, B. ed., *Europe China and the two SARs*, (London: St. Martins Press, 2003), p.11

³³ Markus, Taube, "Economic Relations Between the PRC and the States of Europe", *China Quarterly*, no.169, March 2002, p.78

³⁴ Op. cit (Zongyei: Chinadaily March16, 2004)

³⁵ Xinning Song, "Europe and China", *International Politics*, vol. 57/2, 2002, p.40

³⁶ Ministry of Foreign Affairs of the People's Republic of China, *China's EU Policy paper*, (Beijing: October 13, 2003), <http://mprc.gov.cn/eng/wib/zjzg/xos/t27708.html>.



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cultural fields. The Chinese paper acknowledged that the European integration process was “irreversible” and that the EU would play an increasingly important role in both regional and international affairs and maintained that there are no fundamental conflicts of interest between the EU and China. The paper envisages a strategic partnership with the European Union.

ISSUES IN EU-CHINA RELATIONS

Owing to their size and spread, the EU and China on regular basis find themselves pitted against each other. Every year while the list of areas for cooperation is expanding, at the same time areas with divergent approaches are also increasing. But there are some issues which though fundamental to EU-China relations are still unresolved, and some of them merit a closer look.

Tiananmen Square Incident

The massacre on June 4, 1989 in and around the Tiananmen Square and issues related to it haunt the China-EU relations even to this day. China policy of the EU and its member states has been under scrutiny from then onwards. However, for the EU, China is too big to be ignored, too old to be slighted, too weak to be appeased, and too ambitious to be taken for granted,³⁷ and the issue of human right was too insignificant to ostracize China³⁸.

But owing to the popular pressure, the EC imposed several sanctions on China in the ensuing Madrid Conference of the Community. The EC was in no mood to let this incident derail the process of relationship building. In this context in the late 1989, the European Parliament passed a resolution, which urged the Chinese government to enter into a dialogue with students.³⁹ Apart from this, the PRC was asked to adopt measures to guarantee the security of the citizens of the EC-member states in China.⁴⁰ Many non-binding unilateral commitments were also made by the EC members to suspend the economic and cultural relations with China.⁴¹

³⁷ Op. cit. (Brzezinski: 2003), p.5

³⁸ Op. cit. (Yahuda: 1995), p.186

³⁹ Werner Weidenfeld and Wessels Wolfgang , *Yearbook of European Integration* (Bonn: Institute fur Europaische Politik, 1990), p.459 cited in op. cit. (Moeller; 2002), p.16

⁴⁰ *Le Monde*, 7 June 1989, quoted in *Ibid*, p.16

⁴¹ *ibid.*, p.16

But as mentioned above, China was least concerned of all such developments the world over. On July 4th the EC foreign Ministers announced their intention to re-establish political contacts with China.⁴² On September 28th, the Foreign Minister of Italy, Ireland and Luxembourg met their Chinese colleague Qian Qichen on the fringes of the UN General Assembly. Here the Italian Foreign Minister marked that “under present complex international situation, to strengthen the ties between the EC and China is of great importance to world peace and stability”⁴³ On October 22, 1990 the EC foreign ministers declined to resume the economic cooperation and to establish high level contacts. China’s support to the western stand on Iraq was cited as a reason for this stand.⁴⁴ The next year witnessed several high profile visits by both sides and the year 1994 marked the termination of all sanctions excluding the arms embargo.

Human Rights

Since its inception the European Community tried to keep the issue of human rights at the center stage. Article 177 of the Treaty of the European Community (TEC), 1957 states “community policies... shall contribute to the general objective of developing and consolidating democracy and the rule of law and to that of respecting human rights and fundamental freedoms”.⁴⁵ The Treaty on European Union (TEU) projects that the main objective of the EU in its external relations is to “safeguard, develop and consolidate democracy and the rule of law and the respect for human rights and fundamental freedom”⁴⁶. The EU has taken a stand in Vienna in 1993 that “human rights, democracy and development are interdependent and mutually reinforcing and that the promotion of human rights improves the prospects of peace and security”⁴⁷.

⁴² *ibid.*, p.16

⁴³ Xinhua News Agency, (Beijing: September 30, 1989), quoted in, *Summary of World Broadcasts*, FE/0567/C/1-11 October 2, 1989.

⁴⁴ *European Political Cooperation Bulletin*, (1990), vol.5, no. 1, (Florence: European Unification Institute), p.454.

⁴⁵ B., Krishnamurthy, “Human Rights Dimension of the European Common Foreign and Security Policy: The Case study of EU-China Relations”, *Journal of Contemporary Asia and Europe Studies*, vol. 1, no.1, January-June 2004, p.26

⁴⁶ *Ibid.*, p.31

⁴⁷ *Op. cit* (Krishnamurthy: 2004) p.27

European scholars have been highlighting the monumental failure of China in protection as well as extension of human rights. Human rights played a major role in relations between Europe and China even during the Cold War years.⁴⁸ From then onwards, China has been accused of not only violating human rights but also providing outdated conspiracy theories for cover-ups. The *People's Daily* editorial of April 26, 1989 condemned the protest movement as a "planned conspiracy" directed against the communist party.⁴⁹ Deng Xiaoping labeled the student unrest a "political turmoil" aimed at negating the leadership by the Communist Party and the socialist system.⁵⁰

It ought to be noted that the European critique of Chinese human rights practices, has apart from the excess of April 1989 and its aftermath, traditionally focused on Chinese social policy and its various offshoots. The Chinese population control programme with 'one child policy' and the criminal justice system with widespread prevalence of death penalty⁵¹ have been subjected to scathing criticism. Many refugees from China cite the 'one child policy' as the predominant reason for their fleeing from China. Families having more than one child may either invite seizure of the child or the forcible sterilization of the women.⁵² China is criticized for not extending equal political rights as well. The China Democratic Party (CDP) demanded the end of the Communist Party rule and establishment of multiparty system required for democracy. This demand and the CDP were banned in 1998.⁵³ The CDP put forth the argument that the people of China have the right to abolish the Communist regime "when their human rights are systematically and persistently violated".⁵⁴

In early 2001, China executed the leader of an Islamic group and accused him of planning and committing terrorist attacks. Even other issues on table like Taiwan, Hong Kong, Macau, arms embargo and Tibet, contain a tangible element of human

⁴⁸ Phillip Baker, "Human Rights European and the People's Republic of China" *China Quarterly*, Vol. 169, March 2002, p.45

⁴⁹ Op. cit. (Krishnamurthy: 2004) p.30

⁵⁰ Tony Saich, "The Rise and fall of the Beijing's People's Movement" in Unger J. ed., *The Pro-democracy Movement in China-report from the provinces*, (New York: M.E. Sharpe, 1991), p.11

⁵¹ It is estimated that China executes more than 3500 people annually.

⁵² Alexander Fatic, "Human Rights, European Union and China", *Review of International Affairs*, vol.48, September 15, 1997, PP.18

⁵³ Op. cit. (Krishnamurthy: 2004), p.30

⁵⁴ *The Hindu* (New Delhi), January 25, 1999

rights violations in China. International non-governmental organizations like Amnesty International regularly highlight this phenomenon. In one of its reports in 2000, Amnesty International noted, “Chinese law enforcement agencies are engaged in systematic and widespread torture and that the perpetrators often went Scott free”.⁵⁵ The EU remains greatly concerned about the lack of respect for fundamental rights in China, including the freedom of expression religion and association; the on-going violation of human rights of pro-democracy activities and repression of movements like Falun Gong.

Given the widespread public pressure on the one hand and the giant China on the other hand the EU has adopted a pragmatic approach⁵⁶ towards China. The approach harps upon implicit emphasis on the positive link between the economic development and human rights improvements.⁵⁷ Some scholars have highlighted that the pragmatic approach of EU is basically a by-product of weak CFSP and dichotomous nature of EU’s China policy.

When European Parliament (EP) proposes something stern, like a human rights clause, which should be taken into account regarding future extension of the agreement on trade and economic cooperation, the member states in the Council tend to take ambiguous positions. It seems that member states accord primacy to close trade ties and do not want to sour relationship on the issue of human rights.

During the 1990s, Europe felt restrained, as the condemnation of the PRC in United Nations Human Rights Commission (UNHRC) was a distant dream for the EU. The 1997 Danish proposal in the UNHRC could not be passed, as the Dutch presidency could not get support across the board. However, since 2000, the EU has decided to neither bring any such resolution in UNHRC nor support one brought by any other country.

Nevertheless, the situation of human rights in China has improved during these years. Generally economic reforms have been hailed as catalysts in these

⁵⁵ *The Hindu* (New Delhi), February 14, 2004

⁵⁶ See Op. cit (Fatic: 1997), p.19, The pragmatic approach to human rights could be defined as a sustained diplomatic effort to bring two or more countries’ perceptions, and practices of human right protection as close to each other as possible without opening any room for confrontation.

⁵⁷ Lanxin Xiang, “An EU Common Strategy for China?” *The International Spectator*, vol.36, 2001, p.91

improvements. The economic reforms broadened the choice in all sectors, and are responsible for increased secular social mobility. Steps have also been taken to develop the electoral process at local level allowing villagers to designate their local authorities.⁵⁸ There are indications that a more open legal system is developing. Progress has been achieved in the area of economic and social rights as well.

But, China is still far from accepting the internationally accepted norms regarding human rights. This reflected in the communication of the EC in 1995, “The key criteria for pursuing human rights initiatives must be effectiveness, the impact that an initiatives would have on the ground.”⁵⁹ The 2001 EC Communication called upon the necessity of further reform human rights and pledged to support China for this. In its latest 2003, China policy paper, the Commission affirmed that, “a significant gap still exists between the current human rights situation in China and internationally accepted standards”, “a number of issue remain where discussion have not yet allowed for meaningful progress”.

Pursuing a pragmatic approach, the European Union (EU) is cooperating and is having regular dialogues with China. Two sessions of the EU-China human rights dialogue were held in Beijing in September 2000 and in Stockholm in February 2001. The EU is funding a number of human rights related assistance programmes in cooperation with China. The EU-China legal and judicial cooperation programme was launched in March 2000. As far as broadening political choices are concerned, a programme aimed at promoting grass root democracy in China, ‘The EU-China village governance programme’, was launched in May 2001. The EU is about to develop a programme of support for the economic, social and cultural rights in the Yunnan province.

Hong Kong and Macau

Hong Kong and Macau as such are part of the bilateral framework of relations between Britain-China and Portugal-China, but the Special Administrative Regions (SAR) heavily impinges on EU-China relations as well. Arguments have been put forth regarding China’s tacit consent to Britain and Portugal’s rule over Hong Kong

⁵⁸ Op. cit. (Fatic: 1994), p.19

⁵⁹ Op. cit. (Com: 1995)

and Macau respectively, on the condition of their not becoming a base of subversion against China.⁶⁰ However, a section of Chinese society viewed the situation from the colonialist perspective. They believed that geographically and historically Hong Kong and Macau were part of China. And formal accession of Hong Kong and Macau to China has been seen as an end of an “era of unnatural separation”.⁶¹

In accordance with Sino-British joint declaration on the question of Hong Kong signed in 1984, China resumed its sovereignty over Hong Kong on 1 July 1997 and the Hong Kong Special Administrative Region was established. Similarly, in accordance with the Sino-Portuguese joint declaration on the question of Macau signed in 1987, China resumed its sovereignty over Macau on December 20, 1999. It was all done in the agreed framework of “one country, two systems”⁶². A high degree of autonomy is accorded in both the special administrative regions. Where apart from foreign and national defense affairs, which should be administered by the central authorities, the Hong Kong Special Administrative Region (HKSAR) and Macau Special Administrative Region (MSAR) shall fully enjoy the power of decision-making on matters related to executive, legislative and judiciary.

The issue of Hong Kong and Macau dominated the political agenda of the European Union in the post-Cold War years. As far as Hong Kong is concerned, the EU viewed it as an agent for change in China.⁶³ Chris Patten, for example, often reiterated his belief that, “if Hong Kong continues to be successful, the implication for Europe and catalytic effect on China can be nothing but helpful”⁶⁴. In its 1995 China communication, the EU supported a resilient Hong Kong. In the 1997 communication of the EU on Hong Kong, “The European Union and Hong Kong Beyond 1997”,⁶⁵ the Commission reemphasized the well-known positive assumption of Hong Kong as a gateway or a catalyst but also outlined measures for maximum vigilance. It

⁶⁰ Ting, Wai, “Europe China and the Future of Hong Kong” in Op. cit. (M.S. Neves, et al, ed., 2000) p.226.

⁶¹ Views of Tung Che Huwa, Hong Kong’s first postcolonial leader. See. *Newsweek*, May 1997, pp.47-48

⁶² “One Country, two systems” refers to the fact that in China, a unified country, where the mainland practices socialist system while the Hong Kong and Macau remain with the previous capitalist system and way of life, unchanged for 50 years.

⁶³ George Wiessala, *The European Union and Asian Countries*, (London: Sheffield Academic Press, 2002), p.98

⁶⁴ See *Die welt*, November 11, 1996

⁶⁵ Brian Hook, and M. S. Neves, “The Role of Hong Kong and Macau in Chinas Relation with Europe”, *China Quarterly*, No.169, March 2002, p.108

underlined the strategic interests of the EU in Hong Kong. In its 1998 China strategy, the Commission further defended pluralism and political maturity inside Hong Kong.

At the Dublin European Council, the Commission was invited to bring forward some proposals on future economic relations and these are included in this broader document⁶⁶. Four key areas were envisaged in relation to the Hong Kong. They were:

- monitoring the rights granted to Hong Kong citizens and publication of an annual report on the full range of the EU-Hong Kong relations;
- acknowledging that the case for granting visa-free access for Hong Kong people should be treated on its own merit;
- putting trade and investment relations between the EU and the SARs on permanent footing and
- developing relations with Hong Kong as an Asian-hub.⁶⁷

China on its part, has adopted a very calculated approach, China want to use Hong Kong as a launch pad for the economic opportunities while not tampering the development of Hong Kong as a financial capital. In the first annual report on Hong Kong published in 1999, the EU did not find violation of any human rights.⁶⁸In its Second Report on Hong Kong in 2000, the EC declared that 'Hong Kong is one of the freest societies in Asia'. But still respect for human rights and adherence to the agreement signed in 1984 are sometimes not followed in letter and spirit. Demand for more autonomy during the recently held elections bear testimony to this fact.⁶⁹ The controversy, regarding Falun Gong practitioners, which would according to the Commission in 2001, no doubt warrants close attention.

End of 442 years of Portuguese rule over Macau marked the end of centuries of European colonialism in Asia. Though situations in Macau are different from what they are in Hong Kong but the same principles and concerns make a joint study

⁶⁶ B. Macdonald, "Setting the Agenda for 21st century: China, Hong Kong, Macau and the European Union", in Op. cit. (M.S. Neves, et al. ed., 2000), p.206

⁶⁷ Op. cit (Wai, Ting: 2000), p.237

⁶⁸ Op. cit (Wiessala: 2002), p.99

⁶⁹ Hong Kong's Election, See, *The Economist*, September 13, 2004

possible. The EU was concerned to ensure that the autonomy promised under the joint declaration for Macau would be carried out and that the concept of “one country, two systems” would be applied there as well. On 12 November 1999, the Commission adopted a more specialized paper on “Relations between the European Union and Macau: Beyond 2000”⁷⁰. It was pointed out that Macau would function as a role model for China, providing expertise about WTO, of which Macau was a founding member. The paper showed hope that Macau would be abiding by the commitment it has made to international organisations. The undertaking of international commitments would have the effects of assuring investors that the system would remain open.⁷¹

The EU sees its relation with Hong Kong and Macau as a critical element in future relations with China. If it can play its part in helping Hong Kong and Macau to develop along with China, and set an example of economic and political freedom there, this can only facilitate development of overall relations with China in the future⁷². Furthermore, some of the programmes the EU is developing in China could usefully include a Hong Kong and Macau element in the network.⁷³ Of late both parties recognized the immense opportunities SAR’s can provide. China can have the missing elements -- technology, finance, expertise etc., in its development strategy. While EU can project Hong Kong and Macau as abodes of values, it stands for in Asia. Thus the two SARs should be integral part of the EU’s China strategy.⁷⁴

Taiwan

All European countries have developed relations with Taiwan, though the nature of these relations were non-official and were limited in the economic and cultural sphere.⁷⁵ Today the EU is Taiwan’s third most important trading partner in the Asia - Pacific region. But given the mammoth growth in the Chinese market, importance of Taiwan as a market for the EU has diluted and can hardly transform

⁷⁰ Communication, *Relations between the European union and Macau: Beyond 2000*, (Brussels: EC, 1999)

⁷¹ Op. cit (Macdonald: 2000), p.205

⁷² Ibid, p.208

⁷³ Op. cit. (Hook&Neves: 2000) p.208

⁷⁴ Op. cit. (Ting Wai: 2000) p.236

⁷⁵ M, Françoise, “A Functional Relationship: Political Ties to Europe-Taiwan Economic Ties”, *China Quarterly*, no.169, March 2002, p.136

into significant political outcome.⁷⁶ For Taiwan, relations with EU mark a break from international isolationism. But neither the EU nor its member states recognize Taiwan as a sovereign state. They view it only as a separate customs territory or an economic entity.⁷⁷

The EU has adhered to the ‘One China policy’ and does not have any direct issue with China vis-à-vis Taiwan. But given the fact that China deems the issue of sovereignty and territorial integrity so high in its national agenda, the element of force in her Taiwan policy cannot be ruled out. This is something not acceptable to the EU. In his opening speech at the 16th congress of the Chinese Communist Party,⁷⁸ Jiang Zemin refused to abolish violence in accomplishing the goal of reunification. The EU maintains in its China policy the peaceful solution of Taiwan issue. In almost all its policy papers on China, the EU has urged China to eschew violence.

Any aggressive behavior by China vis-à-vis Taiwan issue is not acceptable to the EU on two counts. Firstly, it will result in large-scale violation of human rights. Secondly, it will have an impact on European business.⁷⁹ Violence can affect European business interests not only in China and Taiwan but also in the whole Asia – Pacific region. The EU should therefore make its position clear towards both, a peaceful process in the Taiwan Straits and the Taiwan independence movement. The EU could play an important role as a trustworthy interlocutor with Mainland China as well as with Taiwan.⁸⁰ Doing beyond that does not seem feasible for the EU at the present time. Even if it decides to do so, it would not be in a position to do much. It is due to the lack of adequate political mechanisms between the EU and China that can be used to project the EU’s influence.

During the early 1970s, when PRC replaced Taiwan in the United Nations, EU member states switched official recognition to China from Taiwan.⁸¹ After that only trade and economic relations have been maintained with Taiwan and much to the disappointment of Taiwan, these relations have not translated into any diplomatic

⁷⁶ Yuchun Lan, “The European Parliament and the China- Taiwan Issue: An Empirical Approach”, *European Foreign Affairs Review*, vol. 9, 2004, p.115

⁷⁷ *Ibid.*, p.118

⁸¹ For details, See, Peoplesdailyonline, <http://www.English.people.com.cn/zhunti/Zhu-251.html>

⁷⁹ *Op. cit.* (Wiessala: 2002), p.98

⁸⁰ *Op. cit.* (Lanxin: 2004), p.99

⁸¹ Vatican City Still Maintains Diplomatic Relations with Taiwan.

recognition.⁸² Any move on the part of any European country to develop relations with the slightest element of political and strategic inputs has been strongly detested by China. An example of this is the commercial cooperation between France and Taiwan in the arms field. The PRC has vehemently criticized the activism shown by EP vis-à-vis Taiwan under the influence of pro-Taiwanese lobby.⁸³ Even the opening of a EU office in Taiwan, that had to deal primarily with trade and commerce, got delayed due to political reasons.⁸⁴

Tibet

Tibet has been called, at best, an internal issue with outward repercussions. A major external issue is again the human rights catastrophe. The judgment to the degree to which the legitimacy of China's claim to Tibet and the massive Chinese repression of Tibetan nationalism⁸⁵ is accepted clearly reflects the EU-Tibet-China relations. The EU policy statements and the EU-delegation visits to Tibet, dealt with prison riots and the Chinese destruction of Tibetan cultural heritage. While most EU pronouncements professed, at least on the surface, to contain 'concern' or strong positions, they carefully avoided firmness, mostly by referring to the progress of the EU-China human rights dialogue or directly to China-Tibet relations.⁸⁶

The fact that Tenzin Gyatso, the Fourteenth Dalai Lama was awarded the 1989 Noble Peace Prize and campaigned extensively in Europe and that many western observers condemned human rights abuse⁸⁷ and supported Tibetan self-rule⁸⁸, did not make the EU fully realize, it seems, that in regard to Tibet, the preservation of an ancient culture and national identity was decidedly inferior to the overall Chinese priority to reaffirm its own status. EU apathy in this area and the EU support for the one-China principle⁸⁹ of the PRC is only explicable, by the lure of business opportunities that China offers to the European Union.

⁸² Algeri Franco, "EU Economic Relations with China: An Institutional Perspectives" *China Quarterly*, No.169, March 2002, p.64

⁸³ Op. Cit. (Lan: 2004), p.115

⁸⁴ It opened March 10, 2003 only after the simultaneous accession of both to the WTO.

⁸⁵ Tom, Grumfeld, *The Making of Modern Tibet*, (Delhi: OUP, 1987), P.134

⁸⁶ Op. cit. (Wiessala: 2002), p.103

⁸⁷ "The EU Delegation Find China Insincere on Tibet", *Tibetan Review*, August 2002, p.11

⁸⁸ The Tibetan Government-in-exile opened an office in Brussels on 10 April 2001, which forms an official representation of His Holiness

⁸⁹ EUI *Foreign Policy Review* online: doc 99/125 quoted in Op. cit. (Wiessala: 2002) p.103

Conclusion

The EU-China relation in the post-Cold War era reflects that contrary to the compulsion of block politics during the Cold War, it has developed on its own merit. The EU has supported political and economic consolidation by China, while EU's project of integration has got full support from the Chinese. Both supported each other's desire to play effective role in world politics. Issues with divergent views have been solved in the framework of pragmatic approach. Cooperation and dialogue remained the methods throughout. All these together portray this emerging relationship as a pole of stability.

Both the EU and China recognized their mutual economic, political and diplomatic potential to usher the post-Cold War era into an era of multipolarity. None of them was ready to let this opportunity go wasted. A new political framework got devised. Successful efforts were being made to institutionalize this relationship through regularly published policy papers and summit meetings. In order to build this relationship through multiple stages the Asia-Europe Meeting (ASEM) and the Asian Regional Forum (ARF) were effectively used. China became a member of the Nuclear Supplier Group and recently, Italy proposed that China should be part of the Group of Eight (G-8) as well.

As mentioned above, the EU has shown considerable maturity by balancing the popular pressure against the Chinese record on human rights. China on her part reciprocated positively by successfully participating in the EU-led human rights dialogue, seminars, symposia, projects, etc. China has even acceded to the International Convent on Political and Civil Rights and the International Covenant on the Economic, Social and Cultural Rights.

Issues like Taiwan, Hong Kong, Macau and Tibet with certain infringement of human rights have also been resolved through dialogue. Owing to the Chinese understanding of the underlying economic opportunities these regions can offer, chances of further improvement are bright. The EU on its part also comprehended the Chinese obsession with sovereignty and territorial integrity and acts accordingly.

Apart from all these developments in the bilateral relationship there are some critical areas of wider import that need to be highlighted. Firstly, a pragmatic

approach has certain limitations. Building on areas with convergence and maintaining the status quo on issues, which involve difficult political choices, will result in more situations where their interests may converge. Secondly, the lure of the market has made the EU to wink eyes many a time. But this will not augur well for EU's external policy, which is basically based on soft power, as social values are also part of the EU's soft power and are vital to its security calculus.

Thirdly, the missing element of a developed CFSP has mellowed down EU on many issues related to China. Member countries always eager to have a larger pie of the Chinese market are going soft on issues of vital interest. Fourthly, the derivative nature during the Cold War is no more a characteristics of this relationship. But still the US factor looms large and many Chinese still view EU as a little brother to the United States.

Thus, the EU should develop an independent line of thinking. At the same time, the EU and China need to address the issues raised, while bridging the trust and information deficit. The new world order in this globalised era provides a congenial atmosphere for such a relationship to flourish, and with some reservations one can say that the EU and China have sought to make the most of it.

CHAPTER 3

THE EU-CHINA STRATEGIC PARTNERSHIP

- **Introduction**
- **Tracking the Growth of This Relationship**
- **Defining Strategic Partnership**
- **Evolution and Consolidation**
- **Space Cooperation**
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Energy

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- **US-EU-China**

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CHAPTER 3

THE EU-CHINA STRATEGIC PARTNERSHIP

Napoleon was not wrong hundred years back, when he predicted the inevitable rise of China. Neither was he wrong in anticipating the upheavals associated with the awakening of this giant. Today with a landmass of 9.6 million square km, China is the largest country in Asia and the third largest in the world. Its population together with Macau, Hong-Kong and Taiwan totals around 1.33 billion (more than one fifth of the world's total). China is maintaining a growth rate of around 9% since a decade or so, and has emerged as the second largest economy (in PPP terms). Her enviable development in defence capabilities including hydrogen bomb capacity,¹ mastery over advance technology in space research², missile system and strides in hardware technology due to heavy investment in research and development activities testifies to this fact. Above all, China has a desire to project itself- Olympics games scheduled in 2008 and Shanghai International Exposition of 2010 - at the world stage. All these facts direct that one can overlook China at one's own risk.

In the year 2005, the EU and China celebrated 30th anniversary of the official establishment of relations between the EC/EU and China in May 1975. This journey of 30 years has seen many phases of evolution, which today, has reached to what is called "strategic partnership." However, strained Sino-USSR relations in the 1970s for the first time provided opportunity to both Europe and China to come closer for a common cause - containment of the USSR.³ But very soon the dynamic nature of Cold War politics and ideological differences pitted both against each other.

The end of Cold War and subsequent end of ideology⁴ as the driving force of foreign policy provided a new political setting for Europe-China relationship. Whatever

¹ In June 1967 China successfully detonated its hydrogen bomb, see, Robert, S. Norris et.al, "British French And Chinese Nuclear Weapons", *Nuclear Weapons Databook*, Vol.5, (Boulder: Westview Press, 1994) p.359

² Pallavi Ayer, "The Sky is No More the Limit", *The Hindu*, (New Delhi), June 29, 2006.

³ David Shambaugh, "China and Europe", *Annals of American Academy of political and social sciences*, vol.519, January 1992, pp.101

⁴ See, Francis Fukuyama, *The end of History and the Last Man*, (Harmondsworth: Penguin, 1992)

was achieved during the post-Cold War period, gradually developed into the phase of this relationship viz., 'strategic partnership'.⁵ This is one of the most important developments in contemporary world politics and its significance needs to be appreciated and analysed carefully.

Tracking the Growth of This Relationship

Relations between Europe and China in the post-Cold War era were built on a common need for global recognition and an apparently shared analysis of the world strategic situation. It has resulted in the development of a so-called theory of multipolarity and a consequential need thereupon to build a coalition against unipolarity. If we put the Maoist theory of principal and secondary contradictions⁶, in the post-Cold War perspective, then what transpires as a main contradiction is the unipolarity represented by the US.

For Europe the feeling of a common strategic interest with China was based on the very same principle. Europe was feeling the need to develop a political clout, the luxury of which is derived from the ongoing process of political and economic integration. The gradual development of Europe as an actor⁷ in international politics and the little room offered to it by the post-Cold War unipolarity also made Europe to seek reliable partners like China.

Apart from this, during the Cold War (and even now to a certain extent) European security was taken care under the cooperative security framework of NATO. But immediately after the end of the Cold War, both the relevance of NATO and the presence of USA in Europe have been questioned.⁸ Though NATO has transformed and redefined its role, the European countries are still not comfortable with the US coming with

⁵ EC Communication of 1997 defined the EC-China relationship as moving towards strategic partnership, for details; see, Communication, *Building a Comprehensive Partnership with China*, (Brussels: EC, 1998), on March 25, 1998.

⁶ See, Mao Zedong, *On the Peoples Democratic Dictatorship*, in his selected works, Vol.4, (Beijing: Foreign Language Press, 1961)

⁷ See, Bretherton, Charlotte and John Volger, *The European Union as a global actor*, (London: Routledge, 1999), they defined actorness with three criteria, namely, Presence, Opportunity and Capacity.

⁸ Kay Moeller, "Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union", *China Quarterly*, no. 169, March 2002, p.15

classifications like, “New Europe and Old Europe” or with statements like “multilateralism where convenient, unilateralism when necessary.”⁹ Europe contributes to more than fifty percent of the whole Official Development Assistance (ODA) given to poorer countries and now wishes to translate it into a political instrument.¹⁰ All these factors highlight the need on the part of the EU to develop significant political relations. The EU has chosen China,¹¹ Japan, Canada, India, Russia and USA, for that end.

The re-election of George W. Bush in 2004 has not been perceived as something good for transatlantic relations by many commentators¹². The EU’s relations with Russia are also strained given the controversy surrounded around Ukraine elections. But EU-China relations have grown manifold, owing to the absence of any such issues. China regards the growth of the EU as a likely pole of stability against the hegemonic unipolarity. At the same time, China acknowledges the egalitarian approach¹³ of the EU and envisages a greater role for it in world politics.

Several other factors have also been taken into account to map the growth in the ‘strategic partnership’. To start with, historical hangover of the Cold War era has provided the necessary critical velocity to this relationship. During the Cold War, the relationship never developed on its own independent dynamics, but was reactive to changes in US-USSR relations. Today development in the relationship and its graduation to strategic partnership is an independent process.

Absence of the Taiwan issue to complicate the EU-China relationship in the post-Cold War era is of great significance. Unlike US, all European states adhere to the “One China” policy. European governments keep Taiwan’s representative offices on a strict lease. No European government (since France in 1992) sold any weaponry and defence technology to Taipei.¹⁴

⁹ “Outrage at ‘Old Europe’ remarks”, www.news.bbc.uk/2/hi/Europe/2687403//2687403.stm

¹⁰ See, Bjorn Moller, *The EU as a Security Actor: Security by Being and Security by Doing*, (Copenhagen: DIIS, 2005), p.23

¹¹ Javier Solana, “A secure Europe in a Better world: European Security Strategy”. December 12, (Brussels: EC, 2003), p.21

¹² David Shambaugh, “China and Europe: The Emerging Axis”, *Current History*, vol.103, no.674, September 2004, p. 248

¹³ *Ibid.*, p. 248

¹⁴ *Ibid.*, p. 246

Europe, again unlike the United States, has no real military or strategic interests in East Asia. No European military forces based in the region and no security alliances or other commitments exist that would cause either side to view other as a potential security threat. This general absence of security concerns removes intrinsic sources of friction that characterize Sino-American relations. Despite the continent's realist past, liberal institutionalism was invented in Europe and the EU itself is a prime example of how European states and societies believe in cooperative institutional responses to domestic and international problems.¹⁵

Defining Strategic Partnership

The term 'strategic partnership' is latest to get admitted into the lexicon of international politics. It has been widely used to define relationship between countries. However, nobody has taken the pain to explain what the term 'strategic partnership' entails. According to Javier Solana, High Representative for Common Foreign and Security Policy, there is "no definition" of a strategic partnership.¹⁶ Prior to international politics, the term has been widely used in corporate terminology, to denote that two corporate houses are coming together to jointly bid for a deal. The bidding could be exhaustive or for the areas where particular company has comparative advantage over another. However, what transpires here is that the term 'strategic partnership' entails an offensive strategy not merely limited to survival but to significant gains as well.

China has forged strategic partnerships with major global powers including the EU. For the Chinese, a strategic partnership assumes a convergence of beliefs and a shared vision for the future of the world.¹⁷ Chinese Prime Minister Wen-Jiabo explained recently that the word 'strategic' refers to the long-term, stable and integral character of the Sino-European relations; a relationship that does not change from one moment to the

¹⁵ Ibid., p.247

¹⁶ R.K. Jain, *India and the European Union: Parameters and Potential of Strategic Partnership*, paper presented in an International Seminar held in JNU New Delhi on March 23-24, 2006, p.2

¹⁷ Ibid., p.2

next. Furthermore he pointed out that ‘partnership’ means trust and mutual benefit as well.¹⁸

Owing to the lack of a precise definition, some European scholars consider the EU’s strategic partnership as a kind of an “honorary degree” awarded to certain countries.¹⁹ International actors are going to forge ‘relations’ and ‘partnerships’, which would have overlapping elements and any attempt to construct generalities so as to frame a definition will be a futile exercise. Such relations are some time called as ‘exclusive partnerships’ but it can have elements of ‘strategic partnership’ as well. It is even true for the EU’s external relations of different nomenclature and nature. The EU has taken cognizance of the fact that the ‘strategic partnerships’ of the EU will develop in different ways.²⁰

A strategic partnership is by no means an alliance; it has no treaty commitments and is not bound by any overriding strategic objectives. It is an attempt to institutionalise a process and initiate a series of strategic sectoral dialogues considered important by both the sides on bilateral, regional and global issues. To the Europeans, a strategic partnership implies a global political and economic relationship involving the sharing of global responsibility and the building up of a coalition of interests to meet the challenges of the 21st century.²¹

For China, a strategic partnership with the EU complements its efforts to emerge as a major power in world politics. Because it institutionalises a more productive dialogue and strategic multilateral dialogue with more concrete deliverables on a broader spectrum of issues with a regional economic grouping, which is gradually acquiring political and strategic personality. It implies the elevation of multifaceted ties to an even higher and qualitatively new level, while imparting them with a specially close and dynamic character, regarded by both in the bilateral as well as international arena.

¹⁸ Wen stresses importance of developing the EU-China comprehensive Strategic partnership, *People Daily Online*, May 7, 2004.

¹⁹ Interview, (London: February 9, 2006), cited in R.K. Jain, (2006), p.11.

²⁰ Remarks by Javier Solana in an interview with Xinhua News Agency, in *China Youth Daily*, March 17, 2004, http://www.englishpeopledaily.com.cn/200403.17/print_13780.html

²¹ Op. cit. (Jain: 2006), p.3

Enhanced cooperation in political, economic trade, scientific, technological, cultural and other areas are implicit in a strategic partnership.²²

Evolution and Consolidation

Owing to a well-developed tapestry of diplomatic and political knowledge, Europe could very early understand the political and strategic meanings of the rise of China. As early as 1995, the European Commission (EC) in its Communication on China “A Long Term Policy for China-Europe Relations”²³ aimed to set out a strategy with China into the next century. It emphasised the role of emerging China, not only in economic terms, but geo-strategically as well.

Following the Second Asia-Europe Meeting (ASEM), and just before the first EU-China summit,²⁴ the EC in March 1998 presented a policy paper, entitled “Building a Comprehensive Partnership with China”.²⁵ The Communication was divided into five parts, with each one describing main goals of the EU’s China policy:

- engaging China further in the international community;
- supporting China’s transition to an open society based on the rule of law and respect for human rights;
- integrating China into the world economy, which includes bringing it into the world travelling system and supporting its economic and social reform;
- providing a coordinated context to make Europe’s allocation towards China more effective;
- raising the profile of the EU.²⁶

²² Ibid., p.3

²³ Communication, *A long term Policy for China Europe Relations*, (Brussels: EC, 1995) on July 29, 1995, http://europa.eu.int/com/external_relations/China95_279en.pdf

²⁴ China was the 5th country to have annual summit level talks with the EU after the USA, Russia, Japan and Canada.

²⁵ Communication, *Building a Comprehensive Partnership With China*, (Brussels: EC, 1998) on March 25, 1998, http://www.europa.eu.int/comm/external_relations/China/com_98/index.htm

²⁶ Ibid

On June 29, 1998 the EU Council of Foreign Ministers decided to elevate its relations with China to the level of equal importance to those with the US, Japan and Russia with whom the EU holds annual summits.²⁷

The EC Communication of 2000, entitled “Building a Comprehensive Partnership with China”²⁸, reiterated its adherence to the ‘One-China’ principle. It shows that through their official policies and practises both, the EU and China has been building the base of the strategic partnership. The 2003 policy paper of the Commission, “A Maturing Partnership-Shared Interests and Challenges in the EU-China Relations”²⁹ affirms, “the EU and China have an ever greater interest to work together as strategic partners to safeguard and promote sustainable development, peace and stability.” This paper coincides with the release of another very important document by the EC “A secure Europe in a better world: European security strategy”³⁰ Herein some key actors has been recognized and partnership has been envisaged with them; “We should look to develop strategic partnership with Japan, China, Canada and India as well as with all those who share our goods and values, and are prepared to act in their support.”³¹

China on its part responded by publishing a policy paper on China- EU relations.³² The paper states that China is committed to a longer term, stable and full partnership with the EU. Its policy objectives were to deepen China-EU cooperation in the political, economic, trade and cultural fields. The Chinese paper acknowledged that the European integration process is “irreversible” and that the EU would play an increasingly important role both in the regional and international affairs. It also maintained that there are no fundamental conflicts of interest between the EU and China. The Chinese paper envisages a strategic partnership between the EU and China.

²⁷ Song, Xinhing, “Europe and China”, *International Politics*, Vol.57/2, February 2002, p.40

²⁸ Op. cit (Comm: 1998)

²⁹ Communication, *A Maturing Partnership: Shared Interests and Challenges the EU-China Relations*, (Brussels: EC, 2003), on September 10 2003.

http://www.europa.eu.int/comm/external_relations/China/comm_03055/com_533_eu.pdf

³⁰ Op. cit (European Security Strategy: 2003), p.21

³¹ Ibid., p.21

³² China’s EU-policy paper, 2003, Ministry of Foreign Affairs, China, October 23, 2003, <http://www.FMPRC.gov.cn/eng/wjb/xos/t27708.htm>

EU and China are currently considering signing a new framework programme for future bilateral overall cooperation to provide a legal base for the EU China strategic partnership. This is conducive to strengthening the China-EU strategic dialogues and boosting mutually beneficial cooperation in a wide range of fields, such as establishing a new international order, strengthening the role of the UN, pushing forward the process of Asia-Europe meeting and promoting sustainable development.³³ Furthermore, the EU and China have acknowledged that they have similar point of view on issues concerning the international arena, be it the primacy attached to the United Nations or to fight problems such as terrorism, illegal immigration, poverty or proliferation of weapons of mass destruction.

EU and China have defined the framework for the evolution of their relationship and have set their strategic goals. From the Chinese point of view, there are hardly any geo-political opposing interests between the two, especially after EU's adoption of one China policy and the peaceful transfer of Hong Kong and Macau. The Chinese are of the view that continuous integration processes in Europe will constantly create new fields for confrontation with the USA³⁴, and this according to the Chinese, makes China important for the EU.

Apart from regularly published policy papers, annual EU-China summit meetings, and the sectoral dialogues, which are currently running in twenty sectors, contributed heavily in the evolution and consolidation of the strategic partnership. Summit meetings started in 1998, provided opportunities to the leaders from both sides to brief each other on key developments and to prepare a vision for future.³⁵

The first four EU-China summits focussed primarily on deepening the relationship. Main issues in the agenda were economic and trade cooperation, China's entry into the WTO, cooperation in cracking down on illegal immigration, human rights, the Taiwan question and other international and regional questions. Thus, at that time

³³ Huo Zhengde, "On China-EU strategic relationship", *Newsletter*, No.2, (Beijing: China institute of International studies, 2005), p.3

³⁴ *Ibid.*, p.7

³⁵ For a general view of EU-China summits refer to: EU-China summits (general) <http://www.europa.eu.int/coin/externalrelations/China/summit/index.htm>.

general impression was that the first four summits had proved to be important meetings for political leaders to update each other on progress made in numerous areas. The fifth annual EU-China summit took place on September 2004, a moment coinciding transition in the Chinese politics. As in the 16th Congress of the Communist Party, the handover of power to the next generation of leadership was likely to take place.

The sixth summit that took place on 30 October 2003 saw the conclusion of two major new cooperation agreements on satellite navigation and tourism facilitation, and a new dialogue on industrial policy.³⁶ The parties discussed topics including human rights, the fight against illegal immigration, and technical cooperation. The agreement on approved destination status³⁷ facilitates visa procedures for group, hence promoting people-to-people contact. Herein, the Chinese participation in the Galileo navigation system also got cemented. The Galileo satellite navigation cooperation agreement enables China to participate in this European satellite navigation programme, notably through a substantial financial stockholding in the Galileo joint undertaking.

The seventh summit held on December 2004 was very important as far as this strategic partnership is concerned. At the summit, a joint declaration on non-proliferation, an agreement on the peaceful nuclear research, customs cooperation and the prolongation of the Science and Technology Agreement were signed. Both sides stressed the importance of further deepening their strategic partnership. It was also decided to create a high level coordination mechanism, complementary to the regular political dialogue structure, to steer EU-China relations.³⁸

The eighth summit of the EU-China held in Beijing on September 5, 2005. It was noted that the strengthening of the relationship had been of great value to the long-term interests of China and the EU, for cooperation between Asia and Europe as well as to peace, stability and development in the world at large. Both parties further called to develop the strategic relationship through concrete actions. During the summit the two

³⁶ Joint press statement of the sixth EU-China summit held at Beijing on 30October2003,http://www.europa.eu.int/com/external_relations/China/summit/jpss_301003.htm

³⁷ For the full text of MoU between the EU and China, on tourism (ADS) signed in November 2003, See, http://www.delchn.cec.eu.int/en/whatsnew/mou_291003_en.pdf.

³⁸ Joint press statement, *EU-China summit: New Steps in a growing relationship*, 7th EU-China summit (Hague: December 6, 2004).

sides endorsed a joint statement on cooperation in space exploration, science and technology development, a memorandum of understanding on China-EU dialogue on energy and transport strategies, and a maritime protocol extending the existing maritime agreement to new member states.³⁹

During the meeting, a joint declaration on climate change between the EU and China was issued, which led to a China-EU partnership on climate change. It was said that this partnership would complement the UN framework Convention on Climate Change and the Kyoto Protocol. Cooperation in areas like development, deployment and transfer of low carbon technology, including advanced near-zero emission coal technology⁴⁰ through carbon capture and storage was also envisaged.

Both sides welcomed the recently established high level coordination mechanism and agreed to launch a regular vice foreign ministerial level strategic dialogue mechanism by the end of 2005 and to expedite preparatory work to conclude at an early date an agreement that will reflect the full breadth and depth of the strategic partnership between the EU and China. As strategic partners, the two sides reiterated their cooperation in the fields of non-proliferation and the disarmament. They will continue to maintain and enhance dialogue and cooperation on the basis of the Joint Declaration of the PRC and the EU on non-proliferation and arms control which was adopted at the 2004 EU-China summit. It was agreed that the two sides would utilize multiple forums including Asia Europe Meeting (ASEM) and Asian Regional Forum (ARF) to further consolidate the relationship.

In order to provide a firm and strong basis to the developing strategic partnership between the EU and China, cooperation framework in terms of sectoral dialogue has been envisaged. Today cooperation on twenty such identified sectors is going on. In terms of width and depth, the twenty sectors represent the most important areas from trade to

³⁹ Joint press statement, *Challenge and opportunities: the EU and China in an Age of globalisation*, 8th EU-China summit. (Beijing: September 5, 2005)

⁴⁰ Coal is the primary source of energy in China, and it is expected that if China will not switch over to clean fuels then by 2020 she will emit more green house gases than the USA.

environment, energy, space information society, industrial policy, intellectual property rights, textile dialogue, education and culture, etc. to name of few.⁴¹

Space Cooperation

Today the EU and China have developed a space partnership commensurating the strategic partnership that they are building. The space partnership is of vital importance for the Chinese as today China is looking for space expertise, an area where EU has considerable edge. It is very important for the Chinese ideology of techno-nationalism. Like Europe, China also views space technology as a development multiplier.⁴² The Chinese leadership views space technology as a ticket to joint the elite club of the economic and military leadership. While for the EU, cooperation in space technology amounts to a win-win outcome and can be helpful in the projection of EU's "soft" power.

The EU's latest Space Policy White Paper emphasizes: "Space technology is set to play a key role in helping the union achieve its main objective: faster economic growth, enlargement and cohesion, sustainable development, security and defence."⁴³ Here European views are much closer to those of the Chinese, which also seeks to maximize resources and views space as a global commons.

Currently lacking truly global security interest particularly in East Asia, the EU does not tend to share the US concerns about strategic technology exports to China. European efforts to assist China technologically are driven by economics. During the last five years China has imported over \$75 billion worth of technology from the Europe, more than any other source.⁴⁴ Partnership with China in space projects mean cost and benefit sharing as China has financed fifty percent of the \$60mn joint project on solar telescope between Germany and China.⁴⁵ China has collaborated with Surrey Satellite

⁴¹ See, Appendix for the text of sectoral dialogues.

⁴² John Johnson Freese and Andrews Erickson, "The Emerging China-EU space partnership: A geo-technological balancer", *Space Policy*, No.22, June 2006, p.12

⁴³ White paper, *Space: A new European frontier for an expanding union an action plan for implementing the European space policy*, (Brussels: EC, 2003), on November 11, 2003, p.1

http://www.globalsecurity.org/space/library/facing/int/eu_whitepaper_nov_2003.htm

⁴⁴ Op. cit (John and Erickson: 2006), p.13

⁴⁵ Ibid., 13

Technology Ltd.(UK), to develop two micro-satellites. China's Sinosat-2 communication satellite was also manufactured in the Europe.⁴⁶

Galileo

The Galileo satellite navigation system is a European Union counterpart of the USA's Global Positioning System (GPS). GPS is solely funded by the USA and is meant for military use, but Galileo is an example of international collaboration primarily meant for civilian use. A cooperation agreement was concluded in October 2003 under which China has pledged to contribute \$200 million to the programme. A follow-up agreement between the Chinese Remote Sensing Centre and the Galileo Joint Undertaking was signed in October 2004, opening up for the first time this community undertaking to the full participation of a non-EU country. Though China's participation is limited, as the EU rejected the Chinese offer of contributing in the form of launching parts of the Galileo constellation, for "it will send wrong signals", marked one European Space Agency (ESA) official.⁴⁷

Sino-European Galileo cooperation is in some respects part of a plan of a broader cooperation between the Europe and China. For 20 years China and Europe have worked together on space based earth observation programme and the launch of observation satellites. Currently Europe and China are working together on China's double star project. As its name indicates, the mission consists of two satellites in complimentary orbits, designed to simultaneously gather data on the changing magnetic field. The intent is to have China's satellite work in concert with four ESA satellites, which are part of the ESA's Cluster mission.⁴⁸ In June 2002, Alcatel (French Satellite Manufacturer) and China Aerospace Science and Technology Cooperation signed a contract for the joint development of the first Chinese high capacity communication satellite.⁴⁹ China has opted for the European Global System Mobiles (GSM) standard over the Code Division Multiple Access (CDMA) standards of the USA for its mobile telephone technology.

⁴⁶Vincent Sabathier, "Europe and China", *Ad Astra*, Spring 2005, available at, www.space.com/adastra/China_europe_55.htm.

⁴⁷ See, http://www.space.com/spacenews/archieve03/galileoarch_111103.htm

⁴⁸Shi Yuan "China's double star glitters in outer space", *Aerospace*, 2004. see. <http://www.space.cetim.net.cn/docs/t402/ht0402/zbdd07.htm>

⁴⁹ Op. cit (John and Erickson: 2006), p.21

Regarding space missions, CLTC of China which oversees all launch and tracking activities is using ESA standards and even endorsing them. Europe has made significant inroads into the potential lucrative Chinese market and intends to expand them, more in consonance with its strategic partnership.

Despite such recent progress, many issues concerning potentially increased Sino-European space cooperation largely remain to be addressed. How to assure the dismayed USA, over the potential military implications of the Galileo in general and the Chinese participation in particular? Further, how to reconcile various views of civil society groups about the best way to engage China, both on earth and in the space? What about demands raised by several European countries which want China to become more transparent and forthcoming about its space program in terms of both activities and intentions. Other demands like joining the Missile Technology Control Regime (MTCR), to join the International Space Station (ISS) and to set up a civilian space structure equivalent to that of EU. Till now the EU has well coped with both the internal and external dilemma but now it is becoming increasingly difficult. Thus, China has to take steps so that such fissures can be avoided.

Non-Proliferation

Non-proliferation of the weapons of mass destruction has been a major concern for the EU. The European Security Strategy Paper released in December 2003 outlines the EU fear, “proliferation of weapons of mass destruction is potentially the greater threat to our security...”, “...the spread of missile technology adds a further element of instability and could put Europe at increasing risk.”⁵⁰ It is imperative for any strategic partnership to address the issue identified so crucial for the security and the EU-China strategic partnership is no exception.

When China became a nuclear power, she tended to understand better the positions of other powers regarding such strategic issues. For instance, she seemed to better understand why the US forbids other countries to export the weapons of mass

⁵⁰ Op. cit (European Security Strategy: 2003), p.4

destruction and missile technology.⁵¹ China started appreciating EU concerns regarding non-proliferation in Middle East, Central Asia and South Asia. Today Chinese security interests are scattered in regions far away from its home, i.e. Africa, Malacca Straits, Central Asia, and Venezuela. These areas have now become crucial to the Chinese energy security. As a result, China appears to be more prudent in exporting the technologies and the strategic materials starting from the new century, and accordingly passed a series of laws in 2002 and 2003 on export control and non-proliferation.⁵²

The European Union maintains an impeccable non-proliferation record and as mentioned in European Security Strategy Paper, wants to collaborate with some key players. China though having a dubious record but now recognizes the importance of international efforts in counter proliferation, as it has been exposed to a proliferation prone peripheral environment. The Chinese application for MTCR membership in 2002 and the publication of a comprehensive export control list prepared in 2002⁵³ indicates her growing concerns regarding proliferation.

Both China and the EU recognized in their joint statements,⁵⁴ that “the fundamental purpose of non-proliferation is to maintain international and regional peace, security and stability which is in the interests of China and the EU as well as the entire humankind.” The EU addresses Chinese apprehension that the prevention of proliferation of nuclear, chemical and biological weapons should not hamper international cooperation in materials, equipments and technology for peaceful purpose. But at the same time maintained in the most explicit terms; “peaceful utilization should not be used as a cover for proliferation”.⁵⁵ The EU welcomed the Chinese White Paper on non-proliferation entitled, “China’s Non-Proliferation Policy and Measures”. The EU appreciates these positive developments shown by China through the paper and by the affirmative voting in the United Nations Security Council resolution 1540.

⁵¹ Ting Wai, *EU-China Relations: Economic, Political And Social Aspects*, 2005, available at, www.soc.nii.ac.jp/eusa-japan/download/eusa_ap/paper_TingWai.pdf, p.18

⁵² *Ibid.*, p.18

⁵³ Matt, Schroeder, “Of Red Parakeets and Dragon Fire: The non-proliferation case for maintaining arms embargo on China”, (FAS, Public Interest Report, 2005) see, www.fas.org/asmp/library/article/html, p.1

⁵⁴ Joint declaration of the People’s Republic of China and the European Union on non-proliferation and arms control. (Brussels: EC, December 9, 2004), <http://www.eruopa.eu.int/newsroom/15854/04/press348..>, p.1

⁵⁵ *Ibid.*, p.1

The EU and China has recognized that the illicit trade of the WMD related materials, equipments and technology is a matter of serious concern for China and the EU. Both parties resolved in their joint declaration, “to work together within their strategic partnership to strengthen the international non-proliferation system”. They have resolved to support the International Atomic Energy Agency (IAEA), Organisation for Prohibition of Chemical Weapons (OPCW) and the United Nations (UN) in their endeavours. Of late, the regional dimensions have also been recognized as the EU and China decided to cooperate at the Asian Regional Forum (ARF) level as well.⁵⁶

Despite such recent progress, many unaddressed issues can cause fissures in the potentially increased Sino-European non-proliferation cooperation. There is a general perception though grounded in the EU’s Arms Export Code that the EU can remove arms embargo due to the increasing non-proliferation cooperation. The US, it seems is not going to be assuaged by the EU-China non-proliferation cooperation, as, the US is still convinced that China is a major proliferator. In March 2004, the Director of Central Intelligence Agency testified that the Chinese firms are continuing to be leading source of relevant ballistic missile technology.⁵⁷ Chinese weapon manufacturer, NORINCO has been accused of selling missile technology to Iran. As such Chinese has been accused of going against the interests of the international community in her dealings with Iran. Though it is clear that China does not want a nuclear Iran but at the same time does not accord due importance to the issue due to the energy interests, she has been cultivating there. The efforts of EU-3 could have been more effective had China and Russia would have been supportive.

China is also part of the illicit global proliferation network. Everyone knows Chinese transfers of nuclear and missile technology to Pakistan. Unsubstantiated claims have been made regarding Chinese technology transfers to Libya as well. But given the EU’s constructive approach such instances should rather be a stimulant and not a deterrent. It seems that the growing strategic sense coupled with the growing stake in the international order might deter China against proliferation. The EU’s role here is to make

⁵⁶ Ibid, p.3

⁵⁷ Testimony of George, J. Tennes, Director of Central Intelligence, before the senate arms committee, *The Worldwide Threat 2004: Challenges in a Changing Global Context*, cited in, Op. cit (Schroeder: 2005), p.1

China synchronize her national interests by those of international community especially in such crucial areas, by constructively engaging her.

Apart from cooperation in the areas like, space and non-proliferation, cooperation in areas like science and technology, environment, terrorism etc will be of great significance. Environment, sustainable development, science and technology, etc, are the issues discussed regularly in the sectoral dialogues. But terrorism is an area, which is not included in the sectoral dialogues yet.

Both, the EU and China has been the victim of terrorism. The Xinjiang province of China is particularly very disturbed. It has come to fore that the extremists of Xinjiang have relations with the Taliban and the Al-Qaeda.⁵⁸ As far as the EU is concerned, recent Spain and London bombings with the ongoing separatist activities of ETA and Irish Republican Army (IRA) have been a major source of concern. In the near future when EU is going to be enlarged future it wills inherent many more disturbed regions. Thus, cooperation here will be of great significance.

The EU has given shape to its fear in the European Security Strategy (ESS) document released in December 2003.⁵⁹ Where terrorism has been perceived as a threat to European values, “terrorism.... seeks to undermine the openness and tolerance of our societies”. Its being “well resourced, connected by electronic networks and its willingness to use unlimited violence” builds a case for global cooperation. There is a clear need to network the various international communities, be they Muslims, Jewish, Europeans or Anglo-Americans.⁶⁰

There is a section in Europe, which do not have faith in Chinese credentials as a partner against terrorism. But owing to her experience and the future threats likely to be posed by Uighur separatist, China understands the value of such coalitions. It is clear from the fact that the Chinese voted affirmatively for UNSC Resolution 1368 on 12 September 2001, and on.28 September 2001 China voted with all others in the UNSC for

⁵⁸ See, Shirley Kan, “US-China Counter Terrorism Cooperation: Issues for US Policy”, *CRS report* 2005, RL21995, p.1

⁵⁹ Op. cit (European Security Strategy: 2003), p.3

⁶⁰ See, Roshita Dellios and Herther Field, “China and the European Union: Potential Beneficiaries of Bush’s Global Coalition”, *Australian Journal of International Affairs*, vol.56, no.1, January 2002, p.97

Resolution 1373 unconditionally. It reaffirms the growing Chinese desire to combat terrorism. Chinese side still maintains that conclusive evidence, compliance with the UN charter, a role for the UNSC and specific targets should be part of any war against terrorism.⁶¹

CONTENTIOUS ISSUES

Despite growing convergence in many areas, still there are some issues of vital national interest between the two parties, which need immediate attention with utmost sensibility. Dialogue with pragmatist ordination over the issues could be useful, as owing to the strategic and military impinging, chances of negotiations getting stalled will be very high.

Energy

Spectacular growth rate in China over a decade has greatly fuelled its appetite for energy and natural resources. Among the five basic food- energy and industrial commodities, grain, meat, oil, coal and steel- Chinese consumption has already eclipsed that of the EU and US in all but oil.⁶² Today China accounts for 12.1% of the world's energy consumption, second only to that of US (24%). Until recently, China was self-reliant but now imports one third of her needs and became the world second largest consumer of petroleum products in 2003, with total demand of 5.56 million barrels per day.⁶³ China's oil demand projected to reach 12.8 million barrels per day by 2020.⁶⁴ China's share of the world oil market is about 8 per cent but its share of total growth demand since 2000 has been 30%.⁶⁵

China's quest for energy security and its energy consumption pattern is source of conflict with EU primarily on three counts. Firstly, Europe herself is a net energy

⁶¹ Op. cit (Shirley Kan: 2005), P.2

⁶² Fraser Cameron et. al , "EU-China relations: towards a strategic partnership", *EPC working paper*, 2005, p.11

⁶³ See, EIA country analysis brief, *China: Energy Information Administration*, Official Energy Statistics from the US government, <http://www.eia.doc.gov/emu/cabs/China.htm>

⁶⁴ See, Xiao Qiang, "Asia's Great Oil Hunt", *China Digital News*, November. 6, 2004, <http://www.journalism.berkeley.edu/projects/Chinadu/ebn/archieves/003711.htm>.

⁶⁵ Daniel Yergin, "Ensuring Energy security", *Foreign Affairs*, Vol.85, No.2, May 2006, p.72

importer. According to report published by the European Commission, (*European Energy Outlook to 2020*) two third of the EU's total energy requirements will be imported by 2020. Euro-gas expects that the EU will also import up to 75% of its natural gas requirements by 2020. The British government send Prince Charles in 1996 to several Central Asian counties including, Turkmenistan, Uzbekistan, and Kazakhstan.⁶⁶ This hunt can bring them conflicts, as in the year 2003 European and American oil companies used their commercial privileged position to stop CNOOC & Sinopec to participate in the development of an oil field in the Caspian Sea.⁶⁷

Secondly, China's need for access to raw materials and energy is partly shaping its foreign policy and security planning.⁶⁸ China is forging ties with countries like Myanmar, Libya, Iran, Iraq, Sudan, Venezuela, and Angola. It is being perceived as an obstacle in the global efforts to bring reform. China, on the other hand, maintained that these relations are not forged to seek hegemony or to disrupt international balance but simply to maintain her 'peaceful rise'. But the EU along with the US seems to be disinclined to get assuaged by the Beijing's response.⁶⁹

This search for overseas oil supply and subsequent developing relations with countries that pursue questionable domestic policies and in many cases foreign policies contrary to American and European interests or preferences raises concerns about the strategic intent behind China's energy diplomacy. China on the other hand though defensive⁷⁰, but does not loose any occasions to castigate west as they are trying to create an oil market monopoly. According to China, countries with alternative worldview will have to face energy supply bottlenecks. At the same time, China refutes the charges of starting a 'new great game'⁷¹ in Central Asia and financing rouge states by opaque oil deals.

⁶⁶ Paul Reynolds, "Energy Diplomacy" available at, <http://news.bbc.co.uk/2/hi/europe/4573944.stm>

⁶⁷ See, "China's Oil Giant dealt a set back", *New York Times*, 13 May 2003, p.9

⁶⁸ Op. cit (Fraser et al: 2005), p.13

⁶⁹ Arvind Kumar, "China's quest for Energy security", *Third Concept*, vol.30, no.231, May 2006, p.23

⁷⁰ Zha Daojiong, "China's Energy Security: Domestic and International Issues", *Survival*, vol.48, no.1, Spring 2006, p.183

⁷¹ The 'Old Great Game' was the rivalry between Tsarist Russia and British-India during the late eighteenth century and the early nineteenth century for gaining foothold in Afghanistan. The geostrategic considerations were the principal concerns at the time. Analysts view the oil rich Central Asian Republics with Afghanistan as a zone of a 'New Great Game' between the great powers and the regional powers

Lastly, the European countries want China to develop non-conventional sources of energy and increase the energy efficiency. Today China has one-sixth energy efficiency compared to Japan, while coal being the primary sources of energy and central to any national energy strategy.⁷² It is estimated that today China is second largest emitter of greenhouse gases and will overtake the USA by 2020. China's nuclear generation power capacity is only 1.4% of China's total power supply.⁷³ European countries echoed US voices and asked China to address its environmental challenges and cooperate in combating global warming, and to take energy governance seriously.⁷⁴

Churchill, more than 90 years ago, laid down four principle of energy security, namely, diversification, resilience, integration, and information.⁷⁵ Four of them require partners and it seems both the EU and China has recognized it also.⁷⁶ But given the nature of energy market, which is primarily, dominated by the US and Russia both the EU and China has little space and saying. China is trying hard to have access to oil resources, which are either deserted, or unexplored, or falls in the so-called rouge states. The EU toes the US line and is trying hard to please Russia so as to have uninterrupted oil supply. Some time both the EU and China compete against each other, as for Russian oil where the EU feels that China could unsettle the established oil pricing mechanism.⁷⁷ The quest to have energy secure feature on the part of both energy deficient partners, sometime raises questions regarding the nature of this strategic partnership. It reinforces the argument that in order to reach the next level, the strategic partnership needs both the EU and China to cooperate.

including China. See, shams-ud-din, *Afghanistan and Central Asia in the New Great Game*, (New Delhi: Lancer Books, 2002)

⁷² See, IEA Report, "Coal In The Energy Supply Of China", (Paris: 1999)

⁷³ Op. cit. (Zhao: 2006), p.186

⁷⁴ World bank, *Clear Water, Blue Sea China's Environment in the New Century*, cited in op. cit (Zhao: 2006), p.186

⁷⁵ Op. cit. (Daniel: 2006), p. 72

⁷⁶ Op. cit (Joint Statement of the eight EU-China summit), p.1

⁷⁷ Andrew Monaghan, *Russian Oil And EU Energy Security*, Draft Paper, Conflict Studies Research Centre, London, November 2005, p.13

NATO

NATO is a product of the Cold War and many questioned its relevance after the end of Cold War.⁷⁸ Some even interpreted EU desire to develop a Rapid Reaction Force as an implicit withdrawal of support from NATO. But NATO has redefined its role in the post-Cold War era, and European countries have supported its eastward expansion as well. Today NATO is active in training missions in Afghanistan, earthquake relief in Pakistan and that tasks outside of the treaty are on the increase.⁷⁹ The European Union has recognized the central role of NATO in any security calculus in Europe. It is of the belief that both organizations would benefit from working closely together on a range of security issues, from counter terrorism to the proliferation of WMD's.⁸⁰

The EU and NATO ambassadors hold regular meetings discuss 'Joint EU-NATO Operations', one such joint operation is going on in Bosnia. Scholars highlighted the benefits this relationship can beget, as the two organizations are having complimentary capacities to fill the critical gaps. Just as in Afghanistan where NATO peace keepers can maintain only law and order while EU can step into take care of the critical demands like police, doctors, engineers development advisers etc.⁸¹ the EU rates its relationship with the USA above all other relationships, and NATO is being seen as an important expression of this relationship.⁸² Apart from this the EU-NATO permanent arrangement particularly the Berlin plus, enhance the operational capabilities of the EU and provide the framework for the strategic partnership between the two organizations in crisis management.⁸³

China never appreciates NATO as such, but accepted its existence as an offshoot of Cold War politics. China even echoed the discreet European voices regarding the relevance of NATO in the post-Cold War era. To that end, China encouraged building of

⁷⁸ Daniel Keohane, *Unlocking EU- NATO Cooperation*, CER Bulletin, issue 48, July 2006, p.1

⁷⁹ Ibid., p.2

⁸⁰ Ibid., p.1

⁸¹ Ibid., p.2

⁸² Op. cit (ESS: 2003), p.9

⁸³ Ibid., p.12

an European Defence as China perceived it is a counter balancing force of the US and NATO influences and role.⁸⁴

One of the primary reasons of China's opposition to NATO stems from the Chinese perception that today NATO has been reduced to a mere tool in the hands of America, which is selectively and conveniently using NATO to fulfil its hegemonic designs. Thus when NATO, in July 1997 decided to admit Poland, Hungary, and Czech Republic in the alliance, Beijing accused the US of using enlargement for the "further consolidation of its control over Europe", while refusing to bear the respective costs.⁸⁵

China viewed the April 1999 Washington summit and the emergence of NATO's new strategic concept as another means of turning the alliance into a tool of US hegemonism that obliges Europeans to fight for American interests anywhere in the world and to fight for themselves where American interests are limited. As a consequence, the Europeans are expected to rapidly develop an interest in having an alliance of their own.⁸⁶

As early as 1995, China had condemned NATO air strikes in Bosnia following the December 1995 Dayton agreements, the PRC abstained from a security council vote regarding NATO's intervention in Bosnia. When violence erupted in Kosovo in early 1998, China pronounced the conflict as an internal affair of Yugoslavia and opposed any involvement, even by the UN Security Council.⁸⁷ China protested at the beginning of the NATO air strikes by March 1999, and with Russia even refused to grant the NATO, a UN mandate for this purpose. Chinese media gave extensive coverage to the opposing demonstrations in European countries and justified her stand by airing the view that China itself could become a future victim of similar aggression.⁸⁸

⁸⁴ Valerie Niquet, "The China Policy of the European Union" in K. Santhanam, ed., *Asian security and China: 2000-2010*, (New Delhi: Shipra Publication, 2004), p.443

⁸⁵ Xinhua News Agency, July 9, 1997, as a quoted in, Summary Of World Broadcasting, FE/2970/G-11-2, July14, 1997

⁸⁶ Wang Naichengaud and Jun Xiu, "Whither NATO", *International Strategic Studies*, No.2, 1999, p.27

⁸⁷ Xinhua News Agency, March10, 1998, as quoted in Summary of World Broadcasts, FE/3173/G11, March12, 1998

⁸⁸ Xinhua News Agency, April 16, 1999, as quoted in Summary of World Broadcasting, FE/3512/G/5-6, April 19, 1999

China vilified European NATO members and treated with a mixture of warnings and threats. Some of the Chinese comments defined Europe as the second loser of the campaign. It was portrayed that the US would use the conflict to assert its hegemony and would leave refugees and reconstruction to the EU. Following the NATO bombings of the Chinese embassy in Belgrade in 1999 and consequent violent protests throughout China, Federal chancellor Gerhard Schroeder had to apologize on behalf of the NATO. During the visit of Schroeder, Chinese stressed for a political solutions of the problem by the UN Security Council.⁸⁹ However, China still abstained from the voting at UNSC, which passed Resolution no.1244.

China is not comfortable with the expansion drive of the NATO. NATO's journey of becoming a group of twenty-six from sixteen countries has been perceived negatively by China. NATO enlargement was assessed by Beijing as strengthening of the American control over the Europe. Whereas China from the very beginning wanted to strengthen Europe as an independence actor, because China knows that with the dissolving of USSR the status of China, as a potential contender to the United States has raised considerably. Furthermore, China is of the view that such developments in Europe would block the growing global multipolarity, which is more beneficial to Chinese interests than the monopolar international system under the control of the US.⁹⁰

To add to this, the Chinese were also concerned that the US could extrapolate the European mode of behaviour to the Asia-Pacific. China has concern of being treated in the same capacity as Russia in Asia by Beijing's regional neighbours – Japan, South Korea and the ASEAN member states.⁹¹ China is worried about the possibility of its deteriorating security and economical relations and consolidation of the latter's strategic and political links with Japan and Korea for the purpose of containment of China. China could sense that the new arrangements, which are approved in 1999 by the Japanese parliament, were actually based on the new guidelines signed between the USA and Japan in 1997. The proposal provides the further enlargement of the military role of

⁸⁹ Xinhua News Agency, May 12, 1999, as quoted in Summary of World Broadcasting, FE/3534/G/3-4, May 14, 1999

⁹⁰ Sergei Trough. *Russia's Response to the NATO Expansion: China Factor*, Moscow, 1999, available at <http://www.nato.int/acad/fellow/97-99/trough>

⁹¹ Ibid., p.11

Tokyo in vaguely defined surroundings zone that was considered to be the 'zone of responsibility' for Japan.⁹²

These Chinese concerns are still unaddressed by her European partners. The EU favours closer NATO-Japan ties and regards Chinese concerns as misfounded. A meeting between the NATO and the Japanese foreign minister Taro Aso in Brussels in early May was construed by China, as intended to restrain her politically.⁹³

One more factor relating to the NATO enlargement and to the strengthening of American influence in his block, irritates the Chinese. The NATO enlargement was posing the additional political obstacles to Chinese penetration to the trade markets of Europe. It is notable that starting from 1992, the volume of trade of the EU countries with the Asian countries of Asia Pacific has exceeded volume of trade of the Europeans with the USA (\$249 and \$206 billion respectively).⁹⁴ Therefore, such political developments in Europe could have a negative effect on the Chinese external economic interests.

Furthermore, China is concerned that as such she is having a very limited choice when it comes to defence purchasing. The EU and the USA do not sell arms to China. Israel sometime back tracks under the US pressure, AWACS deal being the example. The Chinese desire to diversify the market is getting restrained due to the NATO enlargement. Previously under certain circumstances, China could have acquired sophisticated weaponry, for example the Czech Republic or Poland.⁹⁵

Inclusion of the former satellite states of the Soviet Union into NATO, means that the military structures of NATO moved closer to the borders of Russia. It can stimulate Russia for the utmost political and military consolidation of the Commonwealth of Independent States (CIS) countries. Already such consolidation has taken place due to the threats from Islamic fundamentalism in Tajikistan and Uzbekistan and ethnic conflicts in

⁹² *ibid.*, p.14

⁹³ *Op. cit.* (Ting Wai: 2005), p.19

⁹⁴ *Op. cit.* (Trough: 1999), P.14

⁹⁵ *Ibid.*, p.17

the Trans- Caucasian states.⁹⁶ These developments will not augur well for the Chinese desire to have a presence in the CIS to meet her energy and raw material demands.

Arms Embargo

The arms embargo against China was part of a long list of measures imposed by the European Council in June 1989, as a reaction to the violent Tiananmen Square repression by the Chinese military forces. While sanctions, such as the suspension of contacts at ministerial level, postponement of new bilateral projects, reduction of cultural, scientific and technological cooperation, were lifted already from October 1990, the arms embargo stayed in force. Of the entire spectrum of sanctions imposed, it is the only measure still in force today.

However, the EU's decision to impose the arms ban on China did not specify the details of this embargo, thus leaving space to each member state to give its own interpretation. Hence, since 1989 certain EU member states have permitted the export of technological products to China, these technological products can well be classified into the category of products, which fall into the category of products intended for military purposes. Dual-use technologies can be cited as an example. Of course, although the embargo is respected even during the 1990s, arms equipment was officially exported from the EU member states to China. This is done to fulfil agreements signed before 1989.

In parallel to the EU, the United States also imposed an arms embargo against China in 1989. The American embargo is precise and extended to all military products. Hence, from the early 1990s, the major parts of the Chinese military equipments were imported from the Russian Federation. Israel too, was selling military equipments to China, but under the American pressure she has been forced to withdraw from such cooperation.

According to the official American position, the human rights situation in China has not changed significantly enough since the 1989 incident, to bring about a lifting of

⁹⁶ Ibid., p.17

the American arms embargo. However, the human rights factor is not the only one determining the American policy on this issue. US thoughts are concentrated on Chinese military modernization and the balance of power in the Taiwan Straits.⁹⁷ A European unilateral decision on this issue could endanger the security of American interests in the region, due to the diversification of China's military equipment sources. Furthermore, it would increase the pressure on the US Government from the American arms manufacturers, which would be interested in doing business with China. Taking the issue of the arms embargo as an excuse and speaking generally, from the American point of view, Sino-European cooperation creates unwished antagonism with American interests.

The American argument that by lifting the embargo European companies would export without limit military equipment to China is denied by the European side, which stresses the symbolic nature of such an action. The EU understands it as a political signal to Beijing that changes in China are taken into account. However, even by lifting the embargo, European and international mechanisms controlling the trade of arm products will still be in force.⁹⁸

The PRC has been showing an increased interest in the European military equipment, as well as in the lifting of the arms embargo in force since 1989. Chinese interest is orientated mainly towards the British, German, French, Italian and Spanish market. In the first Chinese foreign policy strategy paper concerning the EU, published in October 2003, Beijing demands explicitly the lifting of the arms embargo. From the Chinese point of view, the reasons for such a sanction no longer exist. The embargo is characterized as anachronistic and a Cold War product. Thus, "the EU should lift its ban on arms sales to China to an early date so as to remove barriers to greater bilateral cooperation on defence industry and technologies".⁹⁹

⁹⁷ Even Taiwan openly pleaded for Maintaining Arms Embargo against China by publishing a paper. See Wu Chih Chung, "The EU should not lift Arms Embargo against China", www.gio.gov.tw/Taiwan.website/4-09/200411200.html

⁹⁸ The 1998 EU code of conduct on arms sales and the EU regulation for the export of dual use products. See <http://www.ue.eu.int/uedocs/cmsupload/08675r2en8.pdf>

⁹⁹ The Chinese has often described the arms embargo as relic of the Cold War and form of political discrimination, which China firmly opposes.

Furthermore, opposing the American unilateral approach in world politics is a common interest between Beijing and Brussels. China visualizes a multipolar world order, where both the EU and the PRC will have a central role. Within this context, the Chinese fourth generation leadership would consider the lifting of the arms embargo as a great success, even if access to the European military equipment technology remains limited.

After more than fifteen years in force, the EU has started considering lifting the arms embargo on China. The issue of lifting the EU's arms ban has been under active consideration by the EU since December 2002¹⁰⁰. The initiative was started by France¹⁰¹ and backed up by several other member states.¹⁰² However, for the moment the EU member states have not reached a consensus on the issue. The European parliament opposes to such an action in view of the human rights abuses and the tension in the Taiwan straits. Nevertheless, since the European parliament has only a consultative role on this subject, the lifting of the embargo depends ultimately on the political will of the member state governments.

On the level of EU member states, the member states that have a strong arms industry and thus an influential lobby from this sector put the EU under pressure for lifting this embargo. The fact that this has not yet been done is more due to political reasons than simple respect of principles. The EU and national governments fear severe criticism from various elements of the public, and the accusation of supporting the expansionist ambitions of the Chinese government, thus having a negative effect on the human rights issue. Especially the Nordic EU member states, which do not have a significant arms industry, are even more against the lifting of the embargo, strengthening in that way the clash within the EU, and they do it on the name of human rights¹⁰³

¹⁰⁰ Javier Solana said that it can be removed in the first six months of 2005, see, Op. cit. (Fraser et. al: 2005), p.16

¹⁰¹ France To Push for Lifting Arms Ban, Xinhua News Agency, April 22, 2005

¹⁰² EU officials estimate that 16 of the 25 member states currently favour lifting the embargo. See, David Shambaugh, "China and Europe: The Emerging Axis". *Current History*, vol. 103, no.674, September 2004, p. 244

¹⁰³ Katinka Barysch, "The EU and China", (London: Centre For European Reform, 2004), p.1

In the EU China strategy paper of October 2003, the Commission affirmed that both sides “have an ever-greater interest to work together as strategic partners”. Economically speaking, the relations have been intensifying. However, what is important, not only in economic terms, is a cooperation agreement signed between Brussels and Beijing for the financial participation of the latter to the European satellite navigation programme “Galileo”¹⁰⁴. In parallel, the European Space Agency (ESA) is preparing an agreement proposal for cooperation over a period of five years. Concrete military equipment export intentions, especially from countries that actively demand the lifting of the arms embargo combined with the afore-mentioned projects should not be underestimated.

The lifting of the arms embargo would be a political signal not only towards China but also towards the United States. If despite the American pressure such a development takes place, the stability of the transatlantic relation will be questioned.¹⁰⁵ For the US government it would be a lack of understanding from the EU for American security interests, putting transatlantic ties under renewed strain, with the United States voicing strong opposition to the action.¹⁰⁶ Conversely, from the EU’s point of view¹⁰⁷, it would be a clear sign that Europe does not perceive China’s rise as a threat, showing the practical application of its rhetoric as presented in the commission’s policy papers.

Nevertheless, the European Union on 15 April 2005 failed to agree on lifting its 15-years old ban on arms sales to China. Although the arms embargo is more politically than legally binding for the EU member states, China should not expect in the short-term, within the framework of the European council, a consensus for its lifting. On this issue the spokesman of EU’s General Affairs and External Relations Nicolas Kerleroux said, the EU is committed to removing the arms embargo on China, but there is no timetable on this matter.¹⁰⁸

¹⁰⁴ China’s participation in the “Galileo” Satellite Navigation Project decided during the 6th EU-China Summit in 2003.

¹⁰⁵ Op. cit. (Kay Moeller: 2002), p.31

¹⁰⁶ Op. cit. (Katinka: 2004), p.1

¹⁰⁷ All European nations appear to agree that the embargo is anachronistic, given the overall health of Sino-European Relationship, see, Op. cit (David Shambaugh: 2004), p.246

¹⁰⁸ “EU Fails to Reach Deal on Lifting Arms Ban”, see, www.China.org.com

US-EU-China

The United States of America loom large in the emerging strategic partnership between China and EU. China forged relations with the countries of Western Europe in the 1970s, only after establishing relationship with the US.¹⁰⁹ Though during these years China has been encouraging and supporting every European act towards developing an independent personality in the international politics. While maintaining the official line of “we want good relations with EU and the US, and we want the EU to have good relations with the US too.”¹¹⁰

It transpires from the recent developments that USA is not comfortable with this emerging strategic partnership. Thus the big questions before EU is to whether gravitate back to the US or to expand its strategic partnership with China or how to strike a balance by accommodating fears of both sides?

Transatlantic relations have witnessed many strains in recent years. Whether it was Iraq war, creation of International Criminal Court (ICC), support to Kyoto protocol, differing terms of external engagement or the election of George Bush Jr. as the US president, the transatlantic alliance is still as solid as before.¹¹¹ The European Security Strategy paper maintains: “One of the core elements of the international system is the Transatlantic Relationship”...“Transatlantic Relationship is irreplaceable”.¹¹² In the words of Solana: “The Transatlantic Relationship is irreplaceable. Acting together the European Union and the United States can be formidable force for good in the world.”¹¹³ While commenting on transatlantic relationship Solana marked the substantial role it can play in transforming the world.¹¹⁴

¹⁰⁹ Moeller described this rapprochement as “Restrained Strategic Partnership”.

¹¹⁰ See, Judy Dempsey, “China Lobbies EU over Arms Embargo” *International Herald Tribune*, (Hyderabad), April 6, 2005, p.11

¹¹¹ Op. cit. (Ting Wai: 2005), p.20

¹¹² Op. cit. (ESS: 2003), see, p.9 &13

¹¹³ Javier Solana, *A Secure Europe In a Better World*, June 20,2003, cited in Op. cit. (Jing Men: 2006), p.11

¹¹⁴ Javier Solana, (2003) “The EU-Security strategy-Implication for Europe’s Role in a changing world”, see, http://www.Jep_berlin.de/mittagsgespraech/mig_2003/Mig-03-solama-en-speech.pdf.

The American perception of the Chinese rise is directly influencing the EU's efforts to forge closer ties with China.¹¹⁵ The Republicans regard China as a strategic competitor.¹¹⁶ Be it the issue of Taiwan or the strategic and military interests in the Asia-Pacific maintained by the US, or the enlargement of the NATO, or the US-Japan ties, the strategic interests of US and China collides. USA forced the EU to not to lift the arms embargo¹¹⁷ and portrayed China's anti-secession law as a security threat to the region where even EU has substantial economic interests at stake. However the Europeans do not subscribe to the US approach towards China in toto, as it is based on 'congame', 'domineering', containment by military alliances with Japan and Taiwan, and 'megaphoning'.¹¹⁸ But any inaction on the part of the EU amounts to gains for the Americans and feeling of helplessness for China.

Sometimes the EU supports the strategic position and the role of the United States in the Asia-Pacific region, in Northeast Asia, East Asia South Asia and in the West Asia as well. The EU here sometimes plays a supplementary force of the United States (European forces in Iraq). As far as Taiwan is concerned, the EU does not involve in it as deep as the United States is involved but meanwhile supports the US policy of neither Taiwan's independence nor military conflicts across the Taiwan Strait. Chinese scholars believe that in the potential crisis across the Taiwan Strait and China-US conflict, politically the EU will not possibly stand by China.¹¹⁹

Within the EU, the member nations are far from reaching consensus on whether to promote the EU becomes a force contends with the United States. The USA opposes the German bid for the permanent seat in expanded United Nations Security Council while China supported it. But China is not hopeful, as they consider the EU as "weak, consistent protectionist and falling in line with the US too often". Chinese knows that the

¹¹⁵ For detailed analysis of the US-China Relations see, Harries Owen, *China in the National Interest*, (London: Transaction Publication, 2003), p.1

¹¹⁶ Op. cit. (Andrew Monaghan: 2005), p.16

¹¹⁷ Jing Men, *Challenges to the EU-China Strategic Partnership: Analysis of the Issue of Arms Embargo*, draft paper presented in a seminar at Chinese academy of social science, Beijing, May 5-6, 2005, p.13

¹¹⁸ Willem Van Kemende, *The EU-US-China Strategic Grand Triangle: Wishful Thinking or Work in Progress*, European Institute of Asia Studies, March 28, 2006, p.15

¹¹⁹ Op. cit. (Zhengde Huo: 2005), p.9

US and the EU have similar views on many issues regarding China, e.g. human rights, Taiwan, China's close energy supply relations with rouge regimes, intellectual property rights violations, etc. For some it is also quite conceivable that Transatlantic Relations will regain momentum particularly in the post Bush era and will maintain their precedence over Europe strategic partnership with China.

Conclusion

Though the EU-China strategic partnership has reached in a comfort zone, yet it lacks the critical mass needed to upgrade it. Both sides are aware of this, but adjustment beyond a limit appears to be difficult. A key difficulty in the transforming the EU-China strategic partnership into reality is the problem of leadership which is inherent in a diverse and heterogeneous EU of twenty five members, characterized by conflicts between short-term interests and national rivalries on the one hand and an attempt to forge a common position.¹²⁰ Apart from this it is held that the integration prospect of the EU especially the depth of political integration is not keeping pace with its expected international roles and requirements. Even the dual structures of the EU make it a politically loose organisation this weakness in turn affects its partnership with China.

The EU and its members have quite different goals and demands of their China policy. In their relationship with China member nations differs from one another in their emphasis on the global strategy, international cooperation and economic interests. Their relationship with China, which has both common grounds and differences promotes and restrain each other. The UK, France and Germany pursue the position of a political power in the world and pay close attention to the Asian problems, while other members have no strategic interests in Asia.¹²¹ China backs German bid to get a permanent seat in UNSC. France and Germany in turn are staunch supporter of the removal of arms embargo. France and Germany shared the Chinese position in Iraq war. France has a strategic partnership with China.¹²² While Nordic and the Central and Eastern European countries, are closer to the US.

¹²⁰ Op. cit (Jain: 2006), p.10

¹²¹ Op. cit (Zhengde Huo: 2005), pp.10-11

¹²² 'China, France to Enhance Strategic Partnership', www.China.org.cn/english/international/128197.html.

Absence of any European strategic and military interests in the Asia-Pacific has been held as positive element in this strategic partnership. But the missing component of European strategic and military interest in the Asia-Pacific is also responsible for the stunted growth in this partnership. Without such a vital element an enthusiasm deficit is clearly visible. Almost all EU countries recognize the utility and vital importance of the transatlantic relationship and the EU-Russia strategic partnership. Contrary to the American thinking that military dialogue are beneficial for China only, active military and strategic exchanges with China could enhance the understanding of China's military and strategic mechanism, and the EU should take note of that.

Furthermore, China is not always an easygoing partner for the European Union. Its political system differs from that of the most Third World countries with which the EU has significant relations. The way China has articulated her views on non-proliferation, NATO, terrorism, etc. clearly indicates that China suspects the potential of this partnership. China has a different concept of security and sovereignty as well. Chinese scepticism regarding a just international order is indicative of its commitment to Westphalian sovereignty. National sovereignty is still sacrosanct for the Chinese; they view it as a necessary condition for the international order. For this reason, China views the EU as a collection of nation states, and prefers to deal with individual member states rather than the EU. Experience of the last fifteen years, show that China has paid only lip service to the multilateralism, a value very dear to the EU. However, the Chinese commitment to multipolarity is undeterred during the years.

The EU, on the other hand, views absolutely sovereignty as archaic. As the whole European integration project is based on limited sovereignty. The necessary corollary of the notion of sovereignty held by China, stipulates threats from external sources. Chinese response to NATO's expansion, NATO's activity in Yugoslavia, and Iraq War, speaks volumes of the Chinese mindset. In the SCO summit of 2005 China asked the US-led forces to chalk out a time limit of walkout from the region. China is not comfortable with such activities going near to her home. Some Chinese views that the EU under the leadership of the USA has used the plank of humanitarian intervention and democracy to

intervene in domestic affairs; gunboat diplomacy and the Ukraine election are cited as example.¹²³

No doubt, economics has been the mortar of the EU-China strategic partnership, but in recent years, trade frictions between China and the EU have increased by a big margin. With China's economic expansion and greater dependence on the outside world, the contention between China and the developed countries including the EU in market, energy and raw materials is becoming more intense. Thus, it becomes inevitable that trade frictions between the two sides are on the increase. Instead of being lenient to China because of the bilateral comprehensive strategic partnership, the EU has far more trade dispute with China than the United States and Japan. It uses administrative, technological and legal means such as anti-dumping, anti-subsidy, guarantee measures, protection of intellectual property rights, non-market economy status to force China to honour its commitments to the WTO and solve EU's massive trade deficit.¹²⁴

So far, the EU has launched over 100 anti-dumping investigations against China. China has become the EU's major anti dumping target. As the international textile trade was liberated in early 2005 and the EU began to pay great attention to the advantage of the low costs of China's high-tech products in the competition, trade frictions between the EU and China will further aggravate. The EU's trade disputes with China have their own characteristic. As its member nations try to gain benefits from their bilateral relations with China, while shifting dissensions and frictions to the EU, which will make it difficult for China and the EU to solve the problem.¹²⁵ Taking into consideration aforementioned background, a common strategy towards China can be next logical step. The common strategy approach is an important element in the evolution of the EU as a serious player in the post-Cold War international affairs.

Till now the EU has entered into three common strategies: with Russia in June 1999; with the Ukraine in December of the same year; and with the Mediterranean in June 2000. The EU's next priority area in applying the common strategy approach should

¹²³ Op. cit. (Zhengde Huo: 2005), p.10

¹²⁴ Op. cit (Zhengde Huo: 2005), p.10

¹²⁵ Ibid., p.10

be China. There are at least two advantages for the EU in engaging China at the political and strategic level: on the one hand, China has a coherent foreign policy. Economic development is not only the top economic priority of the Chinese government, but also a political priority. Indeed, sustained economic growth has become the *raison d'être* since the early 1990s. Therefore, China's foreign and security policies remain relatively benign. Since the EU is adopting a generally positive attitude towards China's transformation, it has a better chance of influencing China's future direction than a confrontational United States. Relations between the European Union and the China have reached high level of harmony in general terms, even though there is an imbalance between political and economic cooperation. The potential for a strategic partnership has not yet been fully explored.¹²⁶

Finally, the EU should take note of the situation that its strategic partnership with China should not sound as directed against any third party. It should be within the framework of the EU's Asia Strategy. Forging a balancing and accommodative partnership with three of the regional powers will be daunting task. As China-Japan relations are at lowest ebb while China-India relations are still characterized by the trust deficit. China does not want India and Japan to join UNSC as permanent members while some European countries have supported their bid. China unlike the France and Germany is not supportive of India being part of NSG, ITER etc. This region is very complex and the power arithmetic here does not and cannot have a straightjacket approach. Thus, the EU needs to develop its relationships with all the power centres and any articulations should be merit-based and transparent.

¹²⁶Lanxin Ziang, "An EU Common Strategy for China", *The International Spectator*, vol.36, 2001, p.93

CHAPTER 4

ECONOMIC RELATIONS BETWEEN THE EUROPEAN UNION AND CHINA: RECENT TRENDS

- **Background**
- **Current Scenario**
- **EU Foreign Direct Investments in China**

Market-Seeking Investment

- **Bilateral Trade**
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CHAPTER 4

ECONOMIC RELATIONS BETWEEN THE EUROPEAN UNION AND CHINA: RECENT TRENDS

The history of economic relations between China and Europe is very old. At the end of the fourteenth century, European traders came to China and started exporting goods to Europe and other countries. Various studies have established that as a result of these interactions, the Chinese economy expanded further monetised and was integrated to the pre-modern global economy. Slowly China became an important centre of European trading activities and it continues to be so even today.

Background

The lure of the Chinese market as a source of imports and as a destination for exports has always captured the European imagination. But the bitter experiences of the colonial era and the ideology of European countries during this period deterred China to have any interaction with Europe. With the exception of diplomatic relations with some countries of Europe, China remained skeptical of European countries and their likely interests in Asia. It is therefore not surprising that the establishment of the European Economic Community in 1957, passed over in silence in the Chinese press. Hardly any information filtered through regarding its objective and hardly any comments were made¹.

In the late sixties and early seventies, signs of change were visible in the Chinese perception of Western Europe. Some of the reasons responsible for this included. Firstly, the Chinese press sensed that Europe had undergone very profound and tremendous change. During this time, West European economic development was at par with that of the United States. Secondly, positive features of European Economic Community (EEC)

¹ Harish kapur, "China And The European Economic Community", in Harish Kapur, ed., *The End of an Isolation: China After Mao*, (Lancaster: Martinus Nijhoff Publishers, 1985), p.72

were highlighted as it was becoming increasingly independent in its attitude to the USA, economically and politically. Thirdly, Deng Xiaoping had been forced by the failure of 'Great Leap Forward' to forge relations with the European Economic Community (EEC).²

The failure of the Cultural Revolution and subsequent 'Open Door Policy' also facilitated development of this relationship. Western Europe was perceived as one of the two Intermediate Zones with whom relations were permissible. The emergence of EEC as a major centre of economic power was perceived as an opportunity for the on-going Chinese modernisation. It was held that economically autonomous Europe might encourage many of the East European states to reorient their economic relations in directions other than Moscow.³ The increasing economic prowess of the EEC was perceived as a development towards multipolarity by the Chinese media.

The European Community's response to these signals was positive. Development of relations with China was hailed as helpful in transforming the European Community into an international actor. Nixon's visit to China in 1971 and the subsequent normalisation of relations between the two countries provided a favourable international setting to the EEC to forge closer ties with China. However fear of losing Chinese markets to the US was also there. The European Parliament (EP) in its February 1973 session recommended to the European Commission to take appropriate initiatives to strengthen economic and trade relations between the Community and the PRC.⁴ The Europeans perceived the Chinese market as a development multiplier urgently needed for the recession stuck economy of Europe.

The Chinese market was perceived to be so huge that reports were published in Brussels regarding the vastness of the Chinese market, raw materials, her growth levels, etc. The European Parliament's Committee of External Economic Relations underlined the importance of dealing with China, as follows: 'the most populous country whose

² See Harish Kapur, *Distant Neighbors: China and Europe*, (London: Pinter Publishers, 1990), p.85

³ Op. cit (kapur: 1985), p.80

⁴ Ibid., p.83

human and natural resource are immeasurable'. President of the EC hailed China as 'potentially an enormous market', which can absorb \$25 to \$35 billion worth of goods from outside.⁵

The Commission then took the initiative, by laying down the broad provisions for the conclusion of a possible trade agreement with China. China also responded positively and promptly and sent its ambassador to the Community in September 15, 1975. Soon thereafter exploratory talks between the two parties started. During the talks, the Chinese asked for Most Favoured Nation (MFN) status from the Community. Though this could not be given, yet it did not deter both parties to sign a non-preferential trade agreement for five years in April 1978.

Thereafter, the relations between the EEC/EU have been developing smoothly. Few months after the signing of the 'Trade Agreement', the EEC took cognizance of the potential of the large Chinese market and offered certain concessions. The EC permitted China to export to the Community more than twenty products, which had hitherto been governed by restrictive regulations applicable to all state trading countries, including China. The External Economic Relations Committee of the European Parliament (EP) expressed that the common market should give preferential treatment to Chinese imports. Even the European Investment Bank had been asked to give loans to China on concessional rates.⁶

Both partners have shown openness and receptivity during the time, which in turn positively contributed in their trade relations. Imports of China from the EEC increased from 794 million ECU\$ in 1977 to 1489 million ECU\$ at the end of the year 1978. (See Table.1)

⁵ Ibid., p.83

⁶ Ibid., p.83

Table 1. *Trade Between the Community of Nine and China (million EUA) α*

Years	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Imports	544	722	667	858	860	940	1324	1889	944	2334
Exports	607	807	1153	1175	794	1489	2101	1725	860	2044
Balance	63	85	486	317	-66	549	777 ^b	-164	-84	-290

Source: SOEG Special issue and monthly bulletin 4/78, taken from, op. cit (Kapur: 1985), p.97

α . One European Unit of Account (EUA) is approximately US \$1.40

^b. During the first nine months

Current Scenario

The EU and China are building a very healthy economic relationship on the base established by the 1978 trade agreements between the two and the latest framework provided by the “Agreement Between China and the European Communities On Trade And Economic Cooperation”, (1985).⁷ The result of their approach is that now China has now become EU’s second biggest trading partner after the USA while at the same time the EU has become China’s largest trading partner.

This flourishing trade relationship is in consonance with the political and strategic partnership developing between the two. In 2003, the EU exported goods and services worth €41.2 billion to China while the volume of imports was €105.3 billion⁸. Since

⁷ Agreement on Trade and Economic Cooperation between the European Economic Community and the People’s Republic of China-September 16,1985, available at http://www.ec.europa.eu.int/comm/external_relations/China/intr/1985/1985_trade_agreement.htm

⁸ Trade statistics on the EU-China Trade and Commerce (January-December 2003), EUROSTAT, available at http://www.delchn.cec.eu.int/en/eu_China_wto/EU%20China%20Trade%20Statistics.htm

1978, EU-China trade has increased by more than 30-fold to reach around €175 billion in 2004.⁹

Japan's outstanding role in East Asia is beginning to fade and China may soon overtake the US¹⁰ as well. As China's progress is coinciding with its increasing military might, many observers in the US and Japan are skeptical of China's "peaceful rise". The EU however seems to be less worried by it and is inclined to cooperate in all areas with China in order to generate mutual economic and political benefits. It is generally believed by the EU, that China's increasing economic integration into the world economy will be good for all. At the same time the EU believes that global problems, of whatever nature may it be, cannot be solved without China's active participation.¹¹

EU Foreign Direct Investments in China

Foreign direct investment has played a very important role in the development of China.¹² The EU, which is the largest point of origin for foreign direct investment (FDI) in the world, has been a significant source of FDI for China. European firms recognised the potential of booming Chinese market and have given China high priority as an investment destination and have led the way in creating some of the largest joint venture projects, such as the giant Volkswagen project in Shanghai.¹³ Despite scaling heights in terms of mutual trade growth, the EU investment has not yet outperformed the investment of other important partners, (See figure. 1).

⁹ Fraser Cameron et. al , "EU-China Relations: Towards a Strategic Partnership", *EPC Working Paper*, 2005, p.26

¹⁰ David C. Gompert *et al.*, "China on the Move: A Franco-American Analysis of Emerging Chinese Strategic Policies and Their Consequences for Transatlantic Relations", presented at a conference sponsored by the Office of the Secretary of Defense and Centre Asia Ifro. Proceedings published by RAND National Defense Research Institute, Santa Monica, CA 2005, p. 47.

¹¹ Romano Prodi, "Economic Relations between the EU and China", Presentation to the China-Europe International Business School, Shanghai, European Commission, April 15, 2004, p.1

¹² Edward M Graham, and Erika Wada, "Foreign Direct Investment in China: Effects on Growth and Economic Performance", Institute for International Economics, Working Paper No. 01-03. Available at, <http://ssrn.com/abstract=300884>, p.1

¹³ Vinod Aggarwal ,*Winning In Asia ,European Style*, (Hampshire: pal grave,2005), p.9

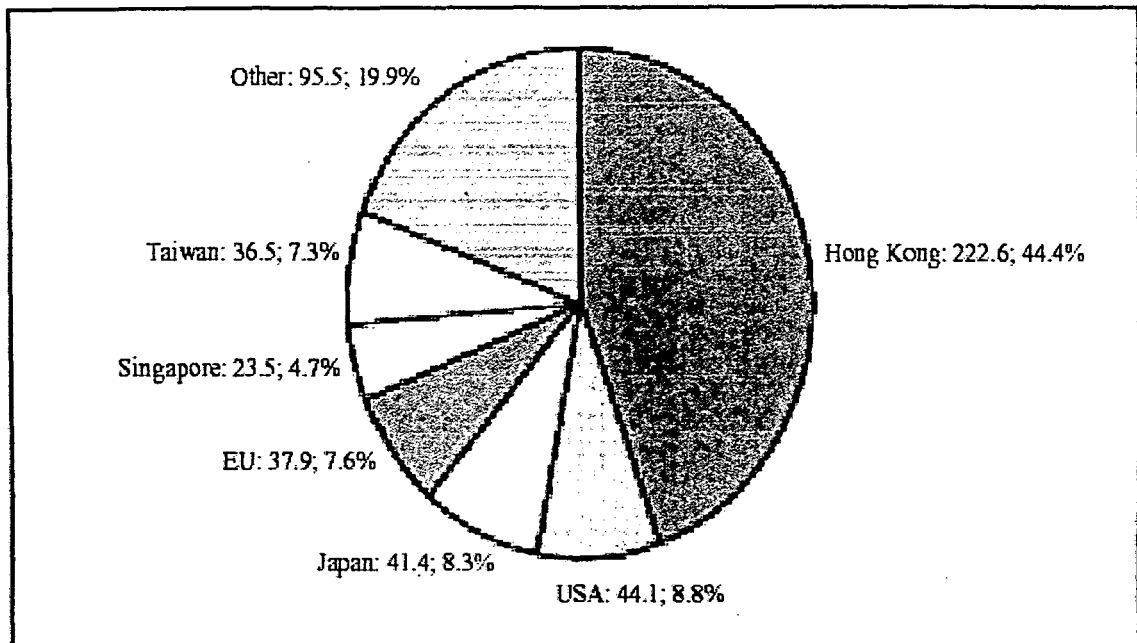
At the end of 2003, the EU's total FDI amounted to \$37.9 billion compared to \$44.1 billion from the US and \$41.4 billion from Japan. As shown in figure 1, the EU's share of total FDI was 7.6 per cent — below the corresponding shares of the US (8.8 per cent) and Japan (8.3 per cent). These shares, as is well known, do not reveal the real picture of FDI in China due to a few trade particularities. For example, total FDI from Hong Kong amounted to some \$220 billion, and from other regional sources, almost \$100 billion.

However, it is estimated that roughly half of Hong Kong's FDI is recycled capital from the Mainland which, in spite of China's controls on its capital account, finds ways to move in and out. It is recycled in order to benefit from tax advantages and other preferences granted to foreign capital. The other most important regional capital sources are places such as the Virgin Islands, Salomon Islands and Cayman Islands, which are not in a position of providing huge amounts of capital. Obviously then, capital from China is round tripped in order to obtain privileged status when reinvested on the Mainland.¹⁴

Apart from this, due to political restrictions, a substantial proportion of Taiwanese investment is channeled via Hong Kong, and is counted as Hong Kong investment. Some FDI is also channeled into China via some Pacific islands. As a result, the real shares of the EU, US and Japan are larger than indicated in figure 1. This is partly due the political considerations and partly due to the absence of financial instruments like double taxation avoidance treaty.

¹⁴ W. Keener, "Economic Relations Between the EU And China: Evolution Of An Exclusive Partnership?", *China: An International Journal*, vol. 3, no. 2, September 2005, p. 333

Figure 1. *Aggregate FDI of China, end of 2003 (USD billion)*



Source: China, Ministry of Commerce, <<http://www.mofcom.gov.cn>>.

Market-Seeking Investment

By 2004, European firms had invested in some 18,000 enterprises in China.¹⁵ Cost considerations have been among the main motives for their investment. Low wages, tax advantages and other special investment incentives usually had only a limited effect on their investment decision. Certainly, most firms started with simple assembly lines and production tasks in order to benefit from China's low wages. However, quite a few European firms used their investment in China as a way to gain a foothold in the growing market, and thus based their decisions mainly on strategic and market-seeking motivations.¹⁶

¹⁵ "Sino-US Trade Witnessing Rapid Growth", *China Daily*, 6 Oct. 2004

¹⁶ Op. cit (Kenner: 2005), p.334

The moving of global competitors into the Chinese market also triggered some investment. Among the enterprises which used early investment opportunities at a time when China was gradually opening up to FDI were a few leading scale-intensive EU multinationals such as Volkswagen, BASF, Hoechst, Siemens, Phillips, Nokia, Alcatel-Bell, Janssen and Pharmaceutics.¹⁷ Many of their projects are generating impressive profits. Three big European multi-billion ethylene projects will come on stream soon. Joint ventures with European large companies from Germany, the United Kingdom, France, the Netherlands and Sweden are providing China with power and rail equipment, information technology, basic chemicals, pharmaceuticals and cars.¹⁸

In 2003 for instance, some 40 per cent of new cars in China were produced by joint ventures with European companies. This share however is declining due to recent investments from other sources. Apart from large multinationals, small and medium-sized highly specialized European companies have also moved to China. Many contribute considerably to the competitive strength of their countries, especially in the case of Germany. They produce sophisticated equipment, which requires highly skilled labour and use state-of-the-art technical know-how.

As far as size, financial assets, management methods and scope of business are concerned, they are not comparable to the large multinational firms but their expertise, though only in certain niches, makes them extremely important partners in China's modernisation process. It may have been a distinguishing feature of many European market-seeking firms, that the establishment of the Special Economic Zones at the beginning of the 1980s was not very attractive for them. Since they required sophisticated industrial and trade infrastructure found exclusively in urban centers, many EU firms moved into China only after the opening up of the coastal cities, especially Pudong in 1992.

¹⁷ Ibid., p.335

¹⁸ Communication, "A Maturing Partnership: Shared Interests and Challenges in EU-China Relations". (Brussels: EC, September 10, 1998), p.28

Today, the production and service activities of EU firms are concentrated in Shanghai, Tianjin, Guangzhou, Changchun and the neighbouring regions. Automotive industries for instance have set up industrial clusters in Shanghai, Hubei and Changchun. However, changes are in the offing. European investors recognise the recent opening up of the inland region. Siemens and Volvo for instance are examining possibilities of extending their business reach into the Chinese interior.¹⁹

European firms have used equity joint ventures more frequently than other investors as a form of entry for their operations in China.²⁰ They were especially concerned with distribution networks, market information and the relationship with their host government and therefore needed local partners to develop efficient links with the bureaucracy. After a few years of operations, accumulation of local knowledge and acquisition of a sizable market share, a preference has developed for high equity stakes either by establishing majority-owned joint ventures or by buying out the local partners. It is believed that high equity stakes provide better protection against technological erosion and that control of supply and distribution chain activities should be taken in order to build up efficient national sales and distribution systems.²¹

At the same time, together with the privatisation of state-owned firms, new collaborative forms are realised through the acquisition of shares of state-owned enterprises on the stock market. An illustration of this is the joint venture agreements of Bosch with several Chinese state-owned manufacturers for producing automotive electronic systems. These activities go together with attempts to increase local sourcing through Upstream and downstream investment and to integrate global suppliers into local production activities in order to remain competitive in China.

Among others, Volkswagen and Citroen convinced their suppliers to establish plants in China. Together with Volkswagen, for instance, some 110 German suppliers went to China offering jobs to more than 20,000 workers. Bosch alone established 12

¹⁹ Op. cit (Kenner: 2005), p.336

²⁰ Daniel van den Bulcke, Zhang Haiyan and Maria do Céu Esteves, *European Union Direct Investment in China: Characteristics, Challenges and Perspectives* (London: Routledge, 2003)

²¹ Op. cit (Kenner: 2005), p.337

subsidiaries and nine joint ventures.²² However, linkages between foreign firms and domestic supplier firms are still very limited. It seems the difficulties are caused less by the lack of willingness to cooperate on the part of European firms, than by the limited technological, managerial and logistical capacities of Chinese firms. In this connection “linkage promotion programmes” are recommended by the United Nations Conference on Trade and Development as an inherent part of FDI policy.²³

Bilateral Trade

Due to the steadily declining barriers to foreign trade, trade between China and its main partners including the EU have increased dramatically. By 2003, total trade between China and the EU, according to Chinese statistics, amounted to \$125.2 billion. This was almost the same as the \$126.3 billion of US-China trade and somewhat less than the \$133.6 billion of Japan’s trade with China (see Table 2).

Table 2. *China’s trade with major partners, 1998-2004*

Years	Trade volume (\$Billion)			Growth (%)		
	EU	USA	Japan	EU	USA	Japan
1998	48.9	54.8	57.9	13.6	11.9	-4.8
1999	55.7	61.4	66.2	13.9	12.0	14.2
2000	69.0	74.5	83.2	24.0	21.2	25.7
2001	76.6	80.5	87.8	11.0	8.1	5.5
2002	86.8	87.2	101.9	13.2	20.8	16.2
2003	125.2	126.3	133.6	44.4	30.0	31.1
2004	80.7	76.9	78.3	37.4	36.5	28.6

Note: *Data for 2004 is only for the first half of the year.

Source: China, Ministry of Commerce, <<http://www.mofcom.gov.cn>>.

²² Op. cit (Kenner: 2005), p.334

²³ *ibid.*, p.334

According to Chinese statistics, EU exports to China amounted to \$ 53.1 billion while imports from China totaled \$72.1 billion resulting in a EU deficit of \$19 billion.²⁴ In 2004, China imported \$70 billion worth of goods from the European Union, this representing 12.5 percent of China's total imports. This compared to \$45 billion of imports from the US (8.0percent of total), and \$94 billion from Japan, China's biggest single source of imports (16.0 percent of total).

China's exports to the EU in 2004 meanwhile came to \$107 billion (18.1 percent of the total), which was some way below the \$125 billion worth of exports dispatched to the US that year (21.1 percent of total) but above the \$74 billion figure for Japan, China – US trade a close second at \$170 billion, and China – Japan trade an even closer third at \$168 billion. While there is, then, not much difference here between China's main trade partners, its trade volume growth with Europe has been the fastest of the three, and most recent figures for the first quarter of 2005 suggest that the growth rate for EU – China trade is currently accelerating faster than for any other major trade partner. (12.4 percent of total)

However, statistics from the Commission of the European Community differ. One of the reasons for these differences is that European statistics, just as the US' and Japanese statistics, attempt to eliminate the effects of Hong Kong asymmetrical role in the marketing of Chinese and foreign goods.²⁵ Hong Kong is more important as a port for exports from China than for exports to China. China records exports via Hong Kong as exports to Hong Kong, whereas China's partners count these flows as China's exports. Thus, the figures of many of China's partners result in a substantially higher deficit in their trade with China. According to EU figures, the EU trade deficit with China in 2002 was almost € 50 billion (about \$60 billion).²⁶

²⁴ See China, Ministry of Commerce at <<http://www.mofcom.gov.cn>> [Jul. 2004].

²⁵ Nicholas R. Lardy, *China in the World Economy* (Washington, DC: Institute for International Economics), Apr. 1994, p.1

²⁶ Commission of the European Communities, Commission Policy Paper for Transmission to the Council and the European Parliament, "A Maturing Partnership: Shared Interests and Challenges in EU-China Relations", Brussels, 10 Sep. 2003,p. 28.

Effects of the EU Enlargement

Now China will have to compete aggressively with India, Vietnam and the countries of Eastern Europe, which are all becoming more attractive for the EU investment.²⁷ Poland, Slovakia, Turkey, the Ukraine and Russia may all become important partners of the core EU members. In the recently acceded countries alone, cumulative inflows of FDI were \$ 117 billion within the last 15 years, compared to aggregate FDI in China, including recycled funds, of \$ 450 billion. More FDI can be expected in view of the fact that Eastern Europe offers an efficient production base, a pool of reasonably well-educated labour, tax benefits and low standards for consumer protection and environmental protection.²⁸

To add to it, the EU has earmarked over € 40 billion (about \$ 50 billion) for infrastructure projects between now and the end of 2006.²⁹ There is a definite risk of wage inflation in Europe as living standards rise to Western levels. The productivity and cost gap closed dramatically in Portugal and Spain as soon as they joined the EU. Europe's eastern region might be comparable to China's western region. However, it could be argued that because of its huge pool of cheap labour in its western region, China is in a better position to attract FDI in the long run. There is no fixed amount of FDI capital to be allocated or competed away among different countries.

The driving force behind FDI is the capacity of the receiving countries to create profits and new capital.³⁰ As far as these are concerned, most EU firms would agree that China would remain a particularly important investment location for their businesses. Some small European companies, due to limited managerial capacity, might prefer locating labour-intensive production in neighbouring countries with low wages in order to benefit from the proximity to Western Europe's markets. Others, however, which base

²⁷ Hiro Lee and Dominique van der Mensbrugge, "EU Enlargement and its Impacts on East Asia", *Journal of Asian Economics*, vol.14, 2004, p. 843

²⁸ *Financial Times*, 26 Apr. 2004.

²⁹ Op. cit. (Kenner: 2005), p.338

³⁰ Ibid., p.338

³⁰ "Round Tripping FDI in Global Text", Asian Development Bank Institute, July 2004, available at, <http://www.adbi.org/discussion-paer/2004/06/01/450.prc>

their investment on market-seeking motivation, will probably not change their engagement in China.³¹

As far as trade is concerned, China has to face stiff competition, as the economy of new members is more competitive in nature vis-a-vis the Chinese economy. Comparative advantage in similar areas is going to pose stiff competition before China, at least in the future. However, access to single window system and other simplified procedures will neutralize all such effects. In fact the EU-China trade has increased and have not shown any signs of downward trends. (See, Table 3)

Table 3. *Import and Export Between China and Europe (\$ 10,000)*
(First four months of 2006)

Country (Region)	I&E	Exports	Imports	Increase ±% (Same Period in 2005)		
				I&E	Exports	Imports
China	51,471,663	27,423,367	24,048,296	24.0	25.8	22.1
Europe	9,773,018	6,164,029	3,608,909	22.5	25.5	17.7
EU (25 countries)	7,862,390	5,146,908	2,715,482	20.5	20.9	19.7
EU (15 countries)	7,432,495	4,803,345	2,629,150	19.5	20.2	18.3

Source: Network Center of MOFCOM, China

Trade Issues Between the EU and China

The corporation-driven integration of European firms into China has been directed, fostered and welcomed by China and is perceived as a substantial contribution

³¹ Op. cit (Kenner: 2005), p.339

to China's modernisation. The next section of this chapter examines whether important trade issues between the two partners have been solved in a way that is contributing to this integration process, and concomitantly whether some kind of specific relationship is evolving.

China's Admission to the WTO

In the 1990s until 2001, China-EU relations were decisively shaped by China's 1986 application to join the WTO.³² China opted for accession for well-known reasons. By offering a more predictable business environment, the country expected to be more attractive for FDI, gain better access to foreign markets and alleviate the pressure on its exports such as textiles, shoes, porcelain and ceramics. Moreover, it wanted to avail itself of the whole range of liberalisation measures adopted by the WTO and to be entitled to invoke WTO conflict settlement mechanisms in case of violation of trade rules by any of its partners.³³

The EU favoured China's WTO accession because it considers itself a strong proponent of the multilateral trading system and, hence, aims at strengthening the WTO. At the same time, it wants the world's major economic powers to abide by the rules of the WTO and, by China's WTO membership, aims at supporting the liberal forces behind the present government. In view of the commitments of both sides, the question arises why was it so difficult and why did it take more than 14 years before an agreement was reached. Actually, a major breakthrough in the way that the US accepted China's membership served as the basis for the corresponding EU-China agreement in 1999.³⁴

However, the US had been negotiating in its own interests, and the concessions reached by the US did not satisfy the EU. The EU's main goal was to fight for "Euro-specific" concessions in the field of tariffs, especially in machinery, cosmetics and wine,

³² Yong Wang, "China's Stakes in WTO Accession: The Internal Decision-making Process", in Heike Holbig and Robert Ash ed., *China's Accession To The World Trade Organization: National and International Perspectives*, (London: RoutledgeCurzon, 2002)

³³ Op. cit. (Kenner: 2005), p.341

³⁴ Ibid., p.342

and to improve the US deal on those points where Europe had a particular interest, for instance, in the areas of telecommunications and insurance. Moreover, the EU was concerned about China's accession to the WTO lest it create a bad precedent that would be regretted later in view of the fact that China's WTO accession was not the last one. Russia and others were waiting to join.

The European Commission held the negotiations on the EU side in close contact with all member states and interested industries, especially the automobile, telecommunications, banking and insurance sectors.³⁵ Germany had special interests in machinery, France and Spain in wine, Italy in wine and ceramics, and the United Kingdom in insurance and brokers. They were quite often defending their own interests and sometimes even split among themselves. This was most visible in the automobile sector, where Volkswagen, Audi and Citroen, already well-established in the Chinese market, were ready to accept high import tariffs, while BMW and others, still waiting to be let into China, asked for reductions, a position shared by the Commission. Finally, a bilateral agreement was reached in May 2000 when the EU and China finalised the EU Agreement on China's accession to the WTO.

The Chinese side seems to have been surprised by the unexpected, intense Pressure that the EU put on China during the negotiations in view of the fact that an agreement was already concluded with the US. For many Chinese it is not clear whether this was a reflection of the fact that China had put too much emphasis on the US in the past or whether the EU and US worked closely together in order to extract more concessions from China.³⁶

³⁵ Hans-Friedrich Beseler, "The EU-China Negotiations Breaking the Deadlock", in Heike Holbig and Robert Ash, ed., *China's Accession to the World Trade Organization*, (London: RoutledgeCurzon, 2002)

³⁶ Enzo von Feil, "Briefing the Cycle: Chinese Governance and Economic Fluctuation", *China Brief: A Journal of News and Analysis*, Jamestown Foundation, vol. iv, no. 13, 24 June 2004.

Decision on China's Market Economy Status

Another issue was China's request to be granted market economy status. China argued that while its economy still bears the legacy of decades of communist central planning it qualifies as a market economy. Actually, when China joined the WTO in 2001, it agreed to be classified as a transition economy for up to 15 years. According to the regulations, an industry with a high degree of state interference combined with a lack of adequate accounting, property and bankruptcy laws must continue to be classified as a "transitional economy". China has since then tried to shake off this label because it is perceived as another sign of not being on equal footing with the big industrialised powers. Moreover, it puts the country in a weak position in trade disputes with the EU.³⁷

Most important in this connection are anti-dumping procedures. Antidumping duties can be imposed when a member of the WTO can prove that a foreign company is selling goods in its market at below cost. If a country is granted market economy status, companies of these countries are trusted to submit their own cost and price information. However, the cost and price of imports from countries without this status are compared with similar products from other economies, for instance India, in order to gauge whether the importer is selling at below cost.

Since dumping penalties can be extremely severe, even the threat of an Official investigation can be enough to hold purchases of the imports concerned. Thus, being recognised as a market economy has a high commercial value, since it makes it harder for other countries to impose anti-dumping penalties. Dumping can be easy to find in China, where costs are among the world's lowest. China is, at present, the target of most of the EU's and US' anti-dumping measures. At the end of 2004, the EU had 32 disputes with Chinese exporters and a further 22 cases were under investigation. The US was imposing anti-dumping duties on 52 Chinese exporters; including exporters of steel.³⁸

³⁷ Op. cit. (Kenner: 2005), p.342

³⁸ International Herald Tribune, 29 Jun. 2004.

China has already been granted market economy status by New Zealand, Singapore and Malaysia. Australia is considering following suit. Brazil and Argentina recently agreed to recognise China as a market economy, though most firms in Latin America consider China a ferocious competitor.³⁹ The American government is requesting substantial progress in reducing the role of the state in China's economy before it will re-consider its stance. Chinese officials were optimistic about a positive reply from the EU because it had previously moved ahead and granted market economy status to individual companies from transitional economies. Of 111 Chinese companies, which have requested the changing of their status, 28 have so far been granted it.⁴⁰

China was therefore surprised when in June 2004 the EU refused to grant it market economy status. The EU found the Chinese economy suffering from too much state interference, weak rule of law and poor corporate governance.⁴¹ They also observed that credit was inefficiently allocated and companies did not follow basic accounting rules or even in some cases have any accounts at all. As a consequence, it was said that anti-dumping investigations could not rely on the truthfulness of these companies' accounts. The EU decision was quickly deplored. China argued that the EU and US were using anti-dumping procedures not to enhance competition but to protect their own industries. However, in view of these critics it should be pointed out that China increased its own anti-dumping measures drastically since it joined the WTO. In 2002, for instance, China initiated 30 investigations and another 22 in 2003.⁴² The Chinese Government and Chinese firms obviously know how to play the game.

Intellectual Property Rights

Over the years China has made significant efforts to promote the protection of IPR. Lowering the threshold for criminal prosecution was a milestone in IPR protection

³⁹ Sergio Rossi, "The Enlargement of the Euro Area: What Lessons Can be Learned from EMU?" *Journal of Asian Economics*, vol. 14, 2004

⁴⁰ International Herald Tribune, 29 Jun. 2004.

⁴¹ Mure Dickie, "Beijing Set to Rebut 'Unfair' EU Report", *Financial Times*, 29 Jun. 2004.

⁴² Mure Dickie, "Chinese Threaten to Turn Tables on Dumping", *Financial Times*, 6 Jul. 2004.

and demonstrates the openness of the Chinese courts and authorities. At the same time, Chinese companies are themselves becoming more aware of the dangers and threats of excessive counterfeiting - the majority of civil litigation in trademark infringement cases is between Chinese parties.

Yet despite these positive steps, many Europeans still believe that the present enforcement of IPR laws and regulations in China is not effective enough. Enforcement of IP rights of European and domestic companies at all levels remains a challenge and needs to be improved in terms of consistency, inter agency communication, efficiency and improved enforcement. Nevertheless, further reductions of the threshold would support the work of the authorities to deal effectively with this pressing concern. Moreover, there is growing concern among a broad sector of European companies regarding the disclosure of confidential know-how and sensitive commercial information.⁴³

Another key concern relating to unfair competitive behaviour is the excessive infringement of copyrights and trademarks. In order to continue the promotion of China as the top worldwide destination for foreign investment as well as encouraging technological transfer, it will be necessary to provide adequate legal remedies to protect confidential material and improve the enforcement of well-developed IPR legislation.

Other Issues

There are, of course, significant competitive challenges that China poses to the European Union economy. These are broadly similar to those that face the United States, as illustrated by recent textile trade disputes with China. The EU and China have come to a resolution on this particular issue but Washington and Beijing have yet to reach an agreement. In other areas, the EU still applies a number of anti-dumping duties on

⁴³ There is no other country in the whole world where intellectual property rights are violated as often as in China. This situation will result in a weakening of the competitiveness in those product segments where European entrepreneurs are still maintaining a leading position. FTA Position on EU – China Trade Relation, (Brussels: 2005), http://www.fta-eu.org/doc/unp/opinion/en/eu_China_fta_position.pdf

Chinese imports, for example on bicycles, and has expressed its concern over China's managed exchange rate regime, although not as vehemently or as persistently as the United States has done. While the EU Trade Commissioner, Peter Mandelson, recently commented that China "must not stick to an artificially low exchange rate as part of a strategic trade policy, or fix prices below long-term sustainable costs", he also conceded that the European textiles industry "will need to adjust because, ultimately, our responsibility is to compete."⁴⁴

China's difficult regulatory environment and lax commercial laws continue to frustrate European, American and other foreign investing firms alike, although the Chinese are making some progress at improving the situation. Corruption levels, while still comparatively high by broad international standards, are reported to be falling significantly. The commercial legal environment is improving too, partly out of intensified competition between provincial governments to attract foreign investment⁴⁵. Both the European Union and the United States are encouraging China to accelerate the pace of economic reform. Further progress should be expected given that China is committed to further open up its economy and strengthen certain areas of commercial law under the terms of its WTO accession.

Overall, though, the European Union's problems with China's commerce are generally less acute and less complicated when compared to the US's own problems. Less acute because the EU's trade deficit with China has always been around half of the US's own deficit with the country (in 2004, \$37 billion compared to \$80 billion respectively), and less complicated because the EU's economic relations with China are largely unencumbered by national security issues.⁴⁶

The European Union is, though, still concerned about its trade imbalances with China and the negative impacts that highly competitive Chinese imports are having upon

⁴⁴ International Herald Tribune, April 9, 2005.

⁴⁵ 'Country Profile Report, on China: 2004' *Economist Intelligence Unit*, 2005.

⁴⁶ It is quite visible from the EU's desire to remove arms embargo while US is adamant to not to remove it's own arms embargo imposed on China. The US at the same time is intimidating the EU.

European industries. The European Commission, national European governments and Europe's business associations are assiduously examining these manifest impacts, and the EU may again apply 'transitional safeguard mechanisms' on Chinese imports other than textiles. The Committee will probably already know that, under the terms of China's WTO accession, these measures may be utilised where surges of Chinese imports are deemed to cause, or threaten to cause market disruption to other WTO members during a 12-year period from the date of accession. It is difficult to gauge the extent to which the European Union will react in a protectionist manner towards Chinese trade competition.

The EU is likely, however, to soon 'graduate' China from its Generalised System of Preferences (GSP) scheme – under which the EU grants autonomous trade preferences to imports from developing countries – on the grounds that the country's export profile has grown so strong. China is currently the main beneficiary of the European Union's GSP scheme with a share of more than 30 percent of all qualified preferential imports.⁴⁷ Beijing is unlikely to object to GSP graduation given its burgeoning trade surplus with the EU.

Conclusion

Up to now, China has made a more or less orderly transition into the international trading Community. With its accession to the WTO, China has demonstrated a willingness to make hard choices and to make difficult changes to its domestic legal structure. Moreover, the relatively few disagreements that have occurred between the US and the EU on the one hand and China on the other have been resolved largely without turmoil. The relative lack of major trade disputes is no doubt due in part to the fact that China continues to consume raw materials, most especially steel, at a phenomenal rate.

To be sure, elements in the EU continue to place blame on China as an unfair trader in order to seek retaliation, but to date, these efforts have had little real impact. The future is less clear, for example, the coming textile and apparel fight in both the US and the EU

⁴⁷ <http://www.hillandknowlton.be/HK/pressoffice/TradeSheets/HKTradeSheet4.pdf>

will be a test to see how far China is willing to go to avoid a confrontation with its main western trading partners. While continued self-restraint by China could avoid a major confrontation, China may also reasonably expect to take advantage of the benefits of the WTO trading system they negotiated in 2001.

The bigger concern arises from the facts that like all economies; China's will eventually cool, even assuming some government intervention. When that occurs, China's manufacturers will undoubtedly begin to look abroad for export opportunities to replace their lost domestic sales. When that occurs, we could expect to see trade frictions grow as Western manufacturers seek to protect themselves against perceived unfair trade practices by China. The resulting pressures are likely to be a true test of the ability of the EU to manage their important trade relationships with China.

Against the backdrop of intense investment relations and technological cooperation, a unique relationship between the EU and China, and in some fields between certain EU member states and China, has been evolving. But this relationship is far from an exclusive partnership in which common strategic goals dominate decisions on current affairs. Whenever important trade issues have been on the agenda, the costs and benefits as well as the impacts on relations with other nations, mainly the US, have been carefully taken into account by both partners.⁴⁸

This observation does not exclude the possibility of the EU and China finding a new balance. It could be more in favour of the EU. The establishment of the European Monetary Union, for instance, might result in China taking advantage of the Euro by diversifying its debt structure and replacing its over-reliance on the dollar by using the Euro⁴⁹ in a currency basket in connection with a more flexible exchange rate policy.

⁴⁸ Op. cit (kenner: 2005), p.346

⁴⁹ China has recently showed a preference for Euros over dollars in its expanding foreign exchange reserve portfolio, that at around \$800 billion in total is the second largest in the world after Japan. This has further strengthened China's stake in the European Union economy and adds strategic dimension to the partnership.

CHAPTER 5

CONCLUSION

- **Context**
- **Regional dynamics**
- **India, China and the EU: Strategic Partners?**
- **China as a transatlantic issue**
- **Problems and prospects**

CHAPTER 5

CONCLUSION

Today EU-China relations have reached in a very important phase. The relationship though could not have a ceremonial start, but in the course of time, acquired a very important place. Today the relationship is closely observed, for its potential to transform the landscape of global politics. Regional and global powers alike are drawing wider implications of this evolving strategic partnership.

Context

This relationship has evolved from the era of mutual distrust, during the Cold War period to the era of rapprochement in the post-Cold War period. Failure of Japan to provide the economic leadership to the region and succumbing of the Japanese economy to the crisis with subsequent slowdown, during the 1997-98 economic crisis in East Asia, shifted the gaze of Europe from Japan to China as a country eligible for long-term partnership. Hereon, the relationship has taken a strategic dimension with an institutionalised framework.

EU-China relations in the Cold War era were both a source of emulations and stimulation to modern China's development. Interaction with Europe during the period provided China everything needed for a newborn country. Since 1949, China found herself amidst the whirlwind of Cold War politics. Europeans never adhered to American calculations and perceptions of world politics in toto and this benefited China considerably, in terms of recognition, a global personality, capital and technology, etc, needed for the modernisation of the Chinese economy.

During the Cold War, Europe was more important to China both in economically, and politically. China was hoping to get technology and capital from Europe. At the same time, a confident and independent European thinking meant the development towards a multipolar world by China. In a major statement given on June 5, 1984 at the Royal

Institute of international Relations of Belgium, Chinese premier Zhao Ziyang summarized the relations between the Peoples Republic of China and Europe as follows:

“We will not forget that during the 50s and 60s when China suffered difficulties caused by an outside blockage and political pressure European countries establish and maintained diplomatic relations with China and develop mutually beneficial economic relations. That was a token of their friendship towards the Chinese people and also important demonstration deciding their policies independently”¹.

In this phase of their relationship both China and Europe were aware of each other's importance. But mistrust was also there to influence their thoughts. Issue like human rights violations in China, the Vietnam War, Chinese support to the Khmer Rouge regime in Kampuchea, European countries' de facto recognition of Taiwan, Tibet, Hong Kong, Macau etc., hampered the smooth development in the relationship between the two. Both sided reacted sharply to any thing done or purported to be done by the other side, which was not perceived in the national interests by the other.

End of the Cold War gave a new direction and meaning to this relationship. In the post-Cold War period, the element of “derivativeness” is totally missing as far the Chinese side is concerned, for Europe, though it is there, but is no more as strong as during the Cold War period. Thus, in the post-Cold War era, the relationship is developing on its own merit. The EU has supported the Chinese efforts towards political and economic consolidation. China on its part as well read the developments properly and supported the EU's integration project. In the quest to have a multipolar world order, both supported each other's desires to play an effective role in the world politics. A Pragmatic approach has been used by both the sides, which in turn helped both sides to avoid taking extreme position on issues. All this together in turn portrays this emerging relationship as a pole of stability.

Ushering the Post-Cold War era into an era of multipolarity has been the reference point for this relationship. To that end, both the EU and China have recognized the economic, political and diplomatic potential of each other and the role associated with

¹ Shen Shouyan, “Sino-European Relations in the Global Context: Increased Parallels in an Increasing Plural World” *Asian Survey*, Vol.26, NO.11, Nov.1986 p.1170.

that. To jointly pursue the goal, a new political framework has been devised. Sprit of neo-functionalism has been upheld, by the successful efforts towards the institutionalization of this relationship through regularly published policy papers and summit meetings. In order to build this relationship through, multiple stages, i.e., Asia Europe Meeting (ASEM) and Asian Regional Forum (ARF) were also effectively used.

The EU rightly comprehended the Chinese obsession with sovereignty, territorial integrity and non-interference. As mentioned earlier, the EU has shown considerable maturity by balancing the popular pressure against the Chinese record on human rights. Issues like Taiwan, Hong-Kong, Macau and Tibet with certain impinging of human rights; have been also sought too resolve through dialogue. China on her part reciprocated positively by successfully participating in the EU-led human rights dialogue, seminars, symposia, projects, etc. China has even acceded to the International Convent on Political and Civil Rights and International Covenant on the economic, social and cultural rights.

Regional dynamics

Reference point for European external engagement is; the promotion of democracy, promotion of the rule of law, respect for human rights, serving the needs of economy and raising the profile of the EU. In other words; “The Union’s Action on the International Scene shall be guided by the principles which have inspired its own creation, development and enlargement.”² It is well known to the Europeans that any meaningful progress towards such ambitious project especially in Asia postulates active cooperation of China.

Owing to its status of a “bridge” state China becomes very important not only for the EU but for any country which wants to have a pan-Asian presence. China shares frontiers with the Europe (Russia), borders with Central Asia, South Asia, and East Asia (both North and South). China’s economic and political clout, its military might and presence throughout Asia, qualified her to have strategic partnership with the European Union. But neither the EU nor the China has the luxury to take the rather complicated

² The EU’s external engagement relies on this very principle, expressed by the EU constitution.

politics of Asia for granted. Though the EU can use its presence in China and other demonstratable effects of its presence on the Chinese polity, economy and society to project its soft power and other benefits associated with it. But relations with other countries still depend on the individual merit.

The EU and China can undoubtedly work together on many areas in the Asia. Chinese support will be quite useful for the EU to solve some of the issues in the continent. Unlike the US approach, the EU heavily relies on dialogue, diplomacy, donation, etc, in its political approach; sanctions are used as a matter of last resort. Be it the primary stage or the last one, Chinese active participation can make things easier for the EU. China has shown this in North Korea and Iran. As far as sanctions against recalcitrant regimes are concerned, China has been accused of undermining the concerns of international community for petty commercial gains, Myanmar and Iraq being the example. Efforts of the EU and international community to bring democracy back in Myanmar could have been successful had the Chinese would have respected the desire of international community.

Furthermore the EU and China can work together to bust the network of terrorism. Both of them have realized it, but China has till now paid lip service to the cause. It is primarily due the Chinese perception of terrorism, as a reaction to the external intervention in the domestic politics and indigenous political culture. Regarding the proliferation of missile and nuclear technology in Asia, though experience says otherwise, but still the EU can rely on China, owing to her approach of 'constructive engagement' and the growing 'great power mentality, on the part of China.³

The success of the Kyoto Protocol and other such efforts in Asia depends upon the active participation of China, which according to the IEA report⁴, is going to surpass the US by the year 2020 as the largest emitter of greenhouse gases. Both China and Europe are energy deficient economies and can work together to stabilise the Asian

³ Ting Wai, "The EU-China Relations: Economic, Political and Social Aspects", www.soc.nii.ac.jp/eusa-japan/download/eusa_ap/paper_TingWai.pdf, p.18

⁴ Sec. EIA country analysis brief, *China: Energy Information Administration*, Official Energy Statistics from the US government, <http://www.eia.doc.gov/emu/cabs/China.htm>.

source of energy supply, which are located in the Central and West Asia. But the recent past suggests that at least in this field China and the EU have had strategic competition.⁵

Apart from this, another dimension of the EU-China engagement in the Asia lies in the style and scheme of interaction adopted by the EU. Given the fact that the acceptability level of China in Asia has somewhat declined, the EU has to develop this relationship with utmost caution. Countries of East Asia, India, and Japan are seeking to contain China, as all of them view China as a country with hegemonic designs. The EU needs to devise a fine equilibrium, so that these countries should not view the EU-China strategic partnership as targeted towards them. The EU needs to take care that the Chinese bilateral problems should not creep into the relationship and European presence should not be viewed by the prism of power politics.

Thus, the EU needs to develop relations with major countries like India and Japan. The United States is also trying to forge strategic partnerships with several Asian states. It will, in turn create a complex web of relationships, where drawing straightjacket conclusion on 'either', 'or' lines will be difficult.

India, China and the EU: Strategic Partners?

India is a very important country in any Asian political and economic order. The EU has taken cognizance of this fact, but needs to make its relationship with China complementary with the Indian one. Building a strategic partnership with India is relatively easy for the EU as India also stands for the 'reference point' of EU's external engagements. The EU on its part has recognised the fact and has also established strategic partnership with India. But compared to the EU-China strategic partnership, it has to a long way.

The EU has started many projects in India and is already India's biggest trading partner, with two-way trade in 2004 amounting to €33 billion (though EU-China trade in that year came to €175 billion). The EU is also India's biggest provider of development assistance and foreign direct investment. But EU-China and EU-India trade relations are

⁵ See, "China's Oil Giant dealt a set back", *New York Times*, 13 May 2003, p.9

asymmetric as China is the EU's second-largest trading partner against India's 14th position.⁶ Other crucial element like the traffic of the EU officials to China is much greater than with India.⁷ However, today not only the EU but the whole world is talking of not 'either India', 'or China' but of 'both India and China'.

Scholars argue that whatever privileged position China has vis a vis India in her relations with the EU can be attributed to the different approaches of the EU held by both of them. Most of the Indians view the EU simply as a trade bloc. While Chinese take the EU's political ambitions seriously, and view the EU as an emerging pole in a multi-polar world, most Indians do not.⁸ Many Indian intellectuals feel that the post-modern EU is of marginal importance to us on security issues, post-modernity signifying that the EU is built on the principle of sharing sovereignty, and that it likes to influence other countries through "soft power".⁹

India cannot be post-modern, given that in our part of the world we face traditional security threats. Apart from this, the EU has been described as a 'status quoist' power, in contrast to the US, which is open to changing the international system, as it did with the July deal. (Last July the US promised to try and end the international sanctions that cut off India from nuclear technology, in return for India putting its civilian nuclear plants under international inspection.)¹⁰

The EU has no policy on the issues Indians care most about. These include India's bid for a permanent seat on the UN Security Council, and its attempt to lift the sanctions imposed by the Nuclear Suppliers Group after India tested its atomic bomb in 1998. Indians know little of the 11 operations now managed by the EU's Security and Defence Policy (one of which involves EU observers monitoring the peace in Aceh). In cases

⁶ See, www.icfdc.com/html/backgrounders/icfdc_backgrounder_20051110a.html - 24k

⁷ R.K. Jain, "India and the European Union: Parameters and Potential of Strategic Partnership" paper presented in an international Seminar held in JNU New Delhi, on March 23-24, 2006. p.9

⁸ Charles Grant, "India and The EU: Strategic Partners?", *CER Bulletin*, Issue 46, February/March 2006, p.1

⁹ Professor R.K. Jain, of the Centre for European Studies, JNU, is the most prominent among them.

¹⁰ Op. cit (Charles Grant: 2006), p.2

where the EU does have a common foreign policy, India may not like it. In the past, EU criticisms of human rights abuses by Indian forces in Kashmir riled many Indians. More recently, there have been differences over Myanmar: the EU applies tough economic sanctions, while India engages with the military government.¹¹ The compulsion of ending nuclear isolationism, India needs the support of the US and it brings India closer to the US. Though not in toto, but India perhaps shares the American perception of China.

This is only one side of the picture; there are many areas where India, China and the EU can work together. India has just become an observer at the Shanghai Cooperation Organisation (SCO), the security club led by Russia and China that includes most of the central Asian states. And the EU in its latest policy paper on China has highlighted the political significance of SCO. Apart from this, three of them are energy deficient and can work together. India and China has recently had an agreement in this regard.

The full potential of this trilateral relationship needs to be studied jointly by the three, as three of them have a vision for international order. Most of the elements of their respective visions have complementarity as well, and for the time being, the areas where cooperation is possible, should be worked out.

China as a transatlantic issue

The dispute over the EU's plans to lift its arms embargo has already shown that China could become an explosive issue in transatlantic relations. Because of Taiwan, Chinese rise, and her movement towards being predominant in Asia in particular and the world in general, the US policy-makers think strategically about China. The Europeans on the other hand, have mainly concentrated on the economics of their relations with China. While Europeans and Americans have a history of consultation, as well as threat and intelligence sharing, on issues such as the Middle East and the former Soviet Union, there are no such channels on China.

¹¹ Op. cit (Charles Grant: 2006), p.2

The potential for tension will only grow as the economic links between Europe and China further expand. Both the EU and China are calling for a "strategic partnership" that is based on a common commitment to multilateralism and the international rule of law. However, Chinese investments in countries such as Iran, Sudan and Burma are increasingly putting it at loggerheads with the EU as much as the US on questions such as humanitarian intervention, human rights, anti-proliferation strategies and democracy.¹²

The American perception of Chinese rise is directly influencing the EU's efforts to forge closer ties with China.¹³ The Republicans view China as a strategic competitor. Be it the issue of Taiwan or the strategic and military interests in the Asia-Pacific maintained by the US, or the enlargement of the NATO, or the US-Japan ties, the strategic interests of US and China collides. USA forced the EU to not to lift the arms embargo¹⁴ and portrayed China's anti-secession law as a security threat to the region where even EU has substantial economic interests at stake. However Europeans do not subscribe the US approach towards China in toto. But any inaction on the part of the EU amounts to gains for the Americans and feeling of helplessness for China.

It transpires from the recent developments that USA is not comfortable with this emerging strategic partnership. Thus the big questions before EU is to whether gravitate back to the US or to expand its strategic partnership with China or how to strike a balance by accommodate fears of both sides?

Problems and prospects

Until now the EU policy towards China has focused mainly on domestic issues: opening up China's economy, protecting intellectual property, improving respect for human rights, and securing the readmission of illegal migrants. This has made sense, partly because China's size gives its domestic policies global significance, but above all because China's primary concern is its internal development. However, China's 'go

¹² See, http://www.europa.eu.int/China/external_relations/23567.html

¹³ For detailed analysis of the US-China Relations see, Harries Owen, *China in the National Interest*, (London: Transaction Publication, 2003).

¹⁴ Jing Men, "Challenges to the EU-China Strategic Partnership: Analysis of the Issue of Arms Embargo" draft paper presented in a seminar at Chinese academy of social science, Beijing, May 5-6, 2005, p.13

global' strategy for energy, natural resources and markets has extended its reach into Africa, the Middle East, Central Asia and Latin America. China's increasingly global role is leading it into conflict with EU foreign policy. China's potential clash with the West stems from both its conservatism, as well as its activism. Beijing does not subscribe the philosophy behind the humanitarian intervention and does not want to interfere in the domestic affairs of sovereign states. European policy makers, on the other hand, support humanitarian intervention and regard absolute sovereignty as anachronistic in this age.

These clashing ideas of responsibility have led the West into conflict with China both at the United Nations and in problem countries. European policymakers are concerned by China's policy of offering unconditional political support, economic aid and weapons to autocratic regimes that might otherwise collapse or be susceptible to international pressure (including Sudan, Iran, Burma, Zimbabwe, North Korea, Uzbekistan, Kazakhstan and Angola). China's recent White Paper on Africa, states that Beijing will offer aid without conditions - thus frustrating western attempts to use assistance to promote political reform and conflict resolution. Of course, China's support for autocratic regimes is not designed primarily to upset the West: Beijing wants access to oil, gas and other natural resources¹⁵.

The first challenge for the EU is to develop a common approach to China. Too often European countries compete against each other to be Beijing's best political friend and trading partner, thus undermining their ability to influence Chinese policy. This is exactly what happened in 2004, when Jacques Chirac and Gerhard Schröder promised to lift the EU arms embargo. Other European leaders then came under pressure to follow suit, fearing that China might see them as hostile¹⁶.

The second strand of a EU policy should be further support for China's integration into global institutions, so that it has a stake in making them work more effectively. China's membership of the WTO, and its participation in some G8 meetings, has already helped to expand its definition of the national economic interest beyond the very short

¹⁵ Mark Leonard, "A New European Approach to China", *CER Bulletin*, Issue 47, April/May 2006, p.1

¹⁶ *Ibid.*, p.2

term. The challenge now is to achieve the same in the security sphere, by linking western political concessions to changes in Chinese behaviour. For example, China is interested in joining several anti-proliferation regimes - such as the Missile Technology Control Regime, the Australia Group and the Wassenaar Group - in order to achieve greater respectability as a potential buyer of weapons. The EU should support China's applications but put pressure on China to take more responsibility for halting the proliferation of weapons, for example by ending arms sales to the dodgier African regimes.¹⁷

The EU should also encourage China to take part in more UN peacekeeping missions, which it has - until very recently - generally avoided. With troops on the ground in conflict zones, China would better understand why western countries support the principle of 'humanitarian intervention'. China will probably want to adhere to the principle of 'non-interference', but may become more flexible about its interpretation. There are obvious channels available for discussions on these issues: Beijing has launched dialogues on international security issues with Britain, France, Germany and the EU itself.

Thirdly, the EU should systematically raise those aspects of China's foreign policy that it finds problematic - in private during state visits, and in public in international organisations. China's stance on the Iranian nuclear issue shows how this kind of pressure can work. During 2005, Chinese policy-makers maintained a trappist silence on Iran, refusing to apply public pressure to the regime. But several European leaders raised the issue with President Hu Jintao during his European tour, while top British, French and German diplomats went to Beijing to seek Chinese support. Once India and Russia had taken a tougher stance on Iran, China feared isolation at the UN. China is now fairly supportive of the EU line.¹⁸ Some of the European Union member countries are apprehensive of the economic rise of China. Given the highest fungibility of economic

¹⁷ *ibid.*, p.1

¹⁸ *ibid.*, p.1

power, they believe that China can use the increased wealth to upgrade her military capabilities. But the increased economic clout can be a vehicle of change as well.¹⁹

The recent flip-flopping by Brussels over the arms embargo on China has left a bitter taste in Beijing. In 2004, the EU said it would lift the embargo imposed after the Tiananmen Square bloodshed in 1989. But in March 2005 the EU changed its mind, largely because of the US pressure. Under the British presidency, there is little prospect of the embargo being lifted this year. The Chinese have learned that EU foreign policy has not yet freed itself of the apron strings of the US. Hence the EU needs to ally such perceptions on the part of China.

Economics has undoubtedly been the mortar of the EU-China strategic partnership,²⁰ but in recent years, trade frictions between China and the EU have increased by a big margin. With China's economic expansion and greater dependence on the outside world, the contention between China and the developed countries including the EU in market, energy and raw materials is becoming more intense. Thus, it becomes inevitable that trade frictions between the two sides are on the increase. Instead of being lenient to China because of the bilateral comprehensive strategic partnership, the EU has far more trade dispute with China than the United States and Japan. It uses administrative, technological and legal means such as anti-dumping, anti-subsidy, guarantee measures, protection of intellectual property rights, non-market economy status to force China to honour its commitments to the WTO and solve EU's massive trade deficit.

The history of EU-China relations has been the history of adjustments, cooperation and conflict resolution through dialogues and diplomacy. This is responsible for the exceptional growth in this partnership. The results of this constructive approach on the part of EU are bearing fruits now, the ongoing socio-political reforms being the example. Europeans could very early understand that any progress in China is possible through active engagement of China and not by isolation and sanctions.

¹⁹ Charles Grant, "The Lure of Beijing: Europe's US-Inspired Suspension of Plans to Lift Its Arms embargo on China Offers a Chance to Think Through Its Own Strategic Interests in Asia", *The Guardian*, May 25 2005

²⁰ Katinka Brysch, "The EU and China", *CER Bulletin*, Issue 39, December 2004 /January 2005, p.1

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