

THE EUROPEAN UNION AND CHINA IN THE POST-COLD WAR ERA

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

MASTER OF PHILOSOPHY

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CERTIFICATE

This is to certify that the dissertation entitled "**EUROPEAN UNION AND CHINA IN THE POST COLD WAR ERA**", submitted by **SARASWATI SHARMA**, in partial fulfillment of the requirements for the award of the degree of **MASTER OF PHILOSOPHY** of this University this dissertation has not been submitted for any other degree of this university, or any other university.

We recommend that this dissertation be placed before the examiner for evaluation.

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(Chairperson)

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Dedicated to my

Parents

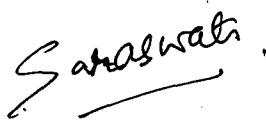
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LIST OF ABBREVIATIONS

EEC	European Economic Community
EU	European Union
CCP	Chinese Communist Party
PRC	People's Republic of China
GATT	General Agreement for Traffis and Trade.
IMF	International Monetry Fund
CFSP	Common Foreign and Security Policy
ESDP	Europe Security and Defense Policy
JHA	Justice and Home Affairs
FDI	Foreign Direct Investment
ASEM	Asia Europe Meetings
WTO	World Trade Organization

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PREFACE

China's relations with Europe have been a function of its broader pattern of relations with the Soviet Union and the United States. Europe has always occupied an important place in Chinese diplomacy for historical, strategic and economic reasons: historical because of all the difficulties, humiliation, etc. she had to face at the hands of many European colonial powers; strategic because of her geographical presence on the western flank of the Soviet Union and economic because of all that Europe has had to offer without political strings towards China's modernization.

Europe had indeed meant a great deal to China and the Chinese leadership had displayed a more stable and more benign interest in Europe in what has been happening there and the extent to which Europe could play a more efficacious role within the international system.

In the early years after the Chinese Revolution, Western Europe was right at the bottom of China's diplomatic ladder. The establishment of the European Economic Community in 1958, therefore, did not generate any conspicuous reaction from China. The reason China was still developing and her level of dependence on the Soviet Union was increasing as her economic clout was insignificant, her ideological influence internationally, was still inconsequential and her military was tenuous, it was hardly possible to operationalise a policy relating to a

faraway continent. The constraints were too great and the limitations too evident to permit any real globalization of foreign policy.

Having lost the bulk of [?] ~~their~~ economic and military power, they were clearly no longer in a position to determine the direction of international politics. The US capacity to influence West European politics, moreover, was too overwhelming to permit many of the West European countries to formulate autonomous foreign policies. In addition the Soviet expansion in Eastern Europe had led many of the leaders of the region to regard the rise of communist China more as a dangerous extension for Soviet power in the for East rather than as an expression of Chinese nationalism. Under the circumstances any real Sino-West European interaction was hardly feasible. There were no factors encouraging the inauguration of such a process.

China's relations with Western Europe, during the 1960's were influenced, initially by the Sino-Soviet split and later in the decade by the extreme radicalism of the Cultural Revolution. But 1970's witness the blossoming of full diplomatic relations with the balance of European states. 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 the total volume of Sino-West European two-way trade to \$ 5.8 billion by the end of the decade. The 1980's was the decade when the relations were fully normalized, and EU-China relations continued to improve.

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The progress in EU-China relations was brought to sudden halt by the Tiananmen Square Massacre in June 1989, which was strongly condemned by the community. The Madrid European Council of 26-27 June 1989 ordered the suspension of high level bilateral meetings the postponement of new cooperation projects and cutbacks in existing programs. In October 1990 the restriction on high-level contacts, cultural, scientific and technical cooperation and new cooperation projects were loosened.

Up until 1994 relations resumed in fits and starts, Europe's hope of seeing a change in Chinese human rights policy were repeatedly shattered. In June 1994 an ambitious new framework for bilateral political dialogue was set up. In 1995, the European Commission placed the full breadth of Europe's ties with China within a single strategic framework. The EU recognized the need to redefine and update its policy towards China in order to ensure better co-ordination with China, making sure that European interest at state are clearly taken into account. The European Union's global policy towards China: "A Long term Policy for China-Europe Relations" covers trade, economic and political relations, human rights and improved co-operation in a whole range of area.

A broad EU-China political dialogue was formally established in 1994, through an exchange of letters, in recognition of China's status as an emerging power on the international scene. This dialogue has grown into a regular, structured series of meetings at several levels (EU Troika

Foreign Ministers, Heads of Missions, Regional Directors). The EU - China upgraded the dialogue in April 1998 with the first ever EU -China Summit, held in London, at Heads of Government level. The second EU-China summit was held on 21 December 1999, when President Prodi visited Beijing and the third summit was held on 23 October 2000, again in Beijing. These summits have provided a platform to give added momentum to the whole EU-China relationship, and to exchange views and trade issues of concern on human rights, economic and trade issues, including WTO accession, bilateral cooperation and regional developments.

Concern about human rights has been a major theme of EU-China relations since the Tiananmen Square crackdown in 1989. Although China's human rights record has improved since 1978, the EU remains actively committed to supporting China's transition towards an open society based on the rule of law. The EU seeks to promote a positive and result oriented approach through dialogue and co-operation. It has repeatedly stated that the long-term viability of the human rights dialogue depends upon improvements to the human rights situation in China.

China's rapid economic development in the past twenty years has had a significant impact upon EU-China trade relations. Total two-way trade has increased more than twenty fold since reforms began in China in 1978, and was worth € 70 billion in 1999. The EU has gone from a trade surplus at the beginning of the 1980s deficit of €1 billion in 2000. In

1998 and 1999, Chinese exports to the US and the EU compensated falling exports to Asian countries by rising 16 to 18 % respectively, which made the EU 's China's second largest export market. China is the EU's third non -European trading partner after the US and Japan. Over the past five years, the EU has been the largest foreign direct investor in China, excluding Hong Kong, and European companies invested around US\$ 4.5 billion in 1999 and 2000. If this high rate of investment by European companies continues, the total EU investment in China will rival those of the US and Japan in the near future.

The EU puts great emphasis on the accession of China to the World Trade Organization, which has been recently achieved at the Doha ministerial conference (November 2001) The bilateral EU-China Trade Agreement signed in Beijing on 19 May this year marked a major step forward in EU China relations. Now China is a member of WTO.

Thus strengthening relations with China is a major opportunity, and challenge, for the EU for years to come. China has firmly established itself as a regional power and Chinese economy boosted by flow of foreign investment and technology, is rapidly moving up the technological ladder. China is already becoming a major competitor to developed economies in the region and beyond, and WTO accession has brought a further increase in economic efficiency and competitiveness. This increasing economic power is likely to translate into growing Chinese assertiveness on the regional and international scene.

The study attempts to deal with China's relations with Europe since 1949 culminating into the post-Cold War era with a special emphasis on political and economic aspects.

The first chapter describes the historical pattern of interaction between China and Europe. Since the end of World War II, when both Western Europe and China emerged exhausted their mutual relations have been hampered by factors relating to different ideologies and their allegiance to US and the Soviet Union.

The second chapter discusses China's role in world politics from a European perspective emphasising the 'political angle'. It suggest ways of developing EU-China relations by defining concrete and practical goals through 'Communication' endorsed by European Commission.

The third chapter deals with Sino-EEC economic relation since 1978, which concludes in the economic agenda of post-Cold War era including bilateral trade, Foreign Direct Investment (FDI) and World Trade organization (WTO)

Chapter Four is a basic assessment of economic and political factor in EU-China relation. It discusses the problems and prospects along with future directions of relation between both the European Union and China.

CHAPTER – 1

INTRODUCTION

Contacts between China and Europe can be traced back to several centuries. But over a long period, the relations were not always friendly and smooth. The birth of the People's Republic of China (PRC) in 1949 had put China on the position to develop relations with other countries of the world in full dignity. Since then China has established diplomatic relation with almost all European countries and they have become increasingly significant and reciprocal on the basis of mutual respect, non-interference and equality.

Since the end of World War II, when both Western Europe and China emerged exhausted, their mutual relations have been hampered by factors not only relating to either different ideologies, but also their respective allegiances to the US and the Soviet Union. To understand this rapprochement and its possible developments, it is essential to examine Sino-Western European relations since the establishment of the People's Republic of China since 1949.

Europe, both eastern and western, has traditionally held a derivative position in Chinese foreign policy. Since 1949, Sino-European relations have principally derived from China's relations with the two super-powers. Whether as a function of China's post war two-camp world view or the Sino-Soviet and Sino-American estrangements, Mao's theory of the three worlds, or Deng Xiaoping's "Polycentric diplomacy", Europe's position in Chinese foreign policy has largely been determined by Beijing's relations with Washington and Moscow. Relations

with European states have not been viewed by China as necessarily worthy pursuits in their own right but have rather been considered as adjacent to China's relations with the two superpowers.

The historical pattern of interaction between China and Europe, much like that between the United States and China, was an ambivalent one. Europe served as a source of emulations and stimulus to modern China's development, but it was also a source of imperial encroachment and destabilization. The newly triumphant Chinese Communist Party (CCP) carried this ambivalent baggage with them when they came to power in 1949.

Mao Zedong's views of Europe were, however, not so ambivalent. The late Chairman viewed the West European powers through a "sinified-Leninists lens", World War II he felt, had been the result of European's search for expanding spheres of influence and been fought against fascism. Thus, while Sino-European relations had previously passed through phases of emulations, a more sober assessment existed when Mao and the Communist Party came to power.¹

The Early Years

For more than two years after the 1949 Revolution, Europe was at the lowest rung of the Chinese diplomatic ladder². Several factors contributed to this conspicuous lack of any diplomatic interest in Europe.

¹ See, David Shambaugh, "China and Europe", *The Annals of the American Academy of Political and Social Studies*, Vol 519, January 1992, pp. 101-141.

² See Mao Zedong, 'On the people's democratic dictatorship', in his *Selected Works*, Vol. IV, (Beijing, Foreign Languages Press, 1961), p.415.

First of all, this distant continent, at the hands of which China had experienced considerable humiliation and exploitation for more than a century, no longer constituted a serious threat to its national security as after World War II Europe was weak, dependent, partitioned and hesitant as it was drawn into the spheres of influence of one of the two extra-European nations, the USA and the USSR, each of which possessed a military power on a scale never before possessed by any one country.³

Second, China was faced with more crucial problems on her periphery. There was, first of all, a military involvement in the Korean War in 1950 which had tied China's hands to a large extent and which, after its termination, had left her seriously battered. There was the unfinished task of integration of the outlying areas (Tibet and Taiwan) with the mainland presence in all the strategic points that had hitherto been occupied by Japan.⁴

The measure of Chinese concern over such a presence can be discerned from repeated references that Mao Zedong and Zhou Enlai made to the United States in most of their declarations.⁵

Third, newly-independent states were clearly pre-occupied with domestic responsibilities of reconstruction. Decades of civil war and years of Japanese occupation had severely damaged the economy, and had destabilized the already

³ Harish Kapur, *"Distant Neighbors: China and Europe"*, (London: Pinter Publishers, 1990), pp.3-5.

⁴ Mao's Selected Works, op. cit, p.99.

⁵ For details, see Vol. IV of *Mao's Selected works*, op.cit, pp. 84-98.

fragile political system. In the case of China, she was engrossed with important national and regional issues. Thus, a distant, weak and non threatening Europe could hardly figure as a major problem for Chinese diplomacy.

Lastly, since China had insignificant economic power and only very tenuous military strength, it was hardly possible for her to orchestrate a viable and coherent policy relating to a faraway continent⁶.

The European Response

What about the European reactions to the emergence of a new China? Were they not interested? Did they not see the relative increase in China's international clout after 1949 as a major development to be reckoned with? And did they not take any initiatives?

The European response was neither unanimous nor independent. Having lost the bulk of their economic and military power, they were clearly no longer in a position to determine the direction of international politics. The US capacity to influence West European politics, moreover, was too overwhelming to many of the West European countries to formulate autonomous foreign policies. In addition, the Soviet expansion in Eastern Europe had led many of the leaders of the region to regard the rise of Communist China more as a dangerous extension of Soviet power in the Far East rather than as an expression of Chinese nationalism. Under the circumstances any real Sino-West European interaction was hardly feasible. There were no factors encouraging the inauguration of such a process.

⁶ Kapur, "*Distant Neighbours*," op.cit, p. 4.

The establishment of the European Economic Community in 1958, therefore, did not generate any conspicuous reaction from China. Given the inability or the unwillingness of most of the members of the new regional organization to interact with China, it was virtually impossible for Beijing to take any diplomatic initiatives or to make any favorable comments on the EEC.

China was also seriously handicapped by the Soviet factor. Moscow's open denunciation of the European Community—promptly backed by the six Communist parties of the member states—hardly left any room for maneuver for the Chinese decision makers on the question. Any attempt on China's part, however subtle, to adopt a benevolent attitude towards the common market would have been tantamount to public defiance of Moscow; the issue was not considered sufficiently important to warrant a dissentious note from Beijing. The risks were too great and the benefits—if any—certainly too small for any separate initiative on the part of China.⁷

Despite the antipathy felt by the CCP toward the European powers, several European states were among the first to recognize the new People's Republic of China (PRC) following the Soviet Union's lead of extending diplomatic recognition the day after the PRC's founding, Bulgaria, Romania, Poland, Czechoslovakia, and Yugoslavia followed suit between 2 and 5 October 1949. In January 1950, Norway, Denmark, Finland, and Sweden recognized the PRC. So, too, did the United Kingdom, on 6 January, but this was rejected by the Chinese

⁷ Harish Kapur, *China and the European Community: The New Connection*, (Dordrecht: Martinus Nijhoff Publishers, 1986), pp. 3-6.

side, as the United Kingdom maintained unacceptable consular relations with the Nationalist Government of Taiwan. China did, however, agree to pursue diplomatic ties at the charge a 'affaires' level with the United Kingdom. Other than the Scandinavian states, Britain was the only western nation with a diplomatic mission in Beijing until de Gaulle recognized China in 1964.⁸

China permitted Britain this status largely because of their mutual interest in governing Hong Kong. The Federal Republic of Germany was permitted a resident trade mission beginning in 1955, but Konrad Adenauer and other western leaders otherwise followed the American-led boycott of the PRC until 1972

Signs of change became apparent in the 1960's China's relations with Western Europe during the 1960s were influenced, initially, by the Sino-Soviet split and later in the decade by the extreme radicalism of the Cultural Revolution. Following Beijing's break with Moscow, West European Communist parties- become a conundrum for the Chinese. At first, China continued its sharp attacks on west European Communists- particularly the Italian Communist Party- because of their continued allegiance to Moscow and "Khrushchev revisionism". The Chinese even attempted to set up an alternative Communist International, but among European parties only Albania joined. The French, Italian and Spanish Communist parties continued to pursue their strategy of gaining power through the ballot box, a tactic deemed an anathema to the increasingly militant Maoist leadership. The

⁸ David Shambaugh, *op. cit.*, pp.102-103.

European communist parties – with the exception of French students in 1968 did not show much enthusiasm for Mao’s Cultural Revolution.⁹

On the state-to-state, level Charles de Gaulle’s diplomatic recognition of China in 1964 was a significant symbolic break through for Beijing, but not much came of it substantively. It did facilitate a modest increase in bilateral trade- as was also the case with West German trade – but a combination of China’s internal convulsions and American pressure blocked any significant expansion of commercial or diplomatic ties through the remainder of the decade. The U.S. pressure apparently convinced the German Chancellor not to follow de Gaulle’s lead and recognize Beijing at that time, a move he had contemplated in 1964.

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 whom China had diplomatic relations, and remaining embassy staff often tried to incite local Maoists. In Beijing, rampaging Red Guards besieged the British Mission and, after several days of tension, burned it to the ground. Nor were Red Guard activities in the colony of Hong Kong much appreciated by the British Government. By the end of the decade, China found itself thoroughly isolated from both Eastern and Western European States. Even Beijing’s ties with Albania had begun to unravel.¹⁰

⁹ See, “The Difference between comrade. Togliatti and US”, *Peking Review*, 4 January, 1963, p.14.

¹⁰ Richard Solomon, *The China Factor* (ed.) William E. Griffith, “*China and Europe: Weak and far Away*”, (Englewood Cliffs, NJ: Prentice-Hall), 1981, p.171.

By the early 1970s the Cultural Revolution was over. The moderates in the Chinese Communist Party (CCP) once again reasserted themselves. The enormous power wielded by the army and the revolutionary organizations, including the Red Guards, was cut down to size, Mao Zedong was able to separate foreign affairs from outgoing attitude towards the outside world, while the debate and the power struggle on domestic issues continued. Chinese ambassadors recalled during the Cultural Revolution were returned to their respective posts. Diplomatic relations with additional countries were established. The most outstanding example of this new attitude and thus new policy, however, was the Chinese leadership's decision to set in motion a process of normalization of Sino-American relation, the most dramatic manifestation of which was Nixon's visit to China in February 1972.

However, equally important, though perhaps less dramatic, was China's decision to adopt a new position on the EEC. China for the time singled out the EEC as the most positive and the most important element in Western Europe. From the evidence that is available, it could even be argued that the European Community was the most acceptable and the most visible tip of the Chinese diplomatic iceberg.

A combination of factors and developments favoured the new position. In the first place, within the framework of the new diplomacy, the EEC was more acceptable because, in the newly reviewed Maoist thinking it was perceived as one of the two 'intermediate zones' with which the establishment of close relation was ideologically permissible.

Secondly, the EEC had become a major economic center manifesting some degree of autonomy from the US on a wide spectrum of issues. While it might, on the one hand, provide possibilities for accelerated assistance in China's modernization; on the other, it might eventually embolden many east European countries to reorient their economic relations in directions other than Moscow, thereby accelerating diffuse policies with the Soviet bloc.

Thirdly, the ongoing trend towards economic autonomy might also eventually result in military autonomy, thus introducing into the international political scene a new autonomous force that could counteract both the US and the Soviet Union. On numerous occasions, the Chinese leadership had conjured up visions of West Europe becoming a serious obstacle to super power hegemony.¹¹

Lastly, the Community had an additional political attraction. China no longer had any major areas of conflict with any of its members. There were no major issues that remained outstanding, and no complicated controversies that needed to be resolved.

Thus the path was clear for China to break out of her self-inflicted isolation. The new national and international situation had developed into an appropriate setting a completely different approach to the EEC as an important and very visible target of new Chinese diplomacy.

¹¹ Ji Yin, "Western Europe: Its Foreign Policy", *Peking Review*, No. 31, January 1986, pp. 567-571.

As in the past, the policy change first surfaced in the press. The amount of news coverage of the European Community increased substantially from 1971. The Chinese press regularly dealt with EEC development favourably. Zhou Enlai personally spoke favourably about EEC and towards the end of 1971 he remarked to an Italian journalist that ‘as a first step towards an independent Europe, the common market was a good thing’.¹²

Since nothing China’s leaders do publicly is without purpose, the appearance of news, favourably commentaries, interviews and declaration in the Chinese and the foreign press were presumably expected to serve the purpose of signaling to West Europeans the new Chinese attitude towards the EEC.

The second way in which attention was drawn to the change in attitude was the utilization of bilateral talks with members of the Community to communicate China’s new interest in EEC. As many as seven out of nine foreign ministers and four heads of Government or State of the countries that composed the Common Market at the time, had, for example visited Beijing between 1972 and 1975. Important Chinese personalities had also visited EEC countries. Discreet contacts were established directly with the EEC at different levels. In London contacts were established with the representatives of the Community.¹³ By far the most significant initiative was an unofficial invitation to Christopher Soames, the Commission’s Vice-President who was in charge of its Foreign Affairs, to visit China. China’s reasons for seeking out the Community were clearly more political

¹² Ernst Kux, “China and Europe”, *Current Scene*, May 19, pp. 482-88.

¹³ Kapur, “Distant Neighbours”, *op. cit.*, pp. 20-27.

than economic practically everything that was published in the Chinese press on the subject conjured up visions of a politically united Europe, distinct from the two superpowers.

The European Commission reacted positively to these signals. With the impending acquisition of a new mandate to negotiate commercial treaties on behalf of all member states, with state trading countries, with effect from 'January 1975 and with other countries a year earlier, the stage was set for an increased international role. The international setting was favourable. The US was no longer an obstacle. Nixon's official visit to China in February 1972 had put the two countries on a course of normalization, thus putting an end to more than two decades of troubled relation. The re-establishment of this connection was, if any thing, a catalyst in accelerating the Community's determination to seek out China, since any undue delay would give an added advantage to Tokyo and Washington in cornering the vast Chinese market.

Secondly, developments within the Community opened up possibilities with the Soviet bloc. Practically all the declarations and comments made by China in the aftermath of the Sino- EEC trade agreement repeatedly emphasized the new fact that nine West European countries were asserting themselves outside the super power framework and that China strongly supported this important trend.¹⁴

The importance of the trade agreement is also evident from its reception in other quarters. The emergence of an autonomous and economically competitive

¹⁴ Younger Kenneth, "The Western Attitude to China", *China Quarterly*, No. 10, September 1962, pp. 46-52.

West European constituted an economic threat to the United States, particularly at a time when the recession was rapidly spreading, and when the international market was shrinking. The EEC was viewed as a major competitor in the economic field. Concern about this now became even more pronounced, since any advantage that the Sino-EEC trade agreement gave to the Europeans could only be counter-productive to US economic interests.

In the ongoing Sino-EEC economic relations, the textile agreement was the second accord concluded for three years between the two parties. It was initiated on 18th July 1979, and was fully implemented with effect from 1 January 1980. However before the agreement was concluded, the textile quota for China had become a major source of disagreement between the two parties. In fact, it had developed into a serious dispute between them as textiles had become China's major industry after the revolution, and a principal export item increasing from US\$ 26 million in 1950 to 3200 million in 1980.¹⁵

The Chinese wished to obtain a further increase in their exports in this sector-particularly cotton yarn. The agreement that was finally initiated on 19 July limited China's exports to 40,000 tons a year, of which the controversial cotton cloth material was not to exceed 18,000 tons. However, it should nevertheless be noted that the agreement effective doubled Chinese textile exports from 21,000 tons to 41,000 tons.¹⁶ The cumulative effect of all these bilateral arrangements or unilateral EC decisions was impressive. First of all, trade between the two parties

¹⁵ China: *Facts and Figures*, (Beijing: Foreign Languages Press 1982) pp. 464-470.

¹⁶ *Ibid*, p. 472.

increased considerably. Between 1975 and 1980, it more than doubled reaching the figure of 4,378 million ecus, an increase of more than 41% in 1980 alone. The bilateral economic co-operation agreements between the member states of the Community and China also contributed to the expansion of Sino-EEC economic interaction. For it was only as result of these individual bilateral accords with members states, that China was able to conclude a wide range of whole plant imports and licensing and co-production agreements.

Summarizing, China had opened up to the outside world. In her new gigantic economic effort planned in the 1970's, the EC had become a major element in the new Chinese developmental strategy. Japan, of course, was the principal economic partner, but the EC, though trailing far behind, was the second most important economic partner. It was China's objective to encourage the EEC to become as important as Japan. It was economically important but politically vital, since China did not consider it expedient or in her interest for her economic relationship to be oriented too much in the direction of Japan.

A general process of deceleration set in from 1981 onwards, leaving the Community far behind from some of China's other major partners. There was sudden and rather unexpected slow down of industrialization in the capital construction sector, agriculture and light industries and it was argued that the existing domestic production of raw materials and energy could not keep pace with the accelerated heavy industrial growth. The sum total of internal resources (raw material and energy) needed to meet the demands of projects already decided upon was simply insufficient. The Chinese leadership was therefore faced with the

dilemma of either deciding to import additional raw materials and energy, or alternatively opting to become more selective for developing relation with China. With the exception of Ireland, the member states of the Community had all established diplomatic relations with China.

Thirdly the technical obstacles had also disappeared. For one thing, the textile agreement with Taiwan had expired on 1 October 1993 an indispensable pre-condition for Sino-EEC normalization.

Fourthly, economic factors were also favourable. The Community's economy, restricted by the continuing recession, needed an economic outlet. The Chinese economy- at least in the 1970s was thought to offer major prospect of a vast market, which, if not cornered in time might be lost to the Japanese, who were already active in China, and to the Americans who were actively involved in developing relation with China. The West European business circles were also attracted by the 'next growth market'¹⁷, and it is more than likely that their pressure on the Community to make contact with China was by no means negligible. A number of companies had begun to send more and more executives to established contact, to participate in trade fairs, to hold discussions in technical forums and to negotiate contracts. In April 1973 in Peking, more than 346 British companies displayed a wide array of their industrial wares varying from cigarette making machines to jet engines. In June 1974 about 240 French companies showed 12,000 tones of their industrial products to the Chinese¹⁸ and in September 1975, 358

¹⁷ Cited in 'China and the EEC: What's in it for them', *The Economist*, 2nd June, 1973, p.20.

¹⁸ *Ibid.*

West German companies organized 'Techno germa', which was the biggest foreign exhibition ever organized in China.

Thus a number of reasons can be found in support of a favorable EC response to the friendly signals that were coming from Beijing. The European took two major initiatives to accelerate the development of Sino-EEC normalization.

The first pertained to a formal communication. While maintaining unofficial and informal contact with the Chinese embassy in Belgium, the Commission forwarded a memorandum to China in November 1974 as it did to other state trading countries. This was encompassed by an outline agreement, laying down broad provisions for the conclusion of a possible trade agreement between the two partners.¹⁹ The second step pertained to the unofficial invitation extended to Christopher Soames (vice president of EC) visit to China. The Commission accepted the invitation, but informed the Chinese that it was not possible for Soames to accept it in his private capacity, since he was the community's Commissioner. The invitation, the Commission insisted, had to be official in order to permit him to go to China²⁰. China's response to the EEC memorandum was positive and it accepted the invitation to negotiate a trade agreement.

The crucial issue, about which the Chinese wished to reassure themselves, before commencing any substantive exchanges or before making any major

¹⁹ Werner J. Field, "The European Community in World Affairs: Economic Power and Political influence", (New York: Alfred publishing C. Inc), 1976, pp. 64-68.

²⁰ Kapur, "China and the European Community", op.cit, pp.44-52.

commitment, was the Community's attitude towards Taiwan. The firm and very coexistent opposition that Beijing had formulated, since 1949, to any two Chinas solution had led the Chinese leaders to become very vigilant towards nations or organizations with which they had desisted to develop relations. Since the EEC had concluded a textile agreement with the 'Republic of China' (Taiwan) in 1970, which had expired on 1 October 1973, the Chinese wished to be doubly sure that the EEC had no intention of preserving any ties with Taiwan. Once it became clear in the bilateral talks that the Community considered the Beijing government as the only government of China, and that it had no relations with Taiwan, a heavy political programme was organized.

The EEC-China negotiation pattern for a trade agreement went through three stages: a technical, an exploratory and a formalistic stage.

The technical phase of the talks began in January 1976. The essential purpose to these talks was for the Commission to inform the Chinese about all the appropriate details regarding the Community, and more specifically, regarding new powers granted to the Commission in trade matters.

A few months after the commencement of the preliminary phase, particularly after April 1976, the talks became sporadic. Later they broke down completely. The Chinese Embassy in Brussels suddenly lost all interest in continuing any official contact with the Commission even at a technical level. This was clearly due to the rapidly changing domestic situation in China. The eruption of turbulence in the Chinese political scene, following Zhou Enlai's death in January 1976 and before that of Mao Zedong in September of the same year,

resulted in the shelving of all contacts between China and the European Commission. Indeed the confusion in China was too great and factionalism too rampant. Even more important was the emergence of disagreements within the already split leadership on a wide range of basic issues. One issue that had major ramifications on China's diplomatic behaviour, including her relations with the EC, pertained to economic consideration.

The internal controversy was finally resolved with the death of Mao Zedong in September 1976, with the political elimination of the 'Gang of Four' in October 1976, and with the reinstatement of Deng Xiaoping in January 1977. The fact that this domestic unrest was a major obstacle to the development of Sino-EEC relations is evident from the fact that the subsequent initiatives to resume talks coincided with the consolidation of political power of those who argued the 'advanced foreign technology has helped increase China's strength in developing her economic reconstruction self-reliantly.'²¹ The first manifestation of this new attitude, by which a link was clearly established between internal economic development and external economic relations, was the re-establishment of contact between the Chinese mission in Brussels and the European Commission.

Towards the end of February 1977, the Chinese Ambassador to the Community took the initiative of informing Haferkamp, the Commissioner in charge of the foreign affairs, that his country was now ready to 'resume as soon as

²¹ Biegel, Alfred, "The Sino-West European Connection", *Military Review*, January 1976, pp. 82-86.

possible the technical explanatory talks'.²² A number of meetings were subsequently held in Brussels.

The European response to the Chinese invitation was positive and the broad frame work of Sino- EEC economic relations after 1978 was established through three agreements pieces of legislation. While the first two – trade and textile – where agreements concluded between China and the Community, the third – the General System of Preferences (GSP) – was a unilateral Community decision to exempt Chinese industrial goods and a few agricultural items from any custom duty. None of these three components was easily agreed upon.

While China and the Community agreed, according to the agreement, 'to promote and intensify trade between them'²³ (Article 1) and respectively undertook to 'give favourable consideration' or 'introduce measures' to liberalize imports from each other (Article 1), the EEC was never the less successful in obtaining the inclusion of restrictive clauses regarding imports from China. However, notwithstanding the restrictive clauses in the treaty, it created great possibilities for an upswing in trade relations. In the first place, the trade between the two parties increased significantly. China's exports doubled from 937 million ecus in 1978-the year in which the trade agreement was concluded to 1,888 million Ecus in 1980. Chinese imports from the community rose rather slowly from 1489 to 1725 million ecus during the same period. Secondly, the agreement also made it

²² European Parliament Working Documents, 1978-79, 198(1928), p.8.

²³ *Official Journal of the European Communities*, 'Trade Agreement between the European Economic Community and the People's Republic of China, L 123 9(1978), p.2.

possible under Article 4.2 for the EEC, to extend the list of items which could be imported from China.

The trade agreement was not only an economic agreement. It was also a political act since it was the first major event in the ongoing process strengthening of relations between two emerging forces outside the super power framework, particularly at time when Sino-American relations were progressing very slowly, and the Community had reached an impasse in its relation.²⁴ In its industrial plans by severely curbing some of the ambitious projects. Since the importation of raw materials and energy would have further aggravated the deficit in her balance of trade-clearly an unacceptable situation from China's point of view-abandoning some of the projects was the only reasonable option that remained. While China's foreign trade continued to increase, the Community's participation in it continued to decline so much so that in 1984 it was no longer a declaration in percentage but decline in absolute figures. Exports fell from US\$ 2.21 billion in 1983 to US\$ 2.09 billion, while imports decreased slightly from US\$ 3.47 billion to US\$ 3.36.²⁵

Tiananmen Square

The May-June 1989 events of Tiananmen Square were indeed a major landmark in post 1949 Chinese history. They were important because they included massive anti establishment demonstrations, and because they were severely by the Chinese government. None of this was entirely new, for such event

²⁴ Ibid., p.1

²⁵ Milligan, Stephen, "EEC-China Trade Facts", *European Community*, 6, June 1978, pp. 211-217.

had occurred in the past; what were distinctive were its massive nature and the severity with which the demonstrations were repressed. What has been the effect of all this on Sino-European relations? Have they been severely jolted and for how long? Undoubtedly, China's relation with most of the developed world seriously affected. In the immediate aftermath, mutual recrimination became the order of the day and interactions in all sectors were severely curtailed if not totally suspended.

'The Tiananmen Square' coincided with three important developments: Gorbachev's visit to Beijing, in France the bicentenary celebrations of the French Revolution, and the commencement of the rumbling of discontent in Eastern Europe.

Gorbachev's visit to China had brought a large number of journalist to the country to cover what was generally perceived as a major event. However, the 'Tiananmen Square' event occurred, the Western media's focus was shifted to these events, resulting in a massive flow of dramatic images on the world's television screen and of press dispatches. Public opinion criticized the repression, and practically all the West European governments though varyingly condemned it, suspending many of their interaction with the Beijing Government.

The second important event that coincided with 'Tiananmen Square' was the bicentenary celebration of the French Revolution. The French government, having decided to focus its celebrations on what the revolution represented in terms of human rights, came to the forefront to condemn the Chinese repression, blocked all high-level visits, suspended aid, and stopped the conclusion of any economic deals.

The third important coincidence was the rumbling of discontent in Eastern Europe. A process of political and economic pluralism was already under way in Poland and Hungary, and was spreading out to other areas of the region where conservative East European Governments were holding back on liberalizing the communist regimes. The trend on the whole was for change, and grass roots pressure was indeed building up.²⁶

China's isolation was thus total. If Western Europe had reacted severely, Eastern Europe had also failed to show any support or any sympathy. But is all this permanent? Can the Sino-European crisis of 1989 continue indefinitely? If one accepts the argument that inter-state relations are never immutably bad or eternally goods, the currently soured Sino-European relations cannot be expected to continue indefinitely. At some point the tensions will have to end, and the basic determinants that influence the foreign-policy behaviors of nations will once again reassert themselves, over the provisional and tentative factors that now prevail until such time as another crisis reappears on the horizon.

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²⁶ Commission of European Communities, *Press Release*, IP (89), 1989.

CHAPTER-2

THE EUROPEAN UNION AND CHINA IN THE POST-COLD WAR ERA.

The European Community imposed sanctions on China in the wake of the political turbulence in Beijing in June 1989 and China-Europe relations witnessed serious setbacks. However from later half of 1990, members of the European Community began to lift sanctions and China-Europe relations began to restore and improve. In the end of 1994, the European Union (EU) announced the removal of all sanctions against China except in arms sales. In June 1994, China and European Union reached an agreement on strengthening political dialogues between them including annual meetings between Chinese foreign Member and the foreign members of the EU “Troika” during the UN General Assembly; meetings between Chinese foreign ministers and diplomatic envoys of the EU and its members in China every half year, and political consultations between experts at DG’s level from time to time.

1994 also saw major strides in bilateral cooperation and the establishment of a new arrangement for political dialogue. The time had come to redefine the EU’s relationship with China, in the spirit of the “New Asia Strategy” endorsed by the Essen European Council. Europe has developed a long-term relationship with China that reflects China’s worldwide, as well as regional, economic and political influence. The EU’s is eager to see China sharing in the opportunities and responsibilities at the heart of the International Community as China is opening up

to a free flow of ideas and cooperation, both in the key Asia region and globally. EU supports the wholehearted participation of China in the international community.

It is in the interests of Europe, and of the international community as a whole, to engage China in a political dialogue on disarmament and arms control issues. Nuclear Non-Proliferation, the missile technology control régime, the non-proliferation of chemical and biological weapons, conventional sales, and control of trade in dual-use goods, should all be embraced in such a dialogue. It was for such a dialogue that an ambitious new framework for bilateral political dialogue was set up in June 1994 to encourage this mutual goal of full Chinese participation in global affairs.

The Rise Of China And Its Global And Regional Implications

The rise of China represents enormous opportunities and challenges to the international system. The question is how China can share in the responsibilities and opportunities suited to its rapidly increasing power. China's political importance makes its stability of great concern both to its neighbours and to the world Community at large. It is believed that this stability is best served by political, economic and social reform in line with international norms.

The mere size of China, in terms of land and population, makes it impossible to address the central global issues of the 1990s without particular reference to the impact of China on their evolution and management. China is not only a nuclear power and a permanent member of the UN Security Council, but

also one of the world's biggest arms producers and exporters. Her role across the whole security spectrum is central to global, as well as regional security.¹

Most observers, including the IMF and the World Bank, now believe that on the basis of purchasing power parities, the Chinese economy is similar in size to Japan and second only to the USA. Extrapolations of recent growth rates have led to forecasts of China becoming the biggest world economy in a generation's time. Although these estimates are subject to enormous margins of error, it is beyond dispute that after 15 years of economic reform, China economy has already become one of the largest in the world.

China's size makes its impact on the physical environment unique. Despite its one-child policy, China's population increases by around 15 million people every year. But in addition, China's energy consumption is already second only to that of the USA. The consequences for the environment of such a huge country reaching western levels of consumption, and pollution, in the future are impossible to ignore. Hence the importance of China playing a full part in the wider policy exchange on such key issues as the environment, population, or health.²

Although in the long term, the continued growth of China's economy could provide employment to its entire population, there is undoubtedly a short to medium term problem due to the substantial number of Chinese seeking to emigrate. With the possibilities for legal immigration to Western countries limited,

¹ Leng ShaoChuan, "China and the International System", *World Affairs*, No.4, 1995, pp.819-820.

² *Ibid.*, p.822.

trafficking of illegal immigrants has become increasingly prevalent. This not only affects North America; traffickers have also set up routes through Central America and the former Soviet Union towards Europe. It will be necessary to address the very real resultant problems in close cooperation with China.

China's size is also reflected in the multiplicity of players (central government agencies, both in Beijing and elsewhere, provincial and municipal authorities, and emerging economic actors) who can influence Chinese policy and practice. In many respects, for example, Chinese provinces represent differing markets for EU exporters. Moreover, the rapid devolution of economic power is shifting responsibility for economic and trade policy-making and implementation to provincial level. This makes it all the more important to have firm commitments on the enforcement of China's international commitments at sub-national level, for example, during the WTO negotiations. It also makes it crucial to expand our bilateral trade and cooperation discussions to include provincial and local authorities, which, de jure or de facto, are in charge of economic and trade policy in many fields.³

China's Importance For Europe

The shared global and regional security interests which will benefit from co-operative and responsible Chinese policy on all fronts, including adherence to the treaties governing nuclear and other weapons proliferation, and international drive to contain arms sales and encouragement of Chinese domestic political,

³ S Yurkov, "China and Western Europe", *Far Eastern Affairs*, 4, 1996, pp. 659-570.

economic and social reform in the interests of its people (20% of all people alive on the globe today). It is in everybody's interest including that of China itself-to see China demonstrating a cooperative and responsible attitude in the international Community, whether as a signatory to UN Human Rights instruments and the Non-Proliferation Treaty, or by becoming a WTO Member and an active promoter of the post-Rio summit environmental agenda at the heart of government policy.

Shared interests on other global issues China should be engaged in dialogue and co-operation towards sustainable development and for the protection of the environment and global resources, scientific and technological development, the information society, demographic growth, poverty alleviation, the preservation of forests, addressing the problem of illegal immigration, and the control and eradication of disease, AIDS, drugs and crime.

Global economic stability China's size and influence on world trade gives its economic policy global significance. It is in the world's interest, as well as China's, interest that the Chinese economy continues to grow and to open up, and that China takes its place as a major player in the world system of economic rules and policies. It is also essential to help China to participate fully in the rule-based system of the World Trade Organization.

Competitiveness in order for European industry to be globally competitive it must be present on the world's most dynamic markets. China is now the Union's fourth largest market and fourth largest supplier. China's market could become the largest in the world in many high tech sectors, from telecommunications to aircraft

and from computers to energy. An active role for EU business in China, where US and Japanese competition is already fierce, is essential.⁴

Given the breadth of these interests and the key role played by China, Europe must set itself the overriding general objective of promoting the fullest possible Chinese involvement in the international arena, whether on security, political, environmental, social or economic issues. Europe must also increase mutual understanding between them and Chinese and raise the EU profile in China.

In addition, the influence of China's domestic evolution on its international policies cannot be ignored. EU interests will therefore be well served by supporting the development in China of institutions and a civil society based on the rule of law.⁵

The New Setting For EU-China Relations

Discussion of China in the framework of the Council in early 2001 revealed a consensus that the existing policy towards China and the EU's longer term aims in relations with China, as defined by the Commission Communication and the resulting Council conclusions in 1998, remain basically valid. However, both objectives and instruments could and should be fine-tuned and operational goals for the short and medium term could be achieved by setting down action points in order to make EU policy more effective.

⁴ European Commission, "A Long Term Policy for China-Europe Relation", Com 98, 279, March 25, 1998.

⁵ Ibid.

Several developments over the past years point to the need for fine-tuning the EU's policy towards China.

Conclusion

- Firstly, there have been significant developments in the EU since 1998 which increasingly can and do affect relations with China, including the ratification and implementation of the Amsterdam Treaty, and the signing of the Nice Treaty and the adoption of a EU charter on Fundamental Right in December 2000. This reinforced the EU's Common Foreign and Security Policy (CFSP) and the Europe Security and Defense Policy (ESDP) as well as its Justice and Home Affairs (JHA) policy and other policy areas. The ongoing consolidation of EU integration makes the Union better equipped to engage China on an increasingly wide range of issues.
- Secondly, there have been significant developments in China which need to be taken account of in re-focusing EU policy towards China, including China's increasingly assertive international role and growing political and economic weight. China is already the world's seventh largest trader, the second largest recipient of Foreign Direct Investment (FDI) and a major player in certain key economic sectors such as telecoms and the information society, and energy). In addition, China's continuing and far-reaching reform process is affecting ever more parts of Chinese society. Corruption and increasing disparities in regional development and in incomes are key concerns. The anticipated accession to the WTO will give added impetus to the pace of economic

and social reform. However, it is also likely to give, at least in the short term, continued rise to both urban and rural unemployment, possibly straining China's social security system and adding to societal tensions. Increased internal and external migration over the past years illustrates the challenges. The general political situation in China is affected by upcoming leadership changes (16th Communist Party Congress in autumn 2002) and continued tensions over the issue of Taiwan.

- Thirdly, there have been significant development in EU-China relations which merit a brief review. These include the strengthened political dialogue on illegal migration and trafficking in human beings, the re-focusing of EU co-operation assistance to China with the new Country Strategy Paper, the strengthening of a number of important sectoral dialogues, as well as the growing importance of China as a trade and investment partner for the EU.⁶

All these developments point to the scope and need for further enhancement of engagement with China. China's opening over the past twenty years has created impressive economic growth which has improved the well-being of many Chinese people while also creating opportunities for European business. The wish to ensure sustained economic growth and development has fuelled reforms in general. But China's opening and joining the international Community has always been fraught with difficulties and is likely to be so for many years.

⁶ European Commission, "Building a Comprehensive Partnership with China", Com (98) 181, March 25, 1998.

Nothing can be taken for granted. The reform process is not on permanent autopilot. It is in the EU's interests, both economic and political, to support an open China, the continuation of a smooth and ongoing reform process, and China's positive and constructive international engagement.⁷

China is not always an easy partner for the EU. Its political system is unlike that of most other major third countries with which the EU has significant and growing relations, and EU concerns over key issues such as human rights affect and strain relations at times.⁸ But despite the difficulties involved, it is in the Union's own interest to engage China further. Globalization means, among many other things, that a country the size of China is both part of the problem and the solution to all major issues of international and regional concern. Engagement means developing comprehensive relations which allow for working towards a common understanding on all issues of concern, in support of multilateral problem-solving wherever this applies on international and regional issues.⁹

The development of EU-China relations necessitates a commitment by China at all levels. The necessary commitment at highest political level has been expressed clearly in recent EU-China summit meetings. But the issues on the agenda for EU-China co-operation, be it illegal migration or the expansion of sectoral dialogues, will also need the full support of Chinese authorities at lower

⁷ European Community, "The People's Republic of China and the European Community", Information External Relations, (106), 2000.

⁸ Ibid.

⁹ European Commission, "A Long term policy of China Europe Relation", op. cit.

levels, including in the regions, as well as improved internal co-ordination in China between the various actors involved.

The EU's policy towards China is to engage China further on the world stage, through an upgraded political dialogue with the International Community, and to integrate China in the world economy by bringing it more fully into the world trading system, and by supporting the process of economic and social reforms that are continuing in China.

The legal framework for relations with China remains the "1985 EC-China Trade and Cooperation Agreement". An EC-China Joint Committee review once a year all aspects of Sino-European Trade and cooperation relations. In 1995, the Commission sought to set out its long-term strategy of EU-China relations in its Communication "A Long Term Policy for China Europe Relations". In 1998, the Europe Commission adopted its Communication "Building a Comprehensive Partnership with China", which set out recommendations aimed at upgrading the EU's relationship with the People's Republic of China. The European Council of Minister endorsed this on 29 June 1998.

On 8th September 2000, the Commission adopted its Report on the Implementation of the (1998) Communication "Building a Comprehensive Partnership with China", which identified activities and progress in the various areas of EC economic and development co-operation, and dialogue with China. It also highlighted developments in the various EU-China dialogues concerning regional security, economic and trade issues and human rights, and identifies the scope for further broadening of these dialogues to include global issues such as

illegal immigration and, possibly, drug-trafficking, money-laundering and organized crime.

On 16 May 2001, the Commission adopted its Communication “EU Strategy towards China: Implementation of the 1998 Communication and Future Steps for a more Effective EU Policy”. The aim of the communication is to fine-tune, and not to re-define, current strategy. The Communication suggests ways of developing EU-China relations by defining concrete and practical short and medium term action points for EU policy to progress more effectively towards the long term aims defined in 1998. The new Communication, was issued immediately prior to commissioner Patten’s bilateral visit to China, from 20-24 May 2001, his second visit since becoming Commissioner for Foreign Relations.¹⁰

POLITICAL RELATIONS:

Engaging China In The International Community.

Integrating China into the international Community and encouraging China to work with the EU in addressing international, regional, and transnational challenges remains a priority for the Union. Many of the initiatives proposed in this respect in 1998 have been carried out. The political dialogue has been strengthened. Summit meetings are now on annual bases, foreign ministers meet regularly, as do Ambassadors and senior officials in Brussels, Beijing, New York and Geneva .There is also agreement in principle to hold regular talks at expert level on selected issues. (CFSP Troika working Groups). Although not always

¹⁰ European Commission, “EU-China Summit”, 5th September, 1998.

easy, the political dialogue between the EU and China has grown stronger, reflecting a mutual recognition of the need to clarify differences and identify ways of moving forward at key issues of concern.¹¹

The importance of engaging China consistently and coherently on all issues of international concern reflects the recognition that China, as a UN Security Council member and a growing economic and political power can have significant influence on most major global issues, whether it is arms proliferation, illegal migration and trafficking in human beings organized crime, money laundering, or environmental degradation co-operation with China, bilaterally and within multilateral structures such as the UN, is crucial for ensuring that international advances are made in these important areas.¹²

The political dialogue and the dialogue on global issues are particularly important to engage China further in the international Community. Over the past year, further steps have been taken to develop the EU-China political dialogue. The third EU-China summit held on 23 October 2000 was successful and confirmed a mutual interest in building ties further across the board. Additional impetus was given by the first meeting of the EU Political Directors Troika with China on 30 November in Beijing, allowing for a wide-ranging discussion of international and regional issues of mutual concern. In the area of illegal migration and trafficking in human beings, the first High Level Consultations between EU and Chinese

¹¹ David Shambaugh, "China & Europe", *Annals of the American Academy of Political and Social Studies*, Vol.519, January, 1992, p.108.

¹² European Commission, "EU strategy towards China: Implementation of the 1998 Communication and Future steps for a more Effective EU policy", COM (265), Brussels, 15 May, 2001.

officials were held in October 2000 in Brussels and February 2001 in Beijing. This followed up the exchange of letters between President Prodi and Prime Minister Zhu on the need to strengthen co-operation in this area, not least in the light of the Dover tragedy in June 2000 when 58 would-be Chinese illegal migrants perished.

The growing international importance of both China and the EU give the political dialogue and the more general dialogue on global issues particular relevance. Much can be done over the coming years to fine-tune and build on what has been achieved so far and make it more effective.¹³

Building Upon The ASEM Process

The Asia-Europe Meetings (ASEM) process, launched in Bangkok in 1996, has developed into a broad forum for in-depth consultations between European and Asian partners at political and expert level, and has stimulated a wide series of co-operation initiatives. By virtue of its informal nature and the variety of issues addressed in its framework, ASEM has added a new dimension to the EU-China relationship. China has taken a constructive approach in the process and has been particularly active in all ASEM economic cooperation initiatives.

Dialogue with China should be upgraded in the context of the EU's broader regional strategy towards Asia as embodied in ASEM. The EU should aim to encourage China's continued commitment to taking an active part in ASEM and the ASEM follow-up process. Promoting dialogue with China on sustainable development in the Asia region, addressing the issue of maritime security in the

¹³ Ibid.

Asia region, combating illegal drugs trafficking, coping with the effects of the Asian financial crisis and addressing the issue of arms control and non-proliferation are prime examples where the EU should seek China's active involvement in ASEM.¹⁴

Addressing Global Issues

Over recent years China has been forging a more coherent and outward-looking foreign policy to match its growing economic weight. The EU should build on this by encouraging China to play a proactive and responsible role in global issues. The EU should engage China, a permanent member of the United Nations Security Council, in dialogue on major UN developments, in particular UN reform. The EU should also endeavor to raise issues related to China more regularly during G7/8 meetings. It should also work to intensify the increasingly substantial dialogue with China launched by the OECD in 1995.

China's status as a nuclear power gives particular importance to its disarmament and non-proliferation policy. In recent years, China has taken the welcome steps of joining the Nuclear Non-Proliferation Treaty, the Chemical Weapons Convention, the Biological Weapons Convention and the Zangger Committee (a nuclear export control regime), as well as respecting key provisions of the Missile Technology Control Regime. It also signed the Comprehensive Nuclear Test Ban Treaty. Continued support and encouragement should be given to Beijing's greater involvement in multilateral negotiations on such issues. Europe

¹⁴ Ibid.

should also establish dialogue with China on the anti-personnel landmines issue, urging it to adopt a permanent export ban and to engage positively in the international process to eliminate these weapons.

Illegal immigration and international crime are issues of grave concern both to China and the EU. The EU should promote a substantial dialogue and encourage cooperation with China on combating illegal drug trafficking, money-laundering, organised crime and illegal immigration. Previous EU experience in other third countries on such issues could constitute a useful platform on which to consider launching specific cooperation initiatives in China. The EU will continue to take every opportunity, within the political dialogue, to raise human rights issues in addition to the specific bilateral dialogue on human rights.

The way China's economy develops, its energy demand increases, and the pace of rapid industrialization continues, is having a profound environmental impact at the national, regional, and global level. The EU should aim to ensure China's continued commitment to addressing world environmental challenges such as global warming and greenhouse gas emissions, not least through EU funded cooperation projects. In particular, the EU should encourage China's further involvement in the pursuit of global environmental objectives in the context of the 1992 Rio Earth Summit and its follow up, notably in the area of climate change.¹⁵

¹⁵ European Commission, "Building a Comprehensive Partnership with China", Brussels, 25 March 1998.

Fostering Dialogue On Asian Regional Issues

The EU has a role to play in maintaining stability in the Asian region through the non-violent resolution of conflicts there, notably as a participant in ASEAN-sponsored regional fora. China shares its frontiers with fourteen countries and has unresolved border disputes with some of them. The growing demand for a multilateral security dialogue in East Asia provides opportunities for Europe to increase its overall influence in the region. As the ASEAN Regional Forum (ARF) develops further, and as China shows willingness to engage further in confidence-building measures in Asia, the EU should use this forum more systematically to discuss security issues with China.

Europe, a key contributor to the Korean Peninsula Economic Development Organisation (KEDO) and a major provider of food aid to North Korea, has a clear interest in the peaceful resolution of the Korean question, as does China. The Korean peninsula should be among key issues that feature in the EU's regular dialogue with China.

Likewise, the EU and China could consider launching a dialogue on other countries in the region, such as Cambodia, Vietnam and Burma, where China has strong influence¹⁶.

China's increasing reliance on energy imports from Central Asia is bound to make it perceive stability in the region as a strategic priority. Given the EU's

¹⁶ European Communities, "The People's Republic of China and the European Community", *Information External Relations*, 13, 1990.

own strategic interest in Central Asia and privileged relationship with Russia, developments in Central Asia should be addressed at the appropriate time and in the appropriate forum.

Recent indications of an improvement in relations across the Taiwan Straits and the prospect of a more open and direct dialogue between Beijing and Taipei are encouraging. As before, the EU should welcome any steps which can be taken to further the process of peaceful reconciliation.

Underpinning Autonomy In Hong Kong And Macau

Strong economic links and historical ties with Hong Kong and Macau make it inevitable that Europe will continue to take an active interest in the two territories, not least in view of the latter's handover in 1999. In the spirit of its 1997 Communication entitled "The European Union and Hong Kong: Beyond 1997"², the EU should seek to underpin further the autonomous responsibilities of the Hong Kong Special Administrative Region, following the smooth handover in July 1997 and the successful management of the post-handover period so far. The Commission will publish an annual report on EU-Hong Kong relations. It will also aim to ensure that the EC-Macau Trade and Cooperation Agreement remains fully implemented after Macau's handover to support Macau's autonomous responsibilities. Hong Kong and Macau have important roles to play as gateways to other regions of China, and the EU should develop bilateral cooperation initiatives with both territories.

The EU considers the continued expression of differing opinions through the media and other channels in Hong Kong to be a healthy sign of political maturity. The EU will continue to watch the electoral process in Hong Kong closely, placing particular emphasis on the EU's support for the eventual development of universal suffrage in the Special Administrative Regions (SAR).¹⁷

Human Rights In China

China is still far from meeting internationally accepted standards on human rights. Serious shortcomings in China's human rights record remain, including in such areas as the suppression of freedoms among certain ethnic minorities and political dissidents, use of enforced prison labour, a still under-developed system of rule of law, and the extensive use of the death penalty. These remain matters of grave concern to the EU, its Institutions and public opinion at large.

Nonetheless, the situation of human rights in China has improved over the last twenty years. Economic reform has introduced greater freedom of choice in education, employment, housing, travel and other areas of social activity. China has passed new civil and criminal laws to protect citizens' rights and has signed several key instruments bringing the country closer to international norms. It has also taken steps to develop the electoral process at local level, allowing villagers to designate their local authorities.¹⁸

¹⁷ Ibid.

¹⁸ Aleksander, Fatic, "Human Rights, EU and China", *Review of International Affairs*, Vol.8, September 1997, pp. 18-20.

A commitment to universally recognised human rights and fundamental freedoms lies at the heart of the EU's policy world-wide. Full respect for these principles is inextricably linked to economic development and prosperity, as well as the long-term social and political stability of any country.

The challenge for China now is to sustain economic growth and preserve social stability while creating an open society based on the rule of law. If Europe wishes to have a role in this process, it should continue to use all available channels to promote the cause of human rights in China in an active, sustained and constructive way. The resumption of the EU-China human rights dialogue without any pre-conditions gives the EU a real opportunity to pursue intense discussions which, coupled with specific cooperation projects, remains at present the most appropriate means of contributing to human rights in China.¹⁹

Human Rights Situation In China

Living conditions for the majority of the Chinese population have improved in the last twenty years. Economic reform and liberalization have introduced an increased degree of freedom and self-determination for the individual in the economic and social field. There are also some indications that the construction of a more open legal system is under way in China. The Chinese authorities recognize the importance of the rule of law in the process of China's modernization and in view of the country's further integration into the international economy. Progress has been achieved in the area of economic and social rights. Relevant provisions

¹⁹ Edmund Fung, "Human rights Issue in China", 1929-93, *Modern Asian Studies*, 32(2), May 1998, p. 437.

have been added to the Constitution in 1999. With respect to civil and political rights there is still a wide gap between generally accepted international standards and the human rights situation on the ground.²⁰

The EU and China are engaged in a human rights dialogue, which aims at improving the human rights situation by encouraging China to respect and promote human rights and fundamental freedoms and to co-operate with international human rights mechanisms. Since 1997, there have been ten official rounds of the dialogue.²¹

Two sessions of the EU-China human rights dialogue were held over the past year, in September 2000 in Beijing and February 2001 in Stockholm. In addition two seminars were held in December 2000 in Paris on trade union rights and minor crimes, and in May 2001 in Beijing on the death penalty and the right to education. These allowed for in-depth discussions among officials and experts and clarified respective views and positions with a view to contributing to finding ways forward to address the EU's key concerns. As noted in the General Affairs Council conclusions of 22 January 2001, the dialogue meetings are generally held in an atmosphere of openness, allowing a frank exchange on issues of particular concern to the EU, including: disregard for fundamental freedoms, arbitrary detention and re-education through labour, torture, the crackdown on pro-democracy activists, the situation of minorities and capital punishment.

²⁰ James, D.Seymour, "Human Rights in China", *Current History*, Vol 93, September 1994, pp.69-70.

²¹ *Ibid.*, p. 74.

More recently, China signed a Memorandum of Understanding on human rights co-operation with the UN Human Rights Commissioner in November 2000. China also ratified the Covenant on Economic, Social and Cultural Rights (ICESCR) in February 2001. The EU welcomed this decision which offers the prospect of greater respect of economic, social and cultural rights in China. The EU remains concerned, however, about China's reservation as regards the right to form and join a trade union of one's choice.²²

Overall, the EU, and the international Community, still have serious concerns about the human rights situation on the ground in China. The General Affairs Council (GAC) in its conclusions of 22 January and 19 March 2001 noted that while there are some changes for the better the EU remains much concerned at the lack of respect for fundamental freedoms in China, including the freedom of expression, religion and association, about the ongoing violations of human rights of pro-democracy activists, proponents of free trade unions and followers of other movements such as the Falun Gong, as well as the frequent use of the death penalty. The Council also stressed continued concern about restrictions against unofficial religious groups and the deprivation of religious and cultural rights in Tibet and Xinjiang.

The January and March GAC conclusions emphasised that while the EU-China human rights dialogue is the European Union's preferred channel for working to improve the situation in the various areas of concern it is clear that it

²² European Commission, "European Parliament Resolution on the Human Right situation in China", (B5-0050,0064,0079,0083/2000), 1999-2000.

must be made more results-oriented and contribute to an improvement of the situation on the ground in China. It is therefore imperative that the EU and China work together to promote the human rights situation in China, an effort which will not only help China's integration into the international Community but also underpin economic reform and growth.

In support of the human rights dialogue the EU is funding a number of human rights-related assistance programmes in co-operation with China. Implementation of these projects, and preparation of new ones, has moved ahead over the past year and will continue to form an important part of the EU's effort to improve the human rights situation in China.²³

EU-China Human Rights Co-Operation Programme

The Commission is committed to developing its co-operation programme in support of the human rights dialogue, and believes in the potential knock-on effect of its initiatives which, although modest in scale, are designed to provide useful know how and examples of best practices to Chinese beneficiaries. The following EU-China human rights co-operation projects have been implemented, or are currently approaching the implementation stage:

The EU-China Legal and Judicial Cooperation Programme was launched in March 2000 (13,2 million contract with a consortium led by the British Council).

²³ James, D. Seymaour, "Human Rights Repression and Stability", *Current History*, Vol.8, September 1999, pp. 588-590.

Its aim is to support the strengthening of the rule of law in China notably through the setting up of training and exchange schemes for Chinese legal practitioners.

A programme aimed at promoting grassroots democracy in China, *the EU-China Village Governance Programme* was launched during Commissioner Patten's visit to China in May 2001. It focuses on training locally elected leaders, and raising awareness on good governance practices. The EC will provide about 10.5 million to the programme and China is to contribute about 4 million..

The Commission has granted support to the Chinese Disabled Persons' Federation for a 1 million project promoting the economic and social rights of disabled people. The aim is to provide disabled persons of working age in China with an improved range of vocational education and training means.²⁴

The Commission has decided to establish an 840.000 EU-China Human Rights Small Project Facility which aims at providing support to small-scale initiatives in the field of human rights and is to become operational this autumn.

A 450.000 project led by the Danish Centre for Human Rights aims to give 14 students from Asian countries the possibility of taking part in the LLM Masters of Law course in human rights at the University of Hong Kong (14 students a year for 3 years).

The Commission is committed to provide assistance to China in the ratification and implementation process of the two UN Covenants on Economic,

²⁴ European Commission, "Building a Comprehensive Partnership with China", 1998, op.cit.

Social and cultural Rights, and on Civil and Political Rights that it signed in 1997 and 1998. It has proposed to set up a European network that would be able to mobilise academic expertise in support of this process. This 1.4 million project is expected to be approved by the Commission this year.

It is also proposed to develop a 1 million programme of support to economic, social and cultural rights in the Yunnan Province with a strong focus on the promotion and protection of women's rights, minority and children's rights. The objectives are to strengthen the legal awareness, legal knowledge and skills of women, to improve their literacy and education. The project also aims to improve healthcare, hygiene and nutrition knowledge, to strengthen management and technical capacities of local departments and organizations.²⁵

Human Rights Cooperation

The resumption of the EU-China dialogue on human rights has placed renewed emphasis on the constructive resolution of differences. This gives the European Union a chance to put its good intentions into practice and deliver tangible assistance. Two major priorities should be pursued:

- Promoting the rule of law. The EU should help China's efforts to develop a society based on the rule of law. Developing a sound and transparent legal framework, both in the civil and criminal sphere, providing rights to Chinese citizens - including the right to a fair trial - making them aware of those rights, and training lawyers and judges,

²⁵

Ibid.

would help achieve this goal as a first step. The EU is currently devising an ambitious programme of legal and judicial cooperation with these objectives in mind which will be discussed with Chinese authorities and ready for implementation by Autumn 1998.

- Strengthening civil society. The EU should aim to strengthen those practices which make up the fabric of a strong civil society. It should promote civil and political rights through initiatives such as the support for a training centre in China for officials engaged in the implementation of the village governance law. It could also allow for assistance to the most vulnerable groups in society, including ethnic minorities, women - as a follow up to the Beijing 1995 conference on Women - and children. Initiatives aimed at promoting consumers' rights and at supporting consumers' organisations could also be a way of strengthening civil society. The role of Non-Governmental Organisations in implementing projects aimed at strengthening civil society should be fully exploited.²⁶

Proposed Initiatives:

- Urge China to sign, ratify and fully implement UN Covenants on human rights and ILO conventions on core labour standards
- Reinforce bilateral human rights dialogue with China

²⁶

Oing Liu, "EU on Human Rights, Democracy and China", *Journal of International Affairs*, 49(2), winter 1996, pp. 337-42.

- Back up dialogue with concrete cooperation programmes
- Promote rule of law
- Strengthen civil society.²⁷

Thus, practical action is essential for government to government dialogue is to be fully effective. The EU can promote practical cooperation, such as training and technical assistance in the legal and judicial fields, to back the efforts being made in China to establish a civil society based on the rule of law. Up till now, can create action by the EU encourage cooperation with individuals in the legal and judicial systems has been small-scale. The EU should henceforth coordinate with the member states and the many active Europe NGO's to support the development of the rule of law in China.

²⁷ European Commission, "EU Strategy Towards China", 2001, op. cit.

CHAPTER – 3

EU-CHINA ECONOMIC RELATIONS

The broad framework of Sino-EEC economic relations since 1978 was established through three accords or pieces of legislation. While the first two-trade and textile were agreements concluded between China and the Community, the third the General Systems of Preference (GSP) was a unilateral community decision to exempt Chinese industrial goods and a few agricultural items from any custom duty. None of these three components were easily agreed upon. Years of arduous negotiation or internal EC wrangling were needed to define the economic framework.

Trade Agreement

While China and the Community agreed, according to the agreement, ‘to promote and intensify trade between them’ (Article I)¹ and respectively undertook to ‘give favourable consideration or ‘introduce measures’ to liberalise imports from each other² (Article I), the EEC was nevertheless successful in obtaining the inclusion of restrictive clauses regarding imports from China. First of all notwithstanding Chinese resistance a safeguard clause was included under which the Common Market was entitled to unilaterally take measures to reimpose and tighten quotas in the event of a sudden influx of Chinese imports.³ The provision, however, (Article 5)³ was partially diluted at the Chinese insistence by the inclusion of conditions stating that EEC

¹ *Official Journal of the European Communities*, ‘Trade Agreement between the Europe Economic Community and the People’s Republic of China’, L123 (1978), p.2.

² *Ibid.*, p.1

³ *Ibid.*, p.5

action would be taken ‘in an exceptional case’⁴ and that ‘as far as possible’⁵ it would hold ‘friendly consultations before doing so.’⁶

The most favoured nation treatment clause included in the text, (Article2) was highly restrictive in that China was not given the same treatment as the GATT countries, and in that it even excluded all the advantages the EEC had accorded to neighbouring countries for the purpose of facilitating border trade.⁷

The third restrictive clause (Article 7) dealt with the prices of Chinese imports. It was stipulated that trade between the two countries ‘shall be affected at market related prices and rates’⁸. This provision was clearly a protective measure against Chinese sales at low prices. Originally the Community had proposed a clear clause that would have specified that each party would endeavour to ensure that prices prevalent of its exports were not lower than those prevalent on the market of the other. But since the inclusion of such a provision would have made the Chinese goods in the EEC non-competitive, they insisted on scaling soon its restrictive scope by proposing a vague formula of ‘Market-related prices’ that was linked to world market prices.

China, however, was successful in obtaining a trade balance clause (Article3), that would ‘faster the harmonious expansion of their reciprocal trade’ and that would help to attain ‘a balance in such trade’⁹, but here too, the clause had been considerably diluted in that the original Chinese proposal for the application of an automatic

⁴ Ibid., p.3

⁵ Ibid., p.5

⁶ Ibid., p.6.

⁷ Ibid., p.2.

⁸ Ibid., p.3.

⁹ Ibid., p.2.

mechanism to restore the balance was not accepted, and in that the clause in question did not stipulate any obligation on the part of the two contracting parties. To reverse the imbalance each of the two parties was to attain a balance of trade 'by its own means'.

Following the established practice with agreements of this kind, the administrative responsibility to monitor the functioning of the agreement was entrusted to a joint committee which was to meet once a year in Brussels and Beijing alternately (Article 9). One of the principal tasks of the Joint Committee was to examine measures with a view to extend the liberalization list for imports from China, and to increase the quotas for these imports.

However, notwithstanding the restrictive clauses in the treaty, it created great possibilities for an upswing in trade relations. In the first place, the trade between the two parties increased significantly even during the first three years after signing of the treaty. China's exports doubled from 937 million ecus in 1978 the year in which the trade agreement was concluded to 1,888 million ecus in 1980. Her imports from the Community rose rather slowly from 1,489 to 1,725 million ecus during the same period. (Table 3.1)

Table 3:1 the Development of EEC/China trade 1978-1980(MEUA)

	1978	1979	1980
Total Volume	2,426	3,425	3,613
Imports	937	1,324	1,888
Exports	1,489	2,101	1,725
Balance	+552	+777	-163

Source: Monthly statistical bulletin of the European Communities.

Secondly, the agreement also made it possible under article 4.2 for the EEC, to extend the list of items which could be imported from China. For example, on the recommendation of the Commission the Council introduced new regulation to permit China to export to the Community, with effect from January 1979, more than twenty additional products which were hitherto governed by restrictive regulation applicable to all state trading countries¹⁰. The European Parliament attempted to go even further than the Council, and even the Commission, in facilitation of the expansion of trade. In a report on the trade agreement, its External Economic Relation Committee expressed the hope that the committee should give preferential treatment to Chinese imports over exports from countries which had recognized the Community. However, the report argued that special advantages accorded to China must not be limited to quotas or liberalization of export it recommended that there must also be special conditions for the financing of Chinese purchases of capital goods. One possible arrangement might be for preferential loans to be granted to China via the European investment and for the Community budget to bear the cost of the interest subsidies.¹¹

Intensification of Economic Relations

The cumulative effect of all these “bilateral arrangements” or unilateral EC decisions was impressive. First of all, trade between the two parties increased considerably. Between 1975 and 1980, it more than doubled reaching the figure of 4,378 million ecus, an increase of more than 41% in 1980 alone. (See Table 3:1)

From the Chinese side, the items that benefitted most from these accords were silk and waste silk, cotton textile, mineral fuel and oils, vegetables, fruit and

¹⁰ Ibid., p.16.

¹¹ EC-China: *A Statistical Analysis of Foreign Trade 1970-79*. (Brussels, Eurostat, 1981) p.62.

miscellaneous chemical products. The leading item in China's exports to the EEC since 1979 has been silk (8.3% of the EEC's total imports). Its importance is evident from the fact that 85% of community's silk imports from non member countries came from China. The main customer was Italy (81%) while a further 41% went to France.¹² The importance of this trade is also clear from its price. The community spent 73,612,000 ecus in 1976 which increased to 133,696,000 ecus in 1979.¹³ The second most important item of export was formed by products of animal origin, the value of which in 1976 was 79,351,000 ecus. However, this item has not made any major progress since then. In 1979 it declined to 78,112,000 ecus. The third leading item was cotton, the export value of which was 47,443,000 ecus in 1976 and which increased to 66,466,000 ecus in 1979.¹⁴

From the EEC's side the increase was in such items as heavy machinery, precision instruments, precious pearls and semi-precious stones etc.¹⁵ The most important items in terms of value were boilers, machinery and mechanical appliances, iron and steel and such chemical products as tanning and dyeing extracts, coloured paints etc.¹⁶ (see Tables 3:2 and 3:3)

¹² *Europe Information External Relations*, 'The People's Republic of China and the European Community', 42, (March 1981).pp-28-30

¹³ *Ibid.*, p.20.

¹⁴ *Ibid.*, p.22.

¹⁵ EC-China, *A Statistical Analysis*, op.cit., p.74.

¹⁶ Harish Kapur, *China and the European Economic Community: The New Connection*, Martinus Nijhof Publishers, 1986, pp.64-68.

Table 3:2 Principal items of Chinese exports to EEC (in 1000 Eua)

	1976	1978	1979
Products of animal origin	79.351	76.552	78.112
Silk and waste silk	73.612	85.886	133.696
Meat and edible meat offal's	49.320	47.349	39.626
Man-made fibres (discontinuous)	47.443	45.854	66.466
Wood and other animal hair	35.496	49.355	61.173

Source: Europe Information: External Relations 17/79

Table 3:3 Principal items of EEC exports to China (in 100 Eua)

	1976	1978	1979
Boilers, machinery and			
Mechanical appliances;			
Parts there of	418.808	156.490	669.612
Iron and steel and			
Articles there of	329.162	694.172	745.001
Pharmaceutical Products	65.986	61.831	66.314
Artificial resins and			
plastic materials, cellulose			
Esters and ethers; articles			
There of	35.957	34.211	30.204
Tanning and dyeing			
Extracts and their			
Derivatives; dyes, colours, points and varnishes; putty, fillers and stopping, inks	23.096	72.633	83.483

Source: Europe Information External Relations 17/79

If the Sino-EEC trade structure in the 1970's was traditional in that China exported raw materials and imported machinery, this did not accurately reflect the general structure of China's total trade. In fact the exports of heavy industrial products to the third world had expanded and as a result they had become the second principal item of China's exports by 1980(see table 3:4)

Table 3:4 Line-up of China's Export's Goods (%)

	1978	1979	1980
Industrial and mineral products	37.4	44.0	51.8
Agricultural and Sideline Products (processed)	35.0	32.9	29.5
Agricultural and Sideline products	27.6	23.1	18.7

Source: China Handbook Series, Economy (Beijing: Foreign Language Press 1984).

The Federal Republic of Germany becomes China's biggest trading partner in the Community and her fourth overall partner after Japan, Hong Kong and the USA. In 1979, 42.9% of Community's trade with China was accounted for by Germany, followed long way behind by the United Kingdom (15.9%), Italy (14.4%) and France (13.7%). The remaining member states accounted for only 13.1% (see tables 3:5 and 3:6)

Table 3:5 China's exports to EEC Member Countries (Million ECU)

	70	75	77	78	79	IX 79	IX 80
EUR 9	339	667	857	927	1311	884	1341
D	84	182	247	278	375	254	411
F	70	139	163	165	221	161	247
I	63	105	141	157	288	175	222
NL	27	65	83	98	114	80	129
B-L	11	36	39	38	62	35	96
UK	71	121	156	164	215	156	195
IRL	2	2	4	4	6	4	6
DK	11	18	25	23	30	20	35

Source: EC-China: A Statistical Analysis of Foreign Trade 1970-1979 (Brussels: Eurostat, 1981)

Table 3:6 China's imports from EEC member Countries (in million ECU)

	Year 70	75	77	78	79	IX 79	IX 80
EUR 9	455	1153	787	1489	2101	1624	1242
D	167	424	437	778	1089	826	624
F	81	303	84	155	247	188	145
I	57	118	69	148	203	160	119
NL	22	107	45	103	117	91	66
B-L	23	39	42	159	95	83	50
UK	102	144	95	137	329	267	215
IRL	0	0	1	1	3	1	2
DK	4	18	14	6	17	10	22

Source: EU-China: A statistical Analysis of Foreign Trade 1970-1979

The Sino-EEC bilateral agreements and unilateral decisions thus played a crucial role in the expansion of relations between the two parties. However, the bilateral economic cooperation agreements between the member states of the Community and China also contributed to the expansion of Sino-EC economic community (Table 3:7). For it was only as a result of these individual bilateral accords with member states, that China was able to conclude a wide range of whole plant imports and licensing and co-production agreements. Contracts for the import of US\$ 2,500 million worth of machines and equipment, for example, were signed in 1978 and 1979.

Since China was unable to meet the capital outlay needed for all these projects domestic funds, important credits were sought from the Community members. The principal source was the banks. A number of credit agreements to the tune of US 30,000 million were concluded with the Community. State guaranteed and tied-up export credits account for almost two-thirds of the overall amount. The rest were untied, marked or easy term loans. The principal creditors in the Community were the Federal Republic of Germany, followed by France and Great Britain.

Summarizing, China had opened to the outside world. In her new gigantic economic effort planned in 1970's, the European Community had become a major element in the new Chinese developmental strategy.¹⁷

Bilateral Trade

China and the EU, two of the biggest markets in the world, have everything to gain by deepening their commercial ties. Since 1978, the EU- China trade has

¹⁷ *Official Press Release of European Communities*, 'European Commission approves terms of accession of China and WTO', Brussels, 19 September, 2001.

increased more than twenty fold and reached 70 billion euro in 1999. Data for the first nine months show a continuing buoyant trend with a growth rate of more than 16%. China is now the third most important non-European trading partner for the EU (after the US and Japan). Excluding trade with Hong Kong, Special Administrative Region (SAR), the EU is the third largest export market for China (after the US and Japan) and second source of imports, after Japan.¹⁸

Whereas the EU enjoyed a trade surplus with China at the beginning of the 1980's, the EU China trade relations are now marked by a sizeable and widening EU deficit with China (around 30 billion euro in 1999 and 32 billion euro on the first June months of 2000). The EU was in 2000 the largest foreign direct investor in China after Hong Kong. China is the main beneficiary of the EU's Generalized System of Preferences scheme (under which the EU grant autonomous trade preferences to imports from developing countries), with a share of more than 30% of all preferential imports under GSP. However, the implementation of the scheme's graduation mechanism (in which GSP advantages for certain sectors are withdrawn due to the high level of industrial development in those sectors) will necessarily reduce the advantages previously enjoyed by China. Nevertheless, the new GSP special incentive arrangements (social and environmental clauses), will allow beneficiary countries to obtain an additional preferential margin, provided they meet international standards of labour rights (International labour organization standards on child labour, freedom of association and rights of bargaining) and environmental protection (International Timber organization standards on sustainable management of tropical forests). In

¹⁸ European Commission, 'New Communication of EU-China relations ahead of Commissioner Patten's visit to China', IP/01/700, Brussels, May 15, 2001.

event of application from China, the commission will examine carefully if China meets the requested standards.¹⁹

EU 15 Trade with China (Jan. 2001)

Source: Eurostat

Unit: Million euro

	2001-January		YEAR TO DATE		Change year on year %	
	Import	Export	Import	Export	Import	Export
France	743.3	248.4	743.3	248.4	35.1%	48.6%
Netherlands	910.6	91.4	910.6	91.4	98.8%	63.5%
Germany	1,636.4	822.3	1,636.4	822.3	28.0%	52.2%
Italy	710.2	204.3	710.2	204.3	42.0%	57.4%
Utd. Kingdom	1,286.2	202.1	1,286.2	202.1	27.8%	22.6%
Ireland	89.5	24.2	89.5	24.2	51.2%	139.5%
Denmark	136.9	26.1	136.9	26.1	5.8%	27.4%
Greece	-	-	-	-		
Portugal	26.7	2.3	26.7	2.3	-2.4%	-11.3%
Spain	401.3	45.5	401.3	45.5	31.2%	19.2%
Belgium	358.8	139.9	358.8	139.9	42.0%	110.4%
Luxembourg	7.1	2.5	7.1	2.5	29.7%	-26.8%
Sweden	265.3	119.2	265.3	119.2	103.3%	33.3%
Finland	58.7	98.9	58.7	98.9	0.5%	34.1%
Austria	85.2	46.1	85.2	46.1	51.3%	88.1%
EU 15	6,716.2	2,073.2	6,716.2	2,073.2	38.3%	49.4%

¹⁹ European Commission, "Fourth EU-China Summit", Brussels, September 5, 2001.

The European Commission has proposed amendments to the EC anti-dumping legislation vis-à-vis China that take account of the market reforms underway in the country. The proposal includes the removal of the label “non-market economy” which applies to China under the current legislation, by instituting case by case approach in anti dumping proceedings. Whereby Chinese exporters, who are found to operate within clearly defined market economy conditions, will be granted market economy treatment. This means that the domestic prices and cost of such exporters will be used to establish normal value then information from a market analogue third country.

In assisting China’s economic and trade reforms the EU policy is to support China’s economic trade reforms fully, while encouraging further market opening. Indeed, market access. Obstacles are one of the key causes of the EU’s growing trade deficit with China. Improving market and investment conditions in china is therefore a key objective for the EU since this would benefit both China and her trading partners.²⁰

Bilateral Trade Discussions.

Bilateral trade talks since 1992 have had three inter-related objectives; promoting China’s economic and trade reforms, helping China into the multilateral trade system, and a achieving better market access for European goods and services.

This dialogue was institutionalized in 1993 saw detailed, sectoral meetings on Intellectual Property Rights (IPR), Agriculture and Financial Services. This process would continue, with the expansion of trade talks to other sectors and their extension

²⁰ N.T.Wang, *Business with China: An International Reassessment*, New York: Pergamon Press, 1980, p.26.

through discussions with sectoral ministers, as the only way to achieve concrete results. One subject of possible future dialogue might be competition matters, as co-operation in this field will enhance the effectiveness of international trade.

The main results so far here had been solutions to specific issues, from trademark infringements to veterinary restriction and other technical barriers. A sustained trade dialogue has also enabled Europe to avoid any risk of discrimination and to ensure that EU economic operators enjoy the same treatment as their competitors in China. This has been particularly important in areas where the US and China have concluded bilateral agreements, like intellectual property, maritime transport, and market access. In each case including the February 1995 IPR deal; China has formally undertaken to ensure equal treatment for EU persons and entities.²¹

In order to increase the effectiveness of bilateral trade dialogue, the EU should:

- Increase the frequency of the Economic and trade working Group meetings.
- Consolidate the sectoral meetings in the three sectors, IPR, Agriculture and Financial services, as permanent fora in depth discussions.
- Expand these meetings to new sectors or subjects (like technical barriers to trade, consumer goods, in the transport sector, and on competition),
- Development contacts with sectoral ministers and provincial authorities,

²¹ Ibid. , pp.27-30.

- Establish more links between trade and investment talks and cooperation activities (in sectors like standard and public procurement)²²

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) has been important in China's economic development since the early 1980's. By 1996 China's GNP was US\$ 906 at market price, placing the country's economy 7th in the world in size after US, Japan, Germany, France, the UK and Italy. By the same year, China was the world's 9th largest merchandise exporter, with exports of US\$ 182 billion and the 11th largest importer, with imports of US\$ 142 billion.. The volume of inward FDI into China, according to some estimated has been second only to that into the United States.

The policy of Chinese government has been to offer western firms access to the Chinese market, low cost labour and favorable regulations and tax incentives in return for transferred technology. China has ambitious aspirations to develop its science and technology capabilities or what China's former leader Deng Xiaping called the 'knowledge economy'. To achieve this end, China encourages FDI that provides for technology transfer.²³

Reform has changed the structure of China's economy beyond recognition. Collective, private and foreign-funded companies produce and sell well over half of China's industrial goods. Whilst over 80% of industrial output was subject to mandatory planning only ten years ago, the figure is now only 15%. The same is true for price controls, which affect less than 10% of retail sales at present. Public

²² See *China Trade and Economic News letter*, 291, (1998)

²³ European Commission, "A long term policy for China-Europe Relations", COM(1995) 279, March 25, 1995.

industry's share of total output has fallen from 77% to 44% and its share of retail sales to an even lower level. Although these figures should be treated cautiously, because production factor markets remain more controlled than goods markets in China, they clearly show a steady trend towards liberalization of the economy.

China's macro-economic performance since the launching of reforms can only be described as remarkable. GNP growth rates reached around 9% during the 1980s, and 12-13% in the last three years, with industrial output and investment growing at over 20% for several years.

China's total trade rose from 20 \$ billion to 237 \$ billion between 1979 and 1994, growing twice as fast as output. Despite fluctuations, China's trade balance looks healthy and its foreign exchange reserves big enough to cope with a substantial foreign debt.

A shadow is cast on this generally rosy picture by an accelerating inflation rate. The reasons for this are structural, due to an undeveloped monetary policy and expansive fiscal policy. Other important structural imbalances exist which could undermine future development. Traditional disparities between the coastal and inland areas are widening rapidly, leading to massive migrations, infrastructure bottlenecks and environmental degradation. The inevitable transfer of production from public industry to the private sector and the slowing down of the agriculture sector could lead to massive unemployment.

The EU has much to offer to help China in its difficult process of transition. An exchange of experience and information could support China's efforts towards reform, whilst also increasing European knowledge about the modern Chinese economy. Training for economists has already been provided as part of the EC-China

cooperation programme: an economic dialogue in areas such as monetary policy between officials could be the next step.

Another potential area for fruitful dialogue is social policy. An exchange would help to provide an important basis to discuss the evolution of social policy in the 1990s and beyond. Such a dialogue could include the development of internationally recognized labour standards; including International Labour Organisation standards in areas such as child and prison labour.

Another important element is the involvement of China with key international economic organization. In the case of trade, this should mean WTO membership for China. But the importance of China to the world economy should also be acknowledged by other organizations. The decision by the May 1995 OECD Ministerial meeting to promote a new dialogue with China is to be welcomed; Europe should consider how to make a reality of these ties. The G-7 should also consider how the growing economic importance of China can be recognized in its deliberations.

The dramatic changes in the Chinese economy have inevitably had a great impact on EU-China trade with total two-way trade exceeding 30 billion ECU in 1993 and reaching an estimated 35 billion ECU for 1994.

EU-China trade has increased over fourteen-fold since the beginning of reform in China. But EU exports have not kept pace with imports. The EU's trade surplus of the mid 1980s turned into a bilateral trade deficit, which has remained in the 8-10 billion EUC range in the last four years. However, this is dwarfed by the US trade deficit with China and the proportion of EU imports covered by exports (55%) is much higher than that of the US (26% in 1993). Moreover, the EU share in the Chinese total imports grew from 11% to 15% in the first half of this decade, a better

export performance than that of the US in the Chinese market (rising slowly to 12%) but less than the Japanese one (22%). Indeed, the EU market share in China is higher than that enjoyed by the Union in other parts of the Asian region.²⁴

The picture in the field of direct investment, one of the crucial elements in China's reforms, is less bright for Europe. The EU share in total FDI in China (around 4%) remains far lower than its share in other emerging markets. EU companies are lagging clearly behind not only Hong Kong and other overseas Chinese but also US and Japanese companies.

EU (15) companies invested a total of 2.5 \$ billion in the 1979-1993 period (7.3 \$ billion pledged) in some 3,000 projects. This represents less than half of the investment of either US or Japanese companies. Although the average size of EU projects tends to be bigger than that of its competitors and some of them are the undisputed leaders in key sectors of China's industry (like automobiles, telecommunications, or pharmaceuticals) there is a clear perception, both within the Chinese, European and foreign business communities, that EU companies are being less dynamic than their competitors in the Chinese market and are hence missing opportunities. This could not only have negative implications for future trade, but also weaken the EU's global competitiveness.

It is, of course, up to each company to evaluate the risks and rewards of such a difficult undertaking as a Chinese venture. The long term perspective adopted by big corporations, ready to incur short-term losses in order to gain a strategic presence, is usually not possible for SMEs. Smaller firms may on the other hand be able to take

²⁴ David Wall, "China as a Trade Partner Threat or Opportunity", *International Affairs*, Vol.72, November, 1998, pp.286 - 300.h

advantage of opportunities with shorter payback periods and narrower initial objectives: an attractive option in periods of uncertainty. The challenge for Europe is not to find the opportunities but simply to explore possible openings in China with as much energy as our main rivals.²⁵

At the very least, the EU should try to help EU companies to make well-informed investment decisions about the opportunities on offer in China by promoting better two-way information on investment condition and opportunities, as well as direct business-to-business contacts.

China has over the last years made enormous strides to liberalise its trade regime and open its economy to the world. Tariffs have come down, trading rights have been granted to firms on a wider basis, the dual exchange rate has been unified, foreign investment has been attracted on a large scale, the basic framework for an effective judicial structure to handle property rights has been established.

Although these measures represent important steps forward, they are clearly insufficient to make the Chinese trade system compatible with internationally accepted rules. The right to import and export goods in China remains largely a state monopoly. Customs duties are prohibitive, particularly for many consumer products (and are applied in an adhoc manner). Non-tariff measures such as licences and quotas abound. Export continues to enjoy numerous unfairly favourable conditions, foreign currency controls remain a major obstacle, and new technical barriers are

²⁵ Ibid., p.308.

introduced to frustrate imports. Transparency remains a big problem due to unpublished administrative rules and orders, and secret trade plans on some products.

The EU's efforts to increase the WTO compatibility of trade rules, and to improve market access and the investment environment in China, have focused on the multilateral negotiations for China's WTO membership and on bilateral trade meetings. The objective is a coherent and consistent one to bring about the application of general internationally agreed trade principles, and at the same time to deal with specific issues of mutual concern.²⁶

World Trade Organisation (WTO)

China applied to join the WTO's predecessor, the GATT, in 1986; the detailed conditions of entry have been the subject of active negotiations since 1995. The Commission reached bilateral agreement with China on market access issues of foremost importance to the EU on 19 May 2000. Member states unanimously endorsed the results of these negotiations on the General Affairs Council. Since that time a multilateral working party has been finalizing the horizontal undertakings, access to China's growing market is effective; uniform & reliable in practice. As a founder member of the GATT and once more a major player on world markets, China's membership of the World Trade Organization is in the interest of all trading nations. Since China's application to return to the GATT in July 1986, the EU has consistently sought to accelerate progress towards a decision on Chinese membership, based on conditions which will guarantee both China's ability to meet the extensive requirements of WTO membership and the integrity of the WTO System.

²⁶ For details, see 'The European Communities Scheme for Generalized Preferences', Europe Information External Relations, 18, (March 1979).

The EU has taken a leading role in the negotiation, in particular in establishing the principle that of the commitments that China would make when joining the WTO, most would be implemented on the date of membership, but some could be implemented under multilateral surveillance over a specified period of time after entry into the WTO. This general approach reflects a sympathetic understanding of the fact that China is a country that is rapidly developing, but, in important respects, has not yet become a developed economy with all the characteristics of a full-fledged market-economy system.²⁷

Despite the stand-off in these negotiations in late 1994, the Commissions continues to believe that the structure of the deal proposed by the European side last year, and later carried further by the Chairman of the GATT Working Party on China, remains valid. Both China and its trading partners must now show additional political commitment to progress if a deal is to be reached. The full integration of China into the WTO system is in the interest of all parties concerned: for WTO Members it would contribute to guaranteeing the continuation of China's reform process until a mature market economy is established, and for China it would guarantee that its goods and services have open access to export markets around the world.²⁸

Accession of China to the World Trade Organisation

With the Chinese Accession to the WTO provide the opportunities for the member countries. The discussions were particularly timely in the perspective of the

²⁷ European Commission, "EU's relations with China - Building a Comprehensive Partnership with China", March, 1998.

²⁸ European Commission, "Fourth EU-China Summit", Brussels, September 5, 2001.

launch of a new round of trade negotiations at the 4th WTO Ministerial Conference in Doha in last November. Discussions were held at the level of President Romano Prodi and President Zhu Rongji, as well as between Commissioner Pascal Lamy and Minister Shi Guangsheng.

The last session of the multilateral Working Party on China's accession in July has substantially concluded the negotiations for the accession of China. The remaining detail of the technical work in Geneva was completed at the final Working Party meeting scheduled for the week of 10 September'2001.

This has made it possible for the WTO members to formally endorse China's accession at the 4th WTO Ministerial Meeting which took place in Doha, Qatar, in November'2001.²⁹

With this accession process, it is time for the EU and China to turn to the future and discuss in particular how they will cooperate within the WTO. The EU considers that the EU and China have a similar approach on many issues and, most importantly, share the conviction that a strong WTO is in the interest of all WTO members, both developed and developing countries.

The Summit offered the opportunity for the EU and China to exchange ideas on the launch of a new round of trade negotiations at the forthcoming WTO Ministerial Conference. The EU is convinced that it is in the fundamental interest of China to have a broad-based round launched in Doha, encompassing further market access liberalisation and the improvement, development and further strengthening of WTO rules. Launching such a round is indeed essential in order to enhance

²⁹ European Commission, "Press Statement of fourth EU-China Summit", September 5, 2001.

predictability, manage the challenges of globalisation and support sustainable development, and would therefore create the conditions that China needs to continue its impressive economic development.³⁰

Opportunities for EU Firms

China's entry into the WTO will bring vastly improved accesses for EU firms to China's market. The cost of exporting to China will be less, as tariffs and non-tariff restrictions are sharply reduced. And the incentives to investing in China will be entranced by a more attractive, and more predictable, business environment. These, systematic changes due to this will lead a profound re-orientation of China's economy.

- The gradual deregulation of banking services will allow easier accesses to capital in China. Allowing foreign banks to carry out their business, in local currency, with Chinese companies and individuals is a massive change, even if phased in over the next five years.
- Liberalization of the distribution sector to foreign firms is an essential corollary to any lowering of import duties .As China's second largest importer, the EU had an interest in looking carefully at how their goods can really find their way to Chinese customers, at the right time as well as the right price.

³⁰

Eglin, Michaela, "China's Entry Into the WTO a little help form the EU", *International Affair*, 73(3), July, 2001, pp.489-508.

- State control of inflows of basic commodities, like petroleum or fertilizers, had to be priced open of the industries they serve are to become responsive to market forces³¹

Opportunities for China

As with all important trade liberalization agreement, China's WTO commitments will in the first place benefit her own economy and people. WTO accession will have a substantial impact on economic reform and development in China. Sustainable growth and stability in China are vital not only in the county itself, but for her neighbours in Asia, and indeed for the rest of the world.

Entering the World Trading System will be a catalyst for Chinese firms to become more efficient, to show that they can compete on fair terms with the rest of the world. The accession agreement will therefore also be good for Chinese companies and workers, as they draw the benefits of increasing foreign investment, and take on the most modern management practices and legal structure.

And beyond economic, WTO accession will score to boost the rule of law in china. The WTO seeks to uphold the fundamental principles of transparency, non-discrimination efficient administration and independent judicial review. The elaboration of new and revised structures firmly founded on these principles should contribution to evolution of China's economic legal and social systems.³²

³¹ Eglin, Michaela, "China's Entry Into the WTO a little help form the EU", *International Affair*, 73 (3) July, 2001, pp 489-508.

³² *Ibid.*, pp 490-500.

Effect on the WTO Itself ?

But if WTO is destined to be good for Europe, good for china, and good for the rest of the world, what about its impact on the multilateral system? Skeptic's presence will spell the end for the system, as we know it. No more progress for global trade liberalization, only more strain on the dispute settlement system.

In response to this, firstly, Chinese entry will mean at the very least a huge step closer to a genuine world trade organisation. As long as china remained outside, the WTO was some way from fulfilling its original and rightful vocation.

Second, China could and should become a key player in the organisation. It has been suggested that the dynamics of the WTO would change irreversibly. Possibly, but China has a fundamental interest in both the promotion and the proper regulation of trade at the level. Increased trade has been a major contributor to the country's phenomenal growth rates since the open door policy was launched in 1978. China clearly sees WTO membership and continuing domestic reform as proceeding hand in hand.

Third, one should recall the high standard of commitments given by china to open its economy to foreign imports, investors and businesses- indeed, one of the reasons the talks lasted so long was the concern of the EU and others that China's entry should not lower the average standard of openness to trade in WTO. Seen, this way, a New Round of multilateral trade negotiations provides China with a golden opportunity to press other countries towards equally forward-looking commitments.³³

³³ European Commission, "Fourth EU-China Summit", op. cit.

CHAPTER - 4

CONCLUSION

An examination of EU-China relations in the post-Cold War era has shown that China over the years has steadily acquired an important position on the world stage. China's increasing assertiveness has elicited a positive response from Europe. China's growing political and economic self-confidence has served as an incentive for the EU to engage the country more fully as its growing strength has been matched by and large, by a growing sense of responsibility.

Integrating China into the international community and encouraging China to work with the EU in addressing international, regional and transnational challenges remains a priority for the Union. The importance of engaging China, consistently and coherently on all issues of international concern reflect the recognition that China, as a UN Security Council member and a growing economic and political power can have significant influence on most major global issues, whether it is arms proliferation illegal migration and trafficking in human being, organized crime, money laundering, on environmental degradation.¹

As a rising power, the EU has played a more important role on the international arena. China has been viewing and developing Sino-EU

¹ Younger Kenneth, "The Western Attitude towards China", China Quarterly, No. 10, 1998, pp 46-

relations from a strategic perspective. Both sides have established the annual summit meeting mechanism, recently in which leaders of both sides reiterate the willingness to expand and deepen Sino-EU co-operation further in various fields on the basis of equality and mutual benefit, and to advance the development of a comprehensive Sino-EU partnership further. The political dialogues and consultations of different modalities at different levels between China and the EU in various fields have a positive impact on strengthening the bilateral co-operation on international and regional issues and the Chinese side hopes to strengthen consultation and co-ordination with the EU, in such fields as global strategic stability, UN affairs, climate change and combating terrorism.

Economic and trade relations are important aspects of Sino-EU relations. The EU has been China's third largest trading partners, important investor and the largest provider of technology and equipment. China has acceded to the WTO and has started its 10th "five-year plan" for national economic is expected to enjoy a fast, healthy and stable growth. At the same time the integration process of the EU is continuing to make new dimensions since, systems, values, histories, and traditions and cultural backgrounds between China and EU countries are substantially different. In particular the two sides are at different economic development levels. Thus one of the most important aims of EU for developing Sino-EU relations is to handle these differences properly.

After the founding of the People's Republic of China, especially since the launching of reform and opening - up, China's economy has been growing at a high speed. The questions of food and clothing have been basically solved; the people educational and health situation has improved by a great margin. Democratic elections at the grass roots are popularized all over the country. The present human rights situation in China has been the best in Chinese history, of course, it is not said that China's human rights situation is 100% perfect and no country in the world dare to say that they do not need and efforts in the field of human rights.²

China's entry into WTO, marks China's total integration into the world economic and trade system which is significant both to China and the world as a whole. The entry into WTO has provided new opportunities for China's economic development. The "opening up" policies, which China has been implementing over the past 20 years and more, will experience three "transfers". The first is to transfer the opening adopted only in limited scopes and fields at present into an all-directional opening; the second is to transfer the experimental and government - policies directed opening into the law-guided and predictable opening into the law-guided and predictable opening; the third is to transfer the unilateral and self-opening into the mutual opening with other WTO members.

² David Fouquet, "Development in EU-China Relation", www.eias.org, vol 5 (12), 31 December 2001

Secondly, following the lowering of tariffs on imports and exports and the relaxation of restrictions on investment, China's foreign trade will increase rapidly, which will offer new motive forces to the development of the national economy.

Thirdly, China will have changes to participate in the formulation and implementation of the world's economic and trade rules and regulations. This on the one hand will be helpful to connect China's laws and regulations governing business relations with foreigners with global economic rules and regulations and on the other hand for China to settle trade disputes with other WTO members by adopting WTO multilateral dispute - settlement mechanism.

Fourthly, entry into the WTO will make it possible for Chinese enterprises to have more opportunities to enter into international markets and contact enterprises from other countries so as to upgrade those enterprises' capabilities to participate in international competition better subsistence and development through international competition. Of course, China will also face some problems and challenges after entering the WTO. China's traditional industries, such as agriculture, services and some state - owned enterprises, will face sharp international competitor and some industries will even suffer seriously from negative impact for a period of time.³

³ Ibid

Although these measures represent important steps forward, they are clearly insufficient to make the Chinese trade system compatible with internationally accepted rules. Remaining **problems** include:

- Absence of transparency, certainty and uniformity
- Trade planning (Plans which are often secret)
- Trade monopolies and other privileges of foreign trade corporations
- Foreign currency controls
- Very high customs tariffs.
- Licensing system, quotas, tendering and other import restrictions
- Tendering restrictions on imports
- Technical, veterinary and phytosanitary measures used not always in accordance with international rules.
- Exports subsidies (mostly indirect)
- Export taxes and restrictions
- Industrial policies which can have a severe impact on trade and investment conditions, for example in the automobile sector.

This list of measures clearly shows the dilemma for an exporter who has to face not only the classic deterrent of high customs duties and the requirement of an import license, but also uncertainty and implemented on an ad hoc basis. Secret trade plans, import substitution policies carried out by the sectoral ministries and foreign currency controls amount to a system which lacks transparency and certainty.⁴

On global issues the EU has continued to deepen the newly established dialogue on combating illegal migration and trafficking in human beings, focusing on practical ways of taking co-operation forward and aiming notably at easing the return of illegal Chinese migrants in EU members states. It has made best use of 'practices' established by China on this issue in co-operation with third countries, taking due account of human rights aspects and having in view the possible conclusion of a readmission agreement.

It has adopted other practical ways of strengthening co-operation on illegal migration such as intensified talks on the detection of forged documents and the illegal use of genuine documents, possible information campaigns, high level visits by Chinese central and regional officials to the EU and EU member states, and workshops/ seminars on other issues considered important for strengthened co-operation against illegal migration and trafficking in human being. Also it is considered ways of working together in the fight against organized crime.

⁴ Milligan, Stephen, "EEC-China Trade Facts", European Community, 6, 1990, pp. 221-217.

EU has thus increased effort to co-ordinate EU policies on global issues, not only between the commission and member states but also in area where a more coherent and consistent policy, including arms proliferation, drug trafficking, illegal migration and trafficking in human beings, organized crime, money- laundering and environmental degradation.⁵

Recent Developments

There have been significant developments in the EU since 1998 which increasingly can and do affect relations with China, including the ratification and implementation of the Amsterdam Treaty, and the signing of the Nice Treaty and the adoption of a EU Charter on Fundamental Rights in December 2000. This reinforced the EU's Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP) as well as its Justice and Home Affairs (JHA) policy and other policy areas. The on-going consolidation of EU integration make the Union better equipped to engage China on an increasingly wide range of issues.

There have been significant development in China which need to be taken account of in re-focusing EU policy towards China, including China's increasingly assertive international role and growing political and economic weigh. China's already the world's seventh largest trader the

⁵ European Commission, "Building a Comprehensive Partnership with China", COM (1998) 181, 25th March, 1998.

second largest recipient of Foreign Direct investment (FDI) and a major player in certain key economic sectors such as telecoms and the information society, and energy). In addition, China's continuing and far-reaching reform process is affecting ever more parts of Chinese society. Corruption and increasing disparities in regional development and in incomes are key concerns. The accession to the WTO has given added impetus to the pace of economic and social reform. However it is also likely to give, at least in the short term, continued rise to both urban and rural unemployment, possibly straining China's social security system and adding to societal tensions. Increased internal and external migration over the past years illustrates the challenges.

There has been significant developments in EU-China relations. These include the strengthened political dialogue the opening of a dialogue on illegal migration and trafficking in human beings, the re-focusing of EU co-operation assistance to China with the new Country Strategy Paper, the strengthening of number of important sectional dialogues as well as the growing importance of China as a trade and investment partner for the EU.⁶ All these developments point to the scope and need for further enhancement of our engagement with China.

⁶ Ibid

Characteristics of EU-China Policy

The EU has adopted a more positive attitude towards China's domestic development and international status. The cooperation framework with China proposed by the EU shows that the EU has considered China as a major target country in its expansion of partnership in international politics and economy. It expects to urge China to take international responsibilities and duties and lay the ground for bilateral relations in the 21st century through equal and regular dialogue mechanism.

The EU adopts a practical and low-key principle in dealing with human rights, Tibet and other issues that would affect bilateral relations it indicates that the economic factor remains a main axis in the EU's consideration of its relations with China.

The third issue is of China's participation in the WTO. The EU tends to be more flexible and supportive. This indicates that politically it will urge China's continued engagement in the international society. And economically, it will act to integrate China into the world's economic system through an international regime. On bilateral cooperation, the EU will support a transformation on the part of China toward an open society based on the rule of law and that respect human rights. Thus, it will help achieve the goal of transforming China in a gradual and peaceful way. In addition the EU will strengthen cultural and scientific exchanges to guarantee Europe's interests in China.

As regards of both political and economic efficiency, China has become a major partner for the EU, without any peer in Asia, as targeted in its "Toward A New Asia Strategy."

"Enlargement and Engagement" is the main axis of the EU's China Policy. "To promote change through engagement" has become a major strategy in the EU's seeking to expand its economic interests in China

"Dialogue instead of Conflict" is the principle for the EU in dealing with disputes with China. The principle also applies to its request of China to improve its human rights condition.⁷

Future Prospects

The EU holds a positive and optimistic view of China's future status and role in the international society. Judging from the EU's declaration to call for China's sooner participation in the WTO, and also German Chancellor Gerhard Schroeder's active support for China's participation in G8, the EU has looked at China as a rising power. The fact necessitates a more active move by the EU to develop relations with China.

If China maintains its economic growth and social stability, the EU will keep its current policy with China having joined the WTO, economic and trade issues such as anti-dumping, General System of Preferences

⁷ European Commission, "Relations between etc., and the Peoples republic of China", Debates of the European Parliament, *Official Journal of the European Communities*, Nos. C,5,7, 5th July, 1992.

(GSP) and the opening up of the Chinese market will be dealt with under the WTO regime, which will help promote the EU's relations with China.

The EU-China dialogue mechanism includes an "Institutional Dialogue" conducted by foreign ministers and ambassadors, high-ranking official visiting and taking turns to hold summits (every half a year since 1998) in the UN, Beijing and capital city of the Presidency of the Council. These dialogue channels will remain a major role in Future EU-China relations.

The EU needs China's support to its global role. Maintaining friendly relations with China will help the EU in increasing its say on global affairs. It will also help increase the EU's presence in the Asia-Pacific region and expand its economic interests in the area. China also expects to strengthen ties with the EU, in a move to attract foreign capital and European technology, as well as to reduce the US' hegemonic power in the international society.

The current biggest controversy between the EU-China is the human rights and the issue of Tibet. Due to the consideration of economic of economic and trade interests, EU officials are probably to maintain a discreet and conservative stance and encourage "dialogue instead of conflict" in dealing with the issues.

Generally speaking, there are apparently no factors in EU-China relations that would lead to potential conflict. The two sides also

recognize the need to deepen and expand bilateral relations. If no major events occur, the two sides will see a smooth development of their relations.⁸

China has undergone dramatic change since it opened to the outside world in 1978. It has become a major trading nation thanks to a rapid internal transformation that has made it shift from a centrally planned economy to a market-driven one engaged in global commerce. The country's accession to the World Trade Organization has accelerated this process.

China now is a power increasingly engaged in world affairs and seeking a political status commensurate with its economic weight. Chinese foreign policy is now also engaged in issues of global concern (environment, fight against terrorism, world trade liberalization, etc.).

The EU's main objective is for China to occupy the position it deserves according to its size and geo-strategic importance in the international community, both politically and economically. The EU supports the process of economic and social reform underway in China. It backs China's transition towards an open society based upon the rule of law and respect for human rights, and believes this will benefit China's development and social stability.

⁸ Younger, Kenneth, "THE Western Attitude towards China", *China Quarterly*, op .cit.,pp. 46-52.

Thus, relations with China will be a major opportunity and challenge for the EU in years to come. China has embarked on a period of change. Europe's policies can both support the trend to reform in China and accommodate any uncertainties about the future. The development of the EU-China relationship must be a sustained long-term goal.

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