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Rising China: EU Perspectives and Responses

A "Rising China" has been a major, but under-analyzed development in the international system. Speculating about what a rival Chinese superpower means for the international order has become common practice. The European Union is no exception in this: China-related issues (such as trade, human rights, development policy and the export of military equipment) have increasingly moved up the EU's agenda, and in the last decade the EU has pushed hard for an intensification and improvement in Sino-European relations. Economic factors have driven this increased awareness, although lately the EU has attempted to give the dialogue a greater political component. The current recession might have its repercussions in this process, as both the EU and China see economic contraction in the short term and potentially into the medium term as well, but ultimately these economic giants will remain poaching on each other's territory.

In contrast to many American policy stances on China, the EU has generally judged Chinese ascendancy in a positive light, and has approached it in the spirit of cautious optimism, stressing partnership based on common interests and common values. However, as China increasingly shows appetite to combine economic weight with political assertiveness, the EU is slowly adopting a more cautious and realistic approach.

This brief focuses on the economic and political consequences of the shifting dynamic between the EU and China. First, it touches upon the impact of Chinese export-led growth on EU industries. Second, it focuses on the consequences of the growth of a Chinese middle class and of the Chinese push into former European protectorates in Africa. Third, it assesses developments in EU policy towards China and how these differ from the American response to China's challenge to its hegemonic power.

Impact on EU Industries: Loosing the Competition

In the last quarter of 2008, China reported a growth in its economy of 6.8 percent. Although in absolute terms this is quite an achievement, growth was down from 9 percent in the third quarter and 13 percent annual growth in 2007. Over the last decade, China had staggeringly high and persisting growth rates of an average of 8.9 percent, and this Asian giant has been making great strides towards catching up with the G7 group of developed economies. Its exceptionally successful strategy of export-led growth has rapidly altered world trade patterns. Bilateral trade between the EU and China doubled in the period of 2003 – 2007, thereby making China into Europe's second trading partner. In 2007, the EU imported Chinese goods valuing €231.5 billion, while exporting goods to China valuing €71.7 billion. However, although exports from the EU to China grew by 75 percent in the last five years, the EU still exports more to the 7.5 million people living

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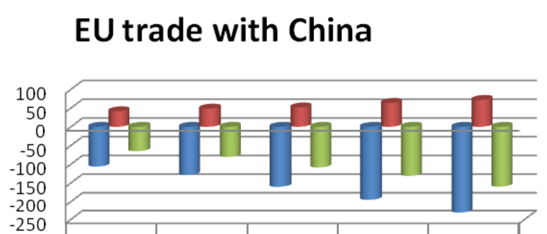
in Switzerland than to the 1.3 billion Chinese citizens. This poses a significant balance of payments issue. Nevertheless, with these numbers, China is getting closer to the value of goods traded between America and the EU.

Although the composition of the Chinese export basket is changing somewhat, manufactures still make up for the bulk of it: in 2005, 95.7 percent of Chinese exports came from manufactured goods; in 2007 these accounted for 71.6 percent of the total. Also, in the context of global trade, Chinese export of manufactured goods rose from 1 to 11 percent of the world's total in the last decade[3]. Thus, at the micro level, the biggest challenge of trade with China has been for European import-competing industries in similar fields, with the most visible impact on the so-called soft-manufactures, such as textiles, apparel and footwear, who have been unable to compete on cost, but have been able to compete on quality grounds, and on response times.



	2003	2004	2005	2006	2007
imports in mio €	-106.221	-128.692	-160.327	-194.835	-231.516
exports in mio €	41.473	48.376	51.825	63.784	71.757
balance in mio €	-64.748	-80.316	-108.502	-131.051	-159.759

imports in mio € exports in mio € balance in mio €

Source: European Commission DG Trade

Now that legal bases for extending barriers to trade for a longer period of time are seeming to die out, EU policy documents increasingly bring to the table issues related to intellectual property rights, quality standards and calls for "fair trade", some of which could be seen as a form of non-tariff barriers. Nonetheless and in the meanwhile, the EU keeps emphasizing its desire for open markets. It is clear that, regarding its economic relations with China, the EU has to strike a difficult balance between domestic interests of the retailer, importer, producer and consumer, while at the same time keeping high its image as an advocate of global free trade and sustainable international development. Next to that, with the Euro globally appreciating and its exchange rate volatility rampant, thereby aggravating the EU trade balance with China, Europe has been trying to address the manipulation of the Chinese currency, which is thought to be kept undervalued so as to strengthen its export-led growth.

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Trade and Human Rights

Large scale trade with China has brought to the fore the politics of doing business with a politically oppressive regime. The concept of fair trade with China has an implicit political undertone. The EU's image as a civilian superpower with a focus on protecting human rights comes under considerable tension with its trade relationship with China. One of the most problematic issues between the EU and China is the Chinese government's policy towards Tibet, which has been a source of international political discontent. This thorn in EU-China relations illustrates the mixed feelings China leaves with its international partners in the west. For the image of the EU, China poses important questions about the relative importance of human rights when confronted with the prospects of economic growth, via cheap consumer goods. On the one hand, trade helps many people out of poverty, and increases the tax base, but on the other hand it is difficult to positively engage with a state that has a poor human rights record and an unwillingness to reform.

From the EU's internal perspective a disappointing feature of the relationship with China has been the inability to formulate a unified stance. This erodes the image of the EU as a human rights actor and has also highlighted the EU's internal weaknesses. China is, of course, very aware of these weaknesses and has sometimes been successful in playing the member states against each other. The postponement of the next EU-China Summit to April 2009 (originally planned for December 1, 2008) because of French President Nicolas Sarkozy's decision to meet with the Dalai Lama is just one example of China's growing confidence and willingness to defend its position in bilateral relations.

A Growing Chinese Middle Class

On the positive side, this high level of trade helps many Chinese citizens out of poverty. As a result, the fastest growing segment of China's population is its middle class. Again, lifting people above the poverty line is a laudable achievement (although it should be remarked that China retains a notably large section of its citizenry living below the poverty line). It is estimated that by 2025 China will have the biggest middle class of the world, meaning in economic terms a whole new army of consumers demanding manufactured goods. More demand will drive up prices of basic goods and place a further stretch on several natural resources. As a response, the EU should be placed to pick up a section of the Chinese middle class market looking for quality consumer goods, which should help to partially redress the enormous imbalance in the balance of payments figures. However, the EU is a long way off this position and the recession/depression in Europe may stymie such an outcome.

Also, next to the increase in demand in economic terms and more pressure on the global environment, a boom in the size of the middle class is likely to lead to an increased call for political reform in China, driven by the people. Rising living standards will bring changes in migration, urbanization, and income distribution. This could lead to a growing demand for better housing, healthcare, education and political participation. Nationalism is a Chinese political strategy appealing to this rising middle class, but one that is never all that appealing to the outside world.

China in Africa

The steep growth in the Chinese economy has driven it to the African continent, where it has been presenting itself as the new trading partner, investor and donor. For China, oil has been the main attraction. Between 1998 and 2005 its imports of oil increased from 100,000 to 900,000 barrels per day which were produced primarily in Angola and Sudan. But next to oil, China imports natural gas, metals, cotton and timber from African nations, and has heavily invested in farmland in order to secure its domestic food supply. In exchange, China exports manufactured goods (including arms), food and textile. In total, Chinese-African trade rose from $4 billion in 1995 to $55.5 billion in 2006. Direct investment in Africa is high, and some 800 mainly state-run companies are active in Africa's construction and telecommunications sectors, with many Chinese companies bringing their own workforce.

Next to a source of natural resources, Africa also forms a new market for Chinese goods, plus, it helps Chinese goods move towards the west, as Sub Saharan products have almost unlimited access to the EU and the US. Chinese support also gives African countries more bargaining power with the EU, as China tends to presents itself as an alternative for the classic dependency relationship with the former colonists – a relationship Chinese negotiators in Africa are keen to highlight.

As a consequence of "rising Chinese" influence in Africa and the competition from Chinese manufacturers, European and American corporations find themselves increasingly competing with Chinese agencies abroad, for example in the field of development aid and related infrastructure and development projects. In 2002 (after 2002 official reporting has stopped) China gave $1.8 billion in development aid, plus wrote off large parts of debts owed in 31 African countries, and then provided them with considerable loans. The Chinese have a comparative advantage in winning these development projects as their proposals have less – and mostly no – conditionality placed upon them; which is in stark contrast to European and American development funding.

Thus, although prima facie the EU and China share common perspectives on Africa, they turn out – on further inspection – to be drastically different. Within the EU, these developments did not remain unnoticed. Nevertheless, in comparison to the US, the EU has been slow to react to these changes, especially given the historically prominent role played by European governments in Africa. This benign neglect might be partly due to the fact that the EU wishes a different role for China at the global level than does the US, as China lies outside of EU's immediate strategic concerns. Only a few European members (primarily the former colonial powers) rank developments in Africa relatively high on their foreign policy agenda. At the national level, European governments have also been late in realizing that Chinese enterprises could pose a challenge to their national companies' global market share. More than at the community level, individual politicians

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have started demanding a more aggressive stance towards Chinese presence in Africa, and only recently the EU as a whole is incorporating a more realistic stance. For example, in 2006, for the first time, common documents started to argue that there would be significant downsides for the EU should China be unable to coordinate effectively on the development issues of Africa and be unable to engage in a structured and transparent dialogue on its sustainable development.

EU Policy Development Towards China

Against the background of all the developments noted above, the EU has given shape to its common policy approach towards China. The EU established formal relations with China in 1975. Ten years later, in 1985, an EU-China Trade and Cooperation Agreement was signed, which still forms the basis for the current legal framework governing bilateral relations. In the two decades following that agreement, instead of developing a coherent strategy, a jungle of different "sectoral dialogues" has been set up, each one working according to its own internal political and economic logic. To overcome this problem of fragmentation, the 2005 EU-China Summit called for a revision of the framework, and for upgrading it to a Partnership and Cooperation Agreement. Negotiations started in 2007 and are ongoing. In their broadest terms, the EU objectives towards China are formulated as follows:

- Broaden and deepen dialogue with China, both bilaterally and on the world stage
- Support China's transition to an open society based upon the rule of law and respect for human rights
- Encourage the ongoing integration of China into the world economy and trading system, and support the process of economic and social reforms
- Raise the EU's profile in China, to aid mutual understanding

As in many other policy fields, behind these broad parameters for a common European framework, differences in national strategies towards China persist. And, again as in many other policy fields, the long term vision needed for a coherent strategy is constantly undermined by short term commercial interests, which in China involves a substantial amount of political lobbying.

As mentioned, although EU manufacturing businesses are hit hard by Chinese exports, the EU claims that it does not believe keeping out Chinese competition is the optimal approach. In 2006, the European Commission adopted a strategic document with the name "Partnership and Competition". The tenor of the document is to accept competition but emphasize the concept of "fair trade" to turn "challenges into opportunities". The latest policy tool to regulate bilateral trade and investment issues is a high level economic and trade mechanism, which was launched in Beijing in April 2008. The mechanism aims at creating more dialogue between the European Commission and the Council of China (vice-premier level), and is geared at enhancing cooperation in remaining areas of discordance.

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Though the emphasis in EU policy towards China has largely been on the "gains from trade", political concerns have started to permeate Sino-European relations. Attempts to try and raise the political pillar of the bilateral relations out of its infancy are mainly projected in the annual bilateral summits that have taken place since 1998. However, the most recent summit was in Beijing in November 2007, due to the cancelation of the 2008 version by the Chinese delegation. The next one is now scheduled to take place in April 2009 and on the agenda will be, amongst other things, the financial crisis, climate change and intellectual property rights, such as online piracy. Next to this bilateral forum, China's WTO membership – fervently supported by the EU – has created another forum for the EU to try and regulate relations with China, at least at the level of trade issues. Overall, this might be judged sometimes more effective than the direct bilateral relations as, in this multilateral forum, the EU often gets the support of the US and Japan. Examples of issues fought over in the WTO context are again intellectual property rights, Chinese discrimination against foreign companies, and barriers to market access in a number of services sectors, such as express postal services and telecom services. For example, according to the EU, since 2001, China has granted 22,000 telecoms licenses in China. Only 12 have gone to foreign companies, even though China has signed agreements to open its markets. To give an idea of what is at stake in terms of profits, in the context of the WTO China Trade Policy Review, EU businesses claim that non-tariff barriers in China and the discriminatory use of standards have cost EU companies around €20 billion in lost export opportunities in 2007.[5]

Conclusion

Along with many other developments, the "Rise of China" adds a new dynamic to the international order. Both the EU and the US are affected and challenged economically and politically; both in terms of the domestic politics of Europeans losing their manufacturing jobs, and internationally with the loss of European influence in the developing world. From the start of the Chinese resurgence, the EU wanted to engage with China primarily as a benign partner, underlining common values and shared interests. The EU approach was much more concerned with Chinese internal developments than with geopolitical consequences. This was in stark contrast to the US, which has been less permissive and has viewed China mainly as a rival, while focusing on its external manifestation. However, now that China has been growing up until the point that it is moving forward politically, the EU seems to be willing to take competition with China to a higher level, in which it might also open its eyes to less harmonious elements in the bilateral ties. If China were to keep developing itself politically in ways that might be against the EU's interests, the US and Europe could find their views and expectations regarding China converging to a certain extent.

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