Understanding EU-China Relations: An Uncertain Partnership in the Making

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Abstract

After three decades of evolution, EU-China relations reached a new milestone: the EU became China’s largest trading partner while China became the EU’s second biggest trading partner by March 2004. Although much has already been said about the growing importance of the EU and China as global players, academic study on EU-China relations per se remains a somewhat neglected field. The main purpose of this paper is to try and contribute to the understanding about the nature of EU-China relations by asking such questions as: how important is China to the EU? What are the main factors that are affecting the bilateral relations between the EU and China? The scarcity of academic literature in this field is compensated by adopting a case studies approach and utilising a variety of sources such as public policy documents, current affairs reports and the author’s face-to-face interviews recently undertaken in China.
About the Author

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Introduction

The year 2005 marked the 30th anniversary of diplomatic relations between the European Union (EU) and the People’s Republic of China (China hereafter). The two sides have good reasons to celebrate this anniversary: by March 2004, the EU became China’s largest trading partner while China became the EU’s second biggest trading partner. This serves as evidence to support the argument that the EU and China have everything to gain by deepening their commercial ties (European Commission, 2005c). Although it is hardly controversial that the EU and China have become important players on the global stage, the issue of their bilateral relations is a highly contentious topic in the public debate.

On the one hand, much has already been said in general about whether or not China is an emerging challenge or even threat to the western powers (Breslin, 2005; Callahan, 2005; Harris, 2005; Story, 2003; Zhang, 2005). On the other hand, academic study on EU-China relations per se remains somewhat neglected compared to the amount of attention paid to other aspects of bilateral relations such as Sino-American, Sino-Japanese or EU-US relations.

The main questions I will try to answer in this paper are: firstly, how important is China to the EU? Secondly, what is the nature of EU-China relations and which main factors are hindering the deepening of relations between the two sides? Despite the scarcity of academic literature in this field, public policy documents, in particular those from the European Commission, and the many reports appeared in current

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affairs outlets proved extremely useful to helping substantiate the arguments presented in this paper. The author’s recent fieldwork, in particular face-to-face interviews, in China has provided additional data. In addition, the case studies (on the textiles dispute – the ‘bras war’ and the controversies over the EU’s plan for lifting its arms embargo on China) approach adopted in this paper helps deepen the understanding about the main issues.

Following a brief review of the historical development of the diplomatic relations between the EU and China in the next section, the third section discusses the reasons why the EU has been intensifying its relations with China. The fourth and fifth sections present two recent cases, the EU’s arms embargo on China and the ‘bras war’, through which EU-China relations were put to test. The paper then moves on to discuss the key factors that affect the deepening of EU-China relations. Finally, some concluding remarks are offered with regard to understanding EU-China relations.

**Significant Ups and Downs in EU-China Relations**

EU-China diplomatic relations began in May 1975. The late 1970s saw a number of important events including the signing of a trade agreement in Brussels between the then European Community and China, the visit to China by the Presidents of the European Commission (Roy Jenkins) and European Parliament (Emilio Colombo). The late 1970s also witnessed the launch of China’s economic reform and opening up policies by Deng Xiaoping.

Bilateral cooperation between the EU and China broadened during the 1980s to cover fields such as scientific programmes, development, trade, academic and cultural exchanges. A significant development during this period was the opening of the Delegation of the European Commission in Beijing in 1988. The crackdown on student protests by the Chinese government in Tiananmen Square in 1989 led to the freezing by the European Community of bilateral relations with China. A number of sanctions, including an arms embargo, were imposed by the EU on China, following similar actions taken by the United States.
The growing importance of the Chinese market as a favoured destination for foreign direct investment (FDI) and the new frontier for global competition principally between the Triad Economies (the US, Europe and Japan) has made the freezing of EU-China relations a short-lived experience. Three years after the Tiananmen massacre, EU-China relations were normalised, although the European arms embargo remained in force. Despite this, EU-China relations have deepened since the 1990s with the launch of annual summits between the two sides, which began in 1998, complemented by a plethora of high-profile visits from and to each other. In a way comparable to the Clinton Administration’s policy of ‘engaging China’ (as opposed to ‘containing China’), the European Commission adopted its first strategy paper in 1995 on ‘A Long Term Policy for China-Europe Relations’ (European Commission, 1995).

There is no doubt that China has now become an important area of European policy making and, vice versa, the EU is also becoming increasingly important to Beijing. Although contingent events¹ may still come in the way of developing closer bilateral relations between the EU and China from time to time, EU-China relations seem to command an ever higher level of attention from the two sides.

Why Does China Matter to the EU?

To answer this question, one has to consider the implications of the increasing influence of China on the global stage.

The Rise of China

If the Chinese Communist revolution redefined power relations inside China, i.e., the establishment of a Marxist state to replace the Nationalist government, the Deng Xiaoping economic reforms laid the foundation for tipping the balance of power relations in the global economy. In talking about China in the sense of economic development, some observers believe that ‘[w]hat’s happening in China is unparalleled in human history. There’s never been an economic experiment quite like

¹ For example, the trade disputes over textiles and clothes in 2005 and the EU’s anti-dumping measures against footwear export from China in 2006 were two high-profile cases in EU-China trade relations.
that and it involves 1,300,000,000 people’ (Walden, 2005). On the basis of its GDP growing at an annual average of about 9% over the period of a quarter of a century from 1979, China is undeniably the fastest growing economy in the world. With hardly any private ownership in telephone lines, computers and mobile phones in the 1980s, China nowadays has a telephone network with the highest exchange capacity, the largest mobile phone market and the second largest internet user community in the world. To qualify for the status of the world workshop in the 21st century, China currently produces and consumes more steel than any other country and its consumption of oil and energy products is second only to the United States.

Without denying the issue of the growing polarisation between the rich and the poor in Chinese society, it is impressive that the country now has around 300,000 dollar millionaires. This makes an interesting contrast with the fact that, only 20 years ago, the ‘super rich’ in China used to be called ‘ten-thousand yuan households’ (or wanyuanhu in Chinese). Although the ‘Made in China’ stamp is now common worldwide, it was rare to find Chinese-made products in the West in the late 1970s, when China was beginning to introduce its economic reform policy (Breslin, 1998). The fact that the charge for an individual’s annual membership fee in a private business club in Shanghai could be as high as $100,000 dollars is indicative of the degree to which many Chinese individuals have become rich. With the growth in wealth, China is also fast becoming a superpower of not only mass production but also mass consumption. The growing economic power of China makes some believe that ‘[t]here is no such thing as a global strategy without China’ and the China issue will dominate people’s future (Walden, 2005).

Does China necessarily pose an economic and political threat to the West, including the EU? For some, China used to be called a ‘sleeping giant’ and it is now called a ‘waking giant’, which wants to regain its rightful place and ‘that rightful place, it thinks, is at the centre of the world’ (Reynolds, 2005). New data shows that, after all, the rise of China might not necessarily be regarded as a bad thing. A recent BBC

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2 At the present exchange rate, 10,000 yuan (or RMB10,000) is about £800.
3 The Shanghai Star project in Shanghai will lead to the launch of the World’s biggest Ferris wheel in 2008. A private members’ club will be housed inside the wheel and individual memberships will be by invitation at the cost of $100,000 each. See Pickard (2005) for more details.
4 Summer Redstone, chief executive of Viacom (quoted in Harris, 2005, p. 11).
World Service international survey suggests that China is viewed much more positively than countries such as the US and Russia in the 22 countries covered: on average almost half (48%) of people polled saw China’s influence as positive, compared to 30% seeing it as negative and 22% being noncommittal (BBC, 2005c).

To some European politicians, ‘China’s economic development is truly impressive by any measure’, as acknowledged by European Commission President Manuel Barroso: ‘We in Europe are full of admiration for China’s spectacular economic growth’ (Barroso, 2005). This echoes the view of his predecessor Romano Prodi, who believed ‘[g]ood news about the Chinese economy is of course good news for Europe’ (Prodi, 2004). For those less well-prepared, ‘such has been the remarkable speed of China’s development that no-one could have anticipated the industrial might and muscle – and export capacity – that China has attained today’ (Mandelson, 2005a). UK Chancellor of the Exchequers Gordon Brown once urged Britain ‘to embrace the rise of China as an “opportunity” not a threat’ (Quoted in Newman and Dyer, 2005).

China is widely viewed as a manufacturing economy based on the competitive advantage of cheap labour and cheap land. Whilst this is true, it is worth bearing in mind that the Chinese economy is characterised by a collective brain power that is second only to the United States in terms of the number of researchers. According to the OECD, the total number of researchers in China is 0.74 million, compared with 1.3 million in the United States (Quoted in MIT, 2005).

Although still officially a socialist state with Chinese characteristics, China became a member of the WTO (World Trade Organisation) in 2001. The WTO membership will in part help make the Chinese economy an integral part of the global economy. In other words, China’s economic performance will have immediate implications for the rest of the world, including the European Union. The fact that China has overtaken Japan as the world’s third largest exporter (behind the US and Germany) and the third largest importer (Williams, 2005) would make the WTO a much less influential organisation without China’s presence. China’s WTO membership is certainly not the final step of the country’s involvement in the governance of the global economy. During a recent interview with the Financial Times, the secretary-general of the Organisation for Economic Cooperation and Development suggested that China
should become a member of the OECD and said ‘I don’t see how one of the agents shaping the global economy can do that without engaging the major players [such as China]’ (Quoted in Giles and Thornhill, 2005).

The spectacular growth of the Chinese economy is not free of concerns. Rather, some commentators caution that ‘[t]he social and political obstacles to rapid and sustained growth are large’ (Wolf, 2005). On the domestic side, the expansion of the Chinese economy is accompanied by a growing army of unemployed and the seemingly insolvable problem of corruption. Externally, China is faced with criticism from the US and the EU that its economic reform is not matched with equally vigorous political reforms to introduce democracy and improve its human rights record.

It is noteworthy that the fast rate of growth does not deny the fact that China still has a long way to go before catching up with the western industrialised world. At the current rate of economic growth it will take China more than a quarter of a century to reach the current level of Japan’s GDP per head and more than three decades to achieve the same GDP per head relative to the US (Wolf, 2005).

China and Corporate Europe

The emergence of China as a new economic power at the global level is in part explained by the rapid growth in EU-China trade. Since 1978, EU-China trade has increased more than 30-fold and reached around €175 billion in 2004 (European Commission, 2005c). Klaus Ebermann, a European diplomat expressed the view that:

Relations between the European Union and China have intensified tremendously in recent years. To some extent this is the natural consequence of China’s impressive economic growth and increasing importance on the world stage. But substantial impetus for this rapid development also stems from shared interests... (Quoted in Delegation of the European Commission to China, 2005).

The EU needs China on its side and, more important than anything else, corporate Europe needs the doors to the China market (and, increasingly, Chinese capital) to remain open to them. The British government was much blamed for its failure in
securing a rescue package from China during the collapse of MG Rover, despite the
best effort of Gordon Brown in lobbying the Chinese government during his visit to
China.5 The Dutch giant Philips has about one third of its employees deployed in
China; the much troubled Alcatel and Thomson Multimedia, both of France, were
rescued through a joint venture arrangement with China’s TCL.6

To many European firms, China means far more than a mass-manufacturing and
consumer market. In 2004, Nokia, Siemens and Ericsson established new Chinese
R&D outposts in China.7 Siemens might have failed to turn its mobile phone business
into profit (and hence sold it to a Taiwanese firm) but it has been active in pursuing
mobile phone technologies in China. One of Siemens’ major undertakings in China
was its joint R&D work with Datang Mobile of China to develop 3rd Generation
mobile communications (3G) technologies, with subsidies provided by the Chinese
government. According to sources from Datang Mobile, the joined-up effort in R&D
between Datang Mobile and Siemens did lead to the establishment of China’s 3G
standard, namely TD-SCDMA to rival the European W-CDMA and American
CDMA 2000 standards, cooperation between the two companies has been
discontinued.8

EU Strategies towards China

When the UK had the EU Presidency in 2005, Tony Blair stressed the importance of
EU-China relations in a meeting with Chinese President Hu Jingtao in Beijing during
the eighth annual summit between the two sides:

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5 During his three-day visit to China, Gordon Brown’s top agenda was to try and secure a deal between
the much troubled MG Rover and the Chinese SAIC (Shanghai Automotive Industry Corporation).
More specifically, he was expected to lobby the Chinese government and business leaders in support of
a joint venture between SAIC and MG Rover (Newman and Dyer, 2005). Despite this effort, SAIC
eventually decided not to pursue a deal with MG Rover. Assets of the collapsed MG Rover have been
bought by another Chinese firm Nanjing Automobile Corporation, which is a relevantly smaller player
than SAIC.

6 The joint venture TTE (TCL-Thomson Electronics) is jointly owned by TCL (67%) and Thomson
Multimedia (33%). As part of the joint venture deal, Thomson would send 6,000 of its employees,
including 600 R&D staff, to the joint venture which is largely based in China. The TCL-Alcatel joint
venture is 51% owned by TCL and 49% owned by Alcatel.

7 There are now in total about 600 foreign-owned R&D centres in China concentrated largely in the
southern and eastern coastal areas. See MIT (2005) for more details.

8 Interview with senior manager of Datang Mobile, April 2006, Beijing.
The strategic partnership between China and the European Union is of immense importance, not just in terms of trade and the economy, but also in terms of our cooperation in all the major political issues the world faces (EU Business, 2005).

The intensifying relations between the EU and China is seen by the Central Intelligence Agency (CIA) as a development that could eventually shift EU allegiance: ‘An EU-China alliance, though still unlikely, is no longer unthinkable’ (quoted in Dombey and Spiegel, 2005). Despite the perceived ‘strategic importance’ of the EU-China link, the rise of China remains a welcome development for the European Commission, to whom it is encouraging that ‘the majority of people in Europe are convinced that a stronger, co-operative relationship with China is not only inevitable but also very much in our own interest’ (Mandelson, 2005b).

Given the high stakes associated with the bilateral relations between the EU and China, one would expect that the EU would have a clearly defined policy and strategy towards China. In fact, there is no consistent explanation or understanding by EU authorities of the nature of EU-China relations. The definition for the term ‘EU-China relations’ is a constantly changing one.

1) Long term relationship. The importance of ‘a long term relationship’ was recognised in 1995. In an attempt to further repair the damage to its relations with China caused by imposing sanctions after 1989, the European Commission proposed ‘a long-term policy’ on China, thus re-confirming that Europe’s relations with China are bound to be a cornerstone in its external relations. The Commission argued that ‘[t]he time has come to redefine the EU’s relationship with China’ and ‘Europe must develop a long-term relationship with China that reflects China’s worldwide, as well as regional, economic and political influence’ (European Commission, 1995). The Chinese government’s suppression of student protest in 1989 was responded by condemnations from the US, the EU and many other parts of the international community. However, China continued to proceed with its economic reforms and development. In order not to miss out from the potential trading opportunities afforded by China’s economic growth, the EU decided to adopt a more pragmatic
approach towards China and that is not to let contingent events get into the way of bilateral relations, in particular trade relations.

2) *A comprehensive partnership.* In addition to establishing a long term relationship with China, the EU became aware of the importance of widening the scope of bilateral relations and, hence, the need to develop ‘a comprehensive partnership’ between the EU and China was identified in 1998. Having recognised that China has become a major player in an increasingly globalised world, the EU now sees the importance of supporting China’s transition into an open society based on the rule of law. More specifically, the EU became ‘one of the keenest advocates of China’s early accession to the WTO’ (European Commission, 1998).

3) *A maturing partnership.* By 2003, the steady improvement of its relations with China had led the European Commission to believe that EU-China relations were ‘a maturing partnership’. The European Commission believe that the increasingly close policy coordination in a broad range of areas in addition to promoting bilateral trade has brought about a ‘new maturity in the relationship’ between the EU and China (European Commission, 2003).

4) *A strategic and enduring relationship.* The new European Commission under Barroso argued in 2005 that the EU and China should develop ‘a strategic and enduring relationship’. Summing up the future policy orientation of the EU towards China, Barroso advocates that there will be ‘the development of a strategic, mutually beneficial and enduring relationship with China’, which is ‘one of the EU’s top foreign policy priorities for this century’ (Barroso, 2005).

There are occasions when the EU felt uneasy with its relations with China, in particular when considering the issue of bilateral trade. For instance, in its 2004 European Competitiveness Report, the European Commission devoted much attention to describing China as a *competitive challenger*:

The Report points to the need to enhance competitiveness and innovation in the EU to respond to the challenge of countries such as China, which is turning itself into a low-cost competitor in high-skill industries. One of the
priorities of this Commission will be to face this challenge in the framework of the Lisbon agenda (European Commission, 2004a).  

No matter how EU-China relations are described, they have never been equated to President George W. Bush’s calling China a ‘strategic competitor’.  

Bilateral relations between the EU and China over the last three decades have been largely positive, which is characterised by mutual respect, reciprocity and interdependence:

In a partnership between two entities as powerful and as complex as China and the EU, progress in one field will inevitably affect progress in others. It has to be a give-give relationship, based on a prudent understanding of the concerns and requirements of the other partner, as well as a healthy and natural respect on each side for the other’s interests (Mandelson, 2005b).

The ‘give-give’ principle is acknowledged by both the EU and China as an important point to their bilateral relations. This principle is also manifested in the practice of bilateral cooperation. For example, China has recently joined the EU-led Galileo Programme with a pledged financial contribution of €200 million. In return, the EU offered a €500 million loan to China through the European Investment Bank for the expansion of Beijing Airport. There is no doubt that both sides had a ‘win-win’ situation as their goal when they were talking about the ‘give-give’ principle.

*Chinese Strategies towards the EU*

Historically, ‘Chinese leaders viewed the EC as a useful economic partner and a factor for stability’.  

The EU does not have the sort of problems that the US and Japan have in dealing with China. For example, China-Japan relations are often influenced by disputes over Japan’s war time atrocities and the lack of an official apology. With regard to China-US relations, the Taiwan issue is always a sensitive

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10 Note that George W. Bush recently moderated his tone by calling for the development of a ‘co-operative relationship’ with Beijing as a new strategic goal, with represents a recognition of the fact that the US needs the support from China on a number of fronts such as, among others, the war on terror and negotiations with North Korea. See Sevastopulo, Harding and Dickie (2005).

11 Dr Huaqun Zeng (quoted in Delegation of the European Commission to China, 2005)
one. In describing China’s diplomatic efforts in building up relationships with other countries, an expert from the Royal United Services Institute (RUSI) in London noted that ‘[s]enior members of the government and party are always travelling and visiting’ and ‘[t]hey have also courted Europe, especially Britain, France and Germany’ (Reynolds, 2005).

As an important milestone, China asserted in October 2003:

The European Union (EU) is a major force in the world. The Chinese government appreciates the importance the EU and its members attach to developing relations with China. The present EU policy paper of the Chinese government is the first of its kind and aims to highlight the objectives of China’s EU policy, … so as to enhance China-EU all-round cooperation and promote a long-term and stable development of China-EU relations (Chinese Ministry of Foreign Affairs, 2003)

China’s EU strategy is very much an integral part of its overall strategic orientation at the global level in that ‘Chinese strategic plans are in evidence – for partnership, not subservience, through a careful mixing of national development with globalist practices’ (Harris, 2005, p. 14). Compared to the US, the EU pays more attention to partnership building with China.

An important feature of the Chinese diplomacy is that, for decades, China has been endeavouring to promote a polycentric world order (Harris, 2005), as opposed to any kind of hegemonic structure of world power(s). More likely than not, China could find consenting voices from Europe, in particular France. During the Chinese Premier Wen Jiaobao’s recent trip to Europe, Jacques Chirac reached a formal agreement with China to ‘foster the march towards multipolarity’ in order to ‘oppose any attempt at domination in international affairs’ (Bork, 2005).

China needs Europe in many ways. It is no secret that foreign direct investment (FDI) is an important source of the much needed capital to finance China’s economic reform and development. European multinationals represent an important part of FDI in China, along side overseas Chinese, Japanese and American investments.
Although much has already been said about China’s growing influence at the global level and the widely expected responsibilities accompanying it, the country’s globalist agenda has never been easy to achieve. Barriers to China’s entry into the global community are often high. It is no secret that China’s former Premier ‘Zhu Rongji is known to have said that the hairs of all of China’s WTO negotiators had turned from black to white by the time the talks were over’ (Mandelson, 2005b). The EU’s support to China’s WTO membership was indispensable.\textsuperscript{12}

**Sailing through the Arms Embargo**

Dubbed by an authoritative commentator as ‘the most high–profile European initiative at present’ in the context of EU-US relations (Freedman, 2005), the European plan to lift the arms embargo on China has certainly posed a major concern to Washington. The same issue was also indicative of the extent to which ‘old Europe’, centred on the Franco-German alliance, could challenge the hegemony of the US.

The EU’s arms embargo on China originated in 1989, when the Chinese government brought its army into the capital city Beijing and put to a bloody end a student-led pro-democracy movement. In response to Beijing’s harsh measures against pro-democracy students, the EU imposed sanctions on China, including the arms embargo on 27 June 1989, following the signing in Madrid of a European Council Declaration on China.

France and Germany, under the leadership of President Jacques Chirac and former Chancellor Gerhard Schröder, embarked on a vigorous campaign lift the arms embargo on China. The French and German argument was that the on-going embargo represents a confrontational approach towards Beijing (Gedmin, 2004). This argument not only received support from Jack Straw, Foreign Secretary of the UK, but was also in line with Beijing’s foreign policy position, which is that the Chinese government

\textsuperscript{12} The European Commission confirms that ‘[t]he EU was a strong supporter of China’s accession to the WTO, taking the view that a WTO without China was not truly universal’ (European Commission, 2005c).
‘appreciates the EU’s persistent position for dialogue and against confrontation’ (Chinese Ministry of Foreign Affairs, 2003). In December 2004, when Luxembourg was holding the EU Presidency, the European Council started its work on a play for lifting the arms embargo against China by June 2005. To replace the arms embargo, the EU Code of Conduct on Arms Exports, agreed in 1998, would be relied upon.

Following their fundamental disagreement over Iraq between the Franco-German alliance and the US, the arms embargo issue threatened to further spoil the already sour trans-Atlantic relations. With the ever-widening gap between the EU plan for lifting the arms embargo and the US insistence on maintaining it, the two sides were engaged in a intensive diplomatic discussions. The exchange of high level visits between the two sides demonstrated the amount of attention the matter received. During his visit to Europe, a key item on George W. Bush’s agenda was making explicit his opposition to the EU plan for lifting the arms embargo on China. This was complemented by members of the US Congress threatening the EU with retaliatory legislation if it went ahead with lifting the embargo.

Why was EU in favour of lifting the arms embargo on China? There are a number of reasons:

1) *Arms trade.* At the moment, much of China’s weapons and military procurement is sourced from Russia. Lifting the arms embargo would pave the way for the EU to sell weapons and military equipment to China. In particular, France was championing the argument for the EU to lift the ban in the hope that China’s rapidly expanding arms procurement will offer a good market for its loss-making arms firms. More specifically, from a corporate point of view, it is an open secret that the Franco-German plan of lifting the embargo would open the way for, and legitimise the selling of, such items as French Mirage fighter jets and German missiles by the European arms industry to China. Tapping into China’s hi-tech arms market without political interference would be a hugely attractive proposition, if not a saviour, for the European arms firms.

2) *Trade in general.* One reason common among the leading group of EU countries, France, Germany and UK, was self economic interest. Lifting the embargo, or at least
support for lifting it, would give Beijing a good reason to treat the EU more favourably in considering major commercial contracts. During his visit to Beijing, the then French prime minister Jean-Pierre Raffarin promised that Paris will continue to push for lifting the arms embargo and, in return, he was invited to attend a ceremony where Chinese airline companies signed orders worth about $3.2 billion for 30 Airbus aircraft (BBC, 2005). This was hugely important for Airbus, given the fierce competition from Boeing. For the German company Siemens, its contracts with China, totalling nearly $800 million for railway locomotives and power generation equipment, are also significant deals (Gedmin, 2004). Another German company Volkswagen has already developed a major business presence in China. Likewise, the French government could not ignore the fact that the survive of Thomson Multimedia and Alcatel might not be possible without the Chinese market and Chinese investment. To the British government, the Chinese automotive industry was the most likely saviour for sorting out the mess caused by the collapse of MG Rover. Eying on such huge trade deals, ‘[e]ach EU member state also knows the potential economic cost of being seen by China as the country that stopped the embargo being lifted’ (Dombey and Spiegel, 2005). It is, therefore, reasonable to argue that, behind the diplomatic rhetoric about the strategic importance that ever-intensifying EU-China relations entail, blunt self economic interest takes precedence over any other consideration:

Although the EU had argued that ending the ban [on arms sale] was part of a policy of “engaging” with China, many officials in the EU conceded that investment opportunities in China were a big reason why the EU wanted to phase it [the embargo] out (Dombey, 2005).

3) The German factor. The future outcome of Germany’s interested to bid for becoming a permanent member of the UN Security Council would be contingent upon winning the support from China for the simple reason that the latter is one of the five existing permanent member with a vetoing power.\textsuperscript{13}

\textsuperscript{13} This diplomatic strategy could backfire, though. Some in Germany argue that the Chancellor Gerhard Schröder’s policy on the arms embargo issue undermined the country’s bid for a permanent seat on the UN Security Council by annoying the Americans.
4) Common interest. Although the EU is not necessarily acting in one voice with regard to the aim of a multipolar world order, it is generally accepted that lifting the arms embargo would be compatible with the common desire between China and the EU for building such a new world order, thus restraining the hegemonic power of the US:

On a broader level, the EU arms embargo issue transcends mere economic self-interest and predictably appeals to the ‘soft power’ approach of Europe. China regularly makes noises about wanting to build a multipolar world, in which US power could be more easily restrained. This sounds very French. At times it seems to fit with the EU’s vision of a multilateral, United Nations-centric world (Gedmin, 2004).

Leading figures from both the Republican and the Democratic parties in the US Congress have made it explicit that the lifting of the arms embargo on China by the EU would lead to a significant change to the strategic cooperation between the US and Europe and American restrictions through legislation might have to be imposed on advanced military technology selling to Europe (Alden and Sevastopulo, 2005). This implies that the end of EU arms embargo might be followed by a US arms ‘embargo’ on the EU! ‘Congress has already flagged this issue and a recent House version of the National Defense Authorization Act (NDAA) contained provisions that would preclude the Department of Defence from procuring defense articles or services from any “foreign person” who transfers defense items to China’ (US Department of State, 2004).

Why does the US insist on maintaining the arms embargo on China? There are two specific concerns that have been repeatedly cited by White House officials: 1) China’s poor human rights record; 2) Lifting the embargo might pose a threat to regional security in East Asia, in particular that of Taiwan.

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14 For example, in fear of possible technology transfers to China, US politicians warned that lifting the embargo would have serious consequences for the Joint Strike Fighter programme, which is developing a fighter jet for use by both the US military and allies including the UK (Financial Times Reporters, 2005)
To be sure, the US maintained a link between trade with China and the latter’s human rights record. However, the US agreed to China’s entry into the WTO in 2001. Prior to that, the US had to review China’s human rights situation on an annual basis in order to decide whether or not to grant ‘Most Favoured Nation (MFN)’ status to China for trade, which it did year by year without failure. Policy makers in Washington had no doubt in their mind that any barrier to the development of bilateral trade would be detrimental not only to Chinese economic interest but also American economic interest. Therefore, American rhetoric about China’s human rights record did not override national economic interest.

Regarding the Taiwan issue, the US concern over the potential implications of lifting the arms embargo for the island’s security might be a realistic one. However, the original reason for imposing the arms embargo was an immediate and specific response to Beijing’s brutal suppress of students protest in 1989. The issue of Taiwan was NOT at all linked to the imposition of the embargo in the first place.

More broadly, US emphasis on the strategic implications of seemingly ordinary business transactions shows a growing difference between American and European attitudes towards China. During the period of negotiation regarding the purchase of IMB’s PC business by the Chinese firm Lenovo, the CFIUS (Committee on Foreign Investments in the United States), a federal multiagency group, launched a formal 45-day investigation, although the $1.75 billion deal was eventually cleared of any potential security threat to the US. The proposed $18.5 billion purchase of the US oil company Unocal by the Chinese CNOOC (China National Offshore Oil Corp.) was also investigated and then blocked by the CFIUS on ground of national security threat. Investigations such as these ‘rekindled the debate in the US about whether a more powerful and technologically sophisticated China is a natural commercial and strategic ally for Washington, or an ever-more muscular competitor’ (Lloyd-Smith, 2005). In contrast, the de facto takeover in 2004 of Thomson’s consumer electronic manufacturing business (including the Thomson and RCA brands) by TLC, another Chinese firm, has not caused much security concern at all in Europe.

Despite the inconsistency in the US argument, the EU has bowed to pressure from the other side of the Atlantic and decided to maintain the arms embargo on China for the
time being. Beijing would of course like to have the embargo lifted and, without
doubt, will continue to ask the EU to do so. There are two important reasons why
lifting the arms embargo by the EU is important. The first one is a political
consideration. The EU also has formal arms embargo on a short list of countries,
including Zimbabwe, Burma and Sudan, but does not have North Korea on it. To
maintain the embargo on China is putting China on a par with these countries. This is
more a face-losing matter than an economic issue for Beijing. Secondly, Beijing is
hoping for a domino effect:

   Its main interest lies in acquiring more advanced military equipment from the
   US, and it hopes that the lifting of the EU ban would lead the US government
to lift its own bans after strong pressure from US arms suppliers (BBC, 2004).

On the EU side, there is a willingness to end the arms embargo, although there is no
timetable. There seems to be a tacit tolerance between the two sides to maintain the
*status quo* over the embargo issue.

**The ‘Bras War’ as a Double-edged Sword**

Does the EU’s argument for lifting the arms embargo on China suggest that the EU is
whole-heartedly committed to free trade? It seems that if trade is about exports the
answer would be ‘yes’ and if it is about imports the answer could well be ‘no’.

European politicians are proud to claim that ‘[w]e in Europe have learnt that trade and
development expand … when we reduce tariffs and open borders’ (Mandelson,
2005b). Whilst the development of the single European market has indeed created a
free trade zone among its member states, the EU’s trade protectionism against its non-
European trading partners during the last four decades or so offers hardly anything to
be proud of. It is perhaps more convincing that a strong trade relationship and trade
conflict are the two sides of the same coin. As the European Commission President
José Barroso put it: ‘only when there is a strong trade relationship are there trade
problems’ (Barroso, M. (2005). The recent EU-China wrangling over textiles and
clothing trade, or the ‘faintly ludicrous bra war’ (Simpson, 2005), is another interesting case to put EU-China relations to test.

The origin of the EU-China ‘bras war’ lies in the beginning of 2005, when the 30 years old Multi Fibre Agreement (MFA), a quota system created to limit global clothing sales, came to an end.\textsuperscript{15} Foreseeing a possible surge in Chinese export to Europe, the EU reserved the right to impose temporary limits on imports from China as a part of the agreement between the two sides on China’s WTO membership. On the basis of this ‘right’, the EU signed an agreement with China in June 2005 to put in place a new quota system to limit the growth of Chinese exports to the EU at 8-12.5% per year for the period 2005 to 2007 inclusive concerning 10 categories of products.\textsuperscript{16} Only two months after the signing of this agreement, import quotas for most of the targeted product categories were breached and 80 million items of clothing products were stuck in European warehouses. These products were made in China but delivered to orders from European retailers.

European response to the rapid surge in import of Chinese textiles and clothing products was complicated by divergent opinions. Among others, European textile and clothing manufacturers wanted the EU to do more in limiting the import. Retailers, in particular those that were relying upon imports from China, insisted that free trade with China should continue.

The disagreement between European manufacturers and retailers precipitated a split of member states into two factions – the northerners vs. the southerners. Countries in the northerners camp, including Denmark, Finland, Germany, the Netherlands and Sweden, would prefer free trade to protection of the EU market. The southerners, including France, Greece, Italy, Portugal and Spain, rejected the free market argument. The reason for the divergence was simple: the northerners have fewer workers employed in the textile and clothing manufacturing industry than the rest of the EU

\textsuperscript{15} The Multi Fibre Agreement (MFA) is a trade regime adopted in 1973 by western industrialised countries that imposes quantitative restrictions (or quotas) on imports of textiles and apparel products from other countries to the signatory countries of this agreement. The MFA is a typical example of trade protectionism on the side of the western industrialised countries against the poor and developing countries.

\textsuperscript{16} These categories of products are pullovers, men’s trousers, blouses, T-shirts, dresses, bras, flax yarn, cotton fabrics, bed linen, table and kitchen linen.
but they have strong fashion and retailer industries. In contrast, the southerners have more people employed in the textile and clothing manufacturing industry than the rest of the EU.\footnote{Whilst the ‘northerners’ camp is home to Europe’s biggest clothing retailers, such as Hennes and Mauritz (Sweden) and C&A (The Netherlands), half of EU textile and clothing jobs were in three countries of the ‘southerners’ camp, i.e., Italy, Spain and Portugal. See Mulvey (2005) for more details.}

The political drama concerning the ‘bras war’ reached its height when all five countries of the southerners camp wrote to the European Commission appealing for Community action to stop the tide of clothing imports from China whilst, on the contrary, government ministers from four countries of the northerners camp, i.e., Denmark, Finland, the Netherlands and Sweden, argued for ensuring the stockpiled clothes reached the retailers’ shops in their joint article published in the Financial Times in August 2005 (Mulvey, 2005). Believing in the need for protective measures at the EU level against imports from China, Jacques Chirac said that ‘[t]here was a brutal and unacceptable invasion of the European and US markets by Chinese textiles’ (Cited in McGregor and Hollinger, 2005).

Being stuck in the middle between the two groups of member states, the European Commission’s position was an uncomfortable one. In an attempt to unlock the standstill, the European Commission, led by the trade commissioner Peter Mandelson, reached a deal on 5 September 2005 with the Chinese government. Half of the warehouse stockpiles would be let into the EU market unconditionally and another half would be calculated against next year’s quota. Although not free of controversies, this deal was subsequently approved by the European Commission’s political masters from the two warring camps and the ‘bras war’ was brought to an end. As for whether the similar trade wars between the EU and China will be waged again remains to be seen.

There are important implications that can be drawn upon the ‘bras war’. Firstly, one should not be surprised by the protectionist measures regarding the textile and clothing industries. The ‘bras war’ is actually consistent with the history of EU trade policy (e.g., against import of consumer electronic goods from, firstly, Japan, then the tiger economies and more recently China). Given that ‘decades of protection have
failed’ to help the European industry against foreign competition, ‘it is fanciful to suppose three more years of trade barriers against China – the most allowed by World Trade Organisation rules – would restore their [European manufacturers’] competitiveness’ (De Jonquieres, 2005).

Secondly, the ‘bras war’ was inconsistent with the EU’s rhetoric. Officially, the EU ‘has confirmed to China that it is ready to phase out its quantitative restrictions on Chinese products as rapidly as China is able to remove its own’ (European Commission, 1998). Whilst China is expected to comply with WTO rules and its WTO commitment since joining the organisation, the EU has been busy in imposing quantitative restrictions, largely through antidumping measures, on Chinese exports to Europe in a wide range of product areas. The plain truth is that ‘textile manufacturers in Europe knew ten years ago that the Multi Fibre Agreement, and the global system of textile quotas it enshrined, would come to a final end at the start of 2005’ (Mandelson, 2005a). In other words, European manufacturers should not have been surprised by the arrival of Chinese textile and clothing products.

Thirdly, the ‘bras war’ would add pressures to Chinese manufacturers that they would have to consider shifting from low-cost and low value-added production to low-cost and high-skills, high value-added production. A member of the Executive Board of the European Central Bank commented that ‘the subsidiaries of multinational firms still account for the bulk – nearly 90% – of total Chinese high-tech exports’, which suggests that ‘the actual Chinese value added is still estimated to be relatively low’ (Tumpel-Gugerell, 2005). By curbing Chinese export volume the EU, perhaps unintentionally, would induce Chinese manufacturers ‘to maximise profits by moving into the kinds of more sophisticated products in which western companies currently have a competitive advantage’ (De Jonquieres, 2005). It is possible that ‘[t]he long-term winners from such a policy would be Chinese companies, not western ones’ (Ibid.).

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18 This would fit in well with Chinese industrial policy, which has a focus on ‘the promotion and establishment of higher value added, technology intensive industries’ and China’s policy makers ‘are not content with China being the global centre for labour intensive manufacturing’ (European Commission, 2004b, p. 304).
Finally, Chinese firms might have to consider Europeanising their operations (e.g. by joint venture arrangements with EU firms) to bypass anti-dumping investigations and export quotas. In the long-term, pressure or threats posed by EU trade protectionism could be advantageous to Chinese manufacturers in terms of upgrading and globalising their production.

It is rather ironic that European policy makers in favour of protectionism could well be helping foreign manufacturers in the long-term by providing short-term protection for indigenous manufacturers. Whilst it is understandable that ‘[b]laming foreigners for problems of your own making is always an easy political option’, Brussels should be mindful of the possibility that, by managing trade, ‘[i]t is shooting itself in the foot’ (De Jonquieres, 2005). This is because protectionism is neither a proper nor a useful tool. The European Commission made an interesting point, even before the outbreak of the ‘bras war’, with a long-term view:

> China is not only a threat to the European textile and clothing industry but also an opportunity. As EU home markets are at least partially saturated, China is a potential target market for European manufacturers of high-quality products. … Growing affluence especially of China’s young urban population can be expected to raise demand for high quality clothing and fashion items made in Europe (European Commission, 2004, p. 342).

**Shadows over EU-China Relations**

EU-China relations, no matter how important for European and Chinese policy makers, are faced with a number of constraints. Chiefly, among others, the impact of the US, the differing and even conflicting interests of the EU member states, the relatively weak footing of European industry in the Chinese market and the Chinese political system are factors pertinent to the deepening of EU-China relations.

*The US Factor*
EU-China relations have been subject to heavy influence by each of the two sides’ relations with the US. This influence will continue to characterise EU-China relations, although the growing economic power of both the EU and China has the potential to make the US factor less relevant to their bilateral relations in the long run.

The trans-Atlantic dispute over the arms embargo issue is a specific example demonstrating a strong influence of the US on EU-China relations. Although the EU repeatedly argued that lifting the embargo would be a symbolic act, the EU plan is now on hold, ‘largely because of opposition from Washington’ (Dombey, 2005). On that account, the EU perhaps deserves the diplomatic praise by Condoleezza Rice, who said during her first visit to Europe in her capacity as US secretary of state that the Europeans ‘have tried to take account of our concerns … I do feel we are being listened to’ (quoted in Dombey and Spiegel, 2005).

*Supranationalism vs Intergovernmentalism*

EU-China relations are complicated by the nature of the EU being a union of member states rather than a fully-fledged super state. More specifically, the EU as a single entity has developed bilateral relations at the supranational level. This is particularly the case for EU trade policy, of which the European Commission, rather than the member states, is in charge. Meanwhile, member states of the EU are also busy individually in developing bilateral relations with China. Therefore, EU-China relations are a mixture of bilateral relations at the supranational level (EU-China relations) and bilateral relations at the member state level.

The fact that the European Council of Ministers is the most important political decision-making institution makes it a necessity for China to engage with the governments of the member states with a view to influencing EU policy. After all, the member states, via the Council of Ministers, are in charge of the EU’s foreign policy. On the other hand, member states do not necessarily share the same vision and interest in relations with China. To the outside world, including China, ‘[t]he EU lacks the inner coherence, resourcefulness and decisiveness to play a comparable role to the US’, although it has ‘a comparative advantage in soft power … derived from
the fact of its very existence rather than from an active foreign policy’ (Freedman, 2005).

Beginning in 1998, the EU and China have held regular annual summit, which seems to highlight the intensifying of EU-China relations at the supranational level. In parallel, however, ‘France … flies its President – along with several aircraft full of business people – to the People’s Republic each year’ (Moules, 2005). Envying the diplomatic opportunities afforded to the French business community by politicians at the highest level, representatives of the British business community argue that this is ‘exactly what we need for a new era of British interest in China’. Some argue that the ‘practice of holding back-to-back bilateral summits … should be discontinued’ because ‘[i]t confuses the role of the Union and increases the difficulties in coordination’ (Crossick, Cameron and Berkofsky, 2005, p. 39).

The competition for winning trading opportunities between member states sometimes rendered supranational rules not as effective as they were intended to be. For instance, despite the fact that the EU maintains an arms embargo, its member states approved licences for arms exports to mainland China totalling at €416 million in 2003, compared to €54 million and €210 million in 2001 and 2002 respectively (Dombey and Speigel, 2005). Partly for this reason, the US was not convinced of the effectiveness of the EU’s plan for ending the embargo and replacing it with a code of conduct. The division between the northern countries and the southern countries in the EU during the ‘bras war’ also demonstrates the extent to which EU trade relations with China were affected in a significant way by powers at the member state level.

*The Weakest Link*

EU-China economic relations, when measured by European countries’ presence in China, in terms of FDI, seem to be a relatively weak link compared to Japanese and American presence there.

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19 Stephen Perry, Chairman of the 48 Group of UK businesses (quoted in Moules, 2005).
Table 1 indicates that each of the three leading EU countries, UK, Germany and France, invested $11.5bn, $8.9bn and $6.2bn respectively in China during 2003. These figures (combined) are dwarfed by American and Japanese direct investment at $44.1bn and $41.4bn respectively. In the case of the UK, most of its FDI in China comes from two companies, BP and Shell (Moules, 2005).

Table 1. Inward Investment into China# ($billion, by Country of Origin, Dec. 2003)

<table>
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<tr>
<th></th>
<th>Hong Kong</th>
<th>US</th>
<th>Japan</th>
<th>Taiwan</th>
<th>Virgin Islands</th>
<th>Singapore</th>
<th>South Korea</th>
<th>UK</th>
<th>Germany</th>
<th>France</th>
</tr>
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<tr>
<td></td>
<td>222.6</td>
<td>44.1</td>
<td>41.4</td>
<td>36.5</td>
<td>30.2</td>
<td>23.5</td>
<td>19.7</td>
<td>11.5</td>
<td>8.9</td>
<td>6.2</td>
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Note: #Utilised foreign investment.

Despite the repeated hiccups in China-Japan relations in recent years, Japanese companies have created an investment frenzy in China. In the Shanghai region alone, Japanese firms are involved in 4,600 joint ventures bringing with them a total investment of about $9 billion. This is complemented by the presence of another 2,500 Japanese firms in the medium sized northeast city of Dalian, resulting in $5.6 billion of investment (Harris, 2005). Japanese FDI in the region of Shanghai (at $9 billion) is the equivalent of total FDI of Germany ($8.9 billion) in China.

The Chinese Political System

Mutual respect for each other in maintaining and developing EU-China relations does not necessarily apply to all cases. Differences in political and economic systems, among others, can become a constraining factor to bilateral relations between the two sides. Although its criticism of China’s lack of democracy and poor human rights record is not as harsh as that of some other countries, notably the US, the EU does have its concerns. Because China’s political system ‘is unlike that of other major third countries with which the EU has significant and growing relations’, the European Commission openly acknowledged that ‘China is not always an easy partner for the EU’ (European Commission, 2001). It is a hope of the Chinese government that ‘[t]he
common ground between China and the EU far outweighs their disagreements’ (Chinese Ministry of Foreign Affairs, 2003).

**Conclusion: Partners or Competitors?**

The rise of China as a new economic power seems to be both an opportunity and a challenge for the EU. Whilst the EU plan for lifting its arms embargo on China was largely due to the EU’s consideration of the Chinese market being an opportunity, the ‘bras war’ case demonstrates the power of China as an emergent workshop for the world.

The complexity involved in handling EU-China relations on the European side is manifested in the EU institutions’ lack of consistency in defining the EU’s bilateral relations with China. Regardless how the EU describes its bilateral relations with China, it seems convincing that the two sides are not ‘strategic competitors’, simply because they do not have ‘strategic’ areas to contest. This is a point specifically emphasised by Beijing: ‘There is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other’ (Chinese Ministry of Foreign Affairs, 2003). The same view is broadly shared by the EU in its policy documents on China emphasising on the ‘long term relationship’, ‘comprehensive partnership’, maturing partnership’ and ‘strategic and enduring relationship’. It is important to stress that the term ‘partnership’ is used in a broad sense by European and Chinese authorities in describing their bilateral relations. As a ‘partnership’, EU-China relations surely differ from the term ‘strategic competitor’ used by the US administration under George W. Bush, who sees China as an emergent competitor not only in international trade but also geopolitics.

Internally, the nature of the EU being both a supranational entity and an intergovernmental organisation has made EU-China relations more complicated than any bilateral relations between two nation states. Whilst the EU’s supranational China policy is important, it is intertwined with China’s bilateral relations with the individual member states. The diversified, and often conflicting, political and economic agendas of the member states render EU-China relations less intense than
they are intended to be. Up until now, ‘European diplomacy towards China has focused too much on national commercial interests’ (Crossick, Cameron and Berkofsky, 2005, p. 39). From China’s point of view, it cannot afford devoting all of its policy and diplomatic resources to developing the supranational dimension of relations with the EU. Both the arms embargo case and the ‘bras war’ show that voices from the member state level are equally, if not more important than policies and strategies at the European level to determining EU external relations and China has to tread carefully in the maze of EU politics.

Externally, EU-China relations are also subject to heavy influence from the US. We saw that the EU’s failure in lifting its embargo on China was largely due to US objections. Whilst the EU attaches great importance to its bilateral relations with China, it cannot afford (or is not ready for) weakening the decades old trans-Atlantic strategic alliance. Therefore, the deepening and widening of EU-China relations will continue to proceed in the shadow of EU-US relations.

References


