

Original Paper

The Need to Establish a New Format for Trade Political Relations between European Union and China

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Abstract

In this research work, Author focus on the analysis the need to establish a new format for trade-political relations between European Union and People Republic of China. What indicates the importance and innovativeness of the research is the presentation of the technical progress especially in China, the growth of economic ties with the European Union and the benefits resulting from liberalised of the China foreign trade policy under WTO. Realistic point is important trends in the trade regime between EU and China. Their commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Europe is China's largest export market, and China now ranks second on Europe's list of key trading partners. Trade with China dwarfs any other trade relation Europe has with emerging Asia. Disturbing this relationship would have ramifications for sales, growth and employment. The Chinese government is less concerned today about Western criticisms of China's autocratic system, but the Chinese people have grown more nationalistic and represent a potentially greater threat to commercial relations. Commercial interests in autocratic regimes cause political dilemmas. The main aim of the paper is the presentation the need to establish a new format for trade political relations between European Union and China.

Keywords

European Union, China, new format, establish, trade political relations

1. Introduction

European Union and People Republic of China need to establish a new format for trade-political relations. European Union trade with China dwarfs any other trade relation Europe has with emerging Asia. Carrefour, the French food chain, recently experienced a boycott after the French critique of China's policy towards Tibet. Any Western multinational company operating in China is cautious in its approach to Chinese politics in order to avoid hostile political reactions from Beijing as well as consumer boycotts. Commercial interests in autocratic regimes cause political dilemmas. On the one hand, European and other Western governments need to voice their criticisms and tailor. On the other hand, they have commercial interests to defend. Furthermore, their overall policies must be measured in order to avoid diplomatic brinkmanship, which risks leading to the opposite outcome: a slowdown, or even a reversion, of freedom-enhancing reforms. It must be emphasized that on a theoretical level, understanding the choice of trade policies between liberalism and protectionism in EU and China is very important.

Traditionally, political economy models of trade policy have tended to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most model (Thies & Porche, 2007).

In the new model of the foreign trade policy theory interesting are the reviews of Alt et al. (1996) and Nelson (1988) about the demand for trade policy in terms of the theoretical importance of factor specificity (Alt, Frieden, Gilligan, Rodrik, & Rogowski, 1996; Nelson, 1988). Factor specificity refers to the ease with which factors (land, labour, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically different assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski (1989) in his seminal contribution "Commers and Coalitions", assumes very low-factor specificity (Rogowski, 1989). The low specificity of factors means that factor returns are equalized throughout a region's economy. Producers should export goods that intensively use their abundant factors and import goods that intensively use their scarce factors, with the result that owners of abundant factors will favour free trade and owners of scarce factors will favour protectionism. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how preferences over trade policies are actually translated into political action (Alt, Frieden, Gilligan, Rodrik & Rogowski, 1996). In a discussion of the endogenous tariff literature, Nelson (1988) notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geographical area, industry, or firm (i.e., some form of solidarity) (Nelson, 1988). In all of these cases,

one can derive a link to preferences for tariff policy, “but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation”.

2. Method

The analysed problems were solved with the use of both quantitative and qualitative research methods. The main research method applied in this analysis, was a method of scientific study used for splitting the whole (of individual items, their sets, phenomena) by means of logical abstraction. It was also used the analogy (comparative) method, which consists in finding similarities and differences between the items under study, the documentation method and statistical methods. It were applied the descriptive method, as well as methods of descriptive statistics and forecasting. Additionally, it were used the methods of deductive and inductive forecasting.

3. Result

What appears to be needed now is a re-appraisal of the EU’s engagement rationale for dealing with states such as China, where interests drive strategy, and where the EU has been found wanting for coherent approaches that stand a reasonable chance of achieving successful outcomes. Moving forward in building successful foreign relations with the Chinese will likely require a two-stage process. First the EU will need to identify the Union’s own core interests that can be projected credibly at different levels of bilateral discussion, and second, it will need to coordinate transmission and projection of these interests in such a way as to take full advantage of the powers to negotiate change that the EU does indeed now possess. This implies a policy review at the EU level to reconsider what exactly are the key foreign policy objectives for the EU-China relationship going forward in the context of the policy domains of overlap already introduced. However, in order to realise success the EU will need to prioritise the achievement of meaningful goals at the expense of unrealistic ideals, as, on the one hand this will help persuade Member States that their own objectives can be better safeguarded at the EU level, and on the other hand convince the Chinese that there are substantive benefits on offer without their having to surrender core national interests.

4. Discussion

4.1 In Direction to New Format for Trade-Political Relations

An effective strategy towards China should take account of foreign-policy objectives as well as commercial interests. They should, however, be separated. As the EU-China summit in Beijing proved, it is possible to address China’s policy in Tibet, as well as other concerns, without damaging commercial relations. Yet it is foolish to believe that Beijing will overturn its autocratic regime if Europe or the United States threaten to cut off Chinese companies from their markets. Such attitudes put Chinese backs up and lead nowhere. As China’s integration into the world economy has stimulated greater freedoms in China, Western governments should tailor policies which deepen economic integration and make a

greater part of China's population dependent on other markets. Other tracks of bilateral relations should be used to address political concerns; commercial-policy relations should stick to economic and business concerns.

A new bilateral approach if taken seriously by the Chinese and the European leaders, the new High Level Economic and Trade Dialogue can break the trend of souring relations. Evidently, this is the result of the US-China Strategic Economic Dialogue, which Hank Paulson, the outgoing US Treasury Secretary, initiated in late 2006. American firms, especially in the financial-services sector, have been granted better access to the Chinese market, one of the most liquid markets in the world. Banks can now issue cards in local currencies, and securities firms can now trade in local currency. Nasdaq and the New York Stock Exchange have been allowed to open branches in China. Equally important, the US-China dialogue has contained the slide towards China protectionism in the US Congress. If the EU-China dialogue achieves nothing but a containment of protectionist pressures on both sides, it will be valuable, as there is a clear risk of mutually enforced tit-for-tat protectionism. However, if the agenda is appropriately tailored, the new bilateral talks could solve commercial problems, facilitate oil negotiations, and create a positive atmosphere for the launched-but-sleeping negotiations of a Partnership and Cooperation Agreement (PCA), which involves an upgrade of the weak 1985 commercial agreement between China and Europe. A virtuous cycle of openness will not be created by default. What should China and Europe do to ensure that the new dialogue and the forthcoming PCA negotiations do not become a talkfest? Firstly, the talks must start from a proper appraisal of current trade and investment relations. More than anything else, this requires that Europe drops its obsession with its bilateral trade deficit with China. This deficit has grown rapidly and hit approximately 190 billion euros in 2007. Yet, Europe has benefited much from trade with China and the notion that a bilateral deficit represents a problem which must be corrected is simply bad economics. In contrast to the USA, Europe's overall current account is in balance and has remained consistently in the one-plus or one-minus region (percentage of GDP) for the last 10 years. If bilateral deficits really constitute a serious problem, Bulgaria, France, Romania, the UK, and several other trade-deficit countries in the EU should be more worried about their trade deficits with other European countries, which dwarf their trade deficits with China. But there is more to the story than meets the eye.

The EU's trade deficit with China largely mirrors the replacement of other countries' exports to Europe. In other words, China's increasing exports to Europe have been accompanied by falling exports to Europe from other emerging countries. For example, in a typical sector of EU-China trade, machinery and transport equipment, China's surplus with Europe has increased by 50 billion euros since 2000. But the EU's imports from other emerging economies of goods in the same category have decreased by nearly as much in the same period. Similar patterns exist in other categories of trade: China replaces other trading partners. In the last decade, China has established itself as a hub for Asia's trade with Europe. Supply chains in multinational firms have been fragmented to take advantage of lower labour costs and specialisation skills in various countries.

A large part of China's exports are therefore based on imports—and these imports are necessary for China to export. Processing trade, which is economic jargon for the refinement of an imported good before it is re-exported, has been a core part of China's outward-oriented export-development model and is estimated to represent between one-half and two-thirds of China's total exports. Thus, China's increased exports to Europe do not equal a fall in Europe's production. In fact, the typical export good of China to Europe is from a sector in which Europe has not had a comparative advantage for a long time, which means that Europe could only resume its own production at the expense of its own welfare (as it would need stop producing some of its current production). Furthermore, globally-oriented firms in Europe have been given better opportunities to increase their competitiveness by trading with China. Stronger demands by Europe on China to correct the deficit, by trade or macroeconomic measures, will, if realised, lead to falling welfare for both parties. If China, for example, was forced to appreciate its currency by 30%, which has been suggested, the main effect would be that European consumers would have to pay more for fewer goods. The deficit itself would not change much. Furthermore, the ensuing higher cost for input goods would push up the price of European exports. Secondly, China and Europe should tailor an agenda for the new dialogue and the PCA negotiations which facilitates a given-get bargain of trade and investment openings. Such an aim is important. Inevitably EU-China talks must start from the basics: China's WTO commitments. Europe has legitimate commercial concerns that to some extent go back to China's accession to the WTO and the problems of meeting the commitments then agreed to. The concerns regard China's remaining tariff liberalisation and enforcement of intellectual property rights (IPRs) (Erixon & Messerlin, 2009).

The EU engages with China across four principle policy domains: global governance, trade and investment, technical assistance, and political and social change. Unfortunately, there are examples of bilateral difficulties across most of these spaces. The increasing absence of trust and the growing acrimony that has become visible bilaterally threaten to undermine the progress that in some areas has already been made, while inhibiting future opportunities to reach meaningful agreement on the numerous substantive issues where there is as yet no concord, even despite ample evidence of ongoing interdependencies and trade and investment. There is ample evidence to show the extent of mutual economic interdependence. Although the Eurozone difficulties have certainly illustrated shifting patterns of power between some western economies and China, the picture of a prostrate and helpless Europe playing supplicant to a resurgent Middle Kingdom that economically bestrides the globe is too simplistic and one dimensional, failing to capture the complexities of the economic interrelationships between the two sides while ignoring indicators that China is by no means immune from the spillovers of global demand contraction and debt-led instabilities. The EU is China's largest trading partner, while China is now the EU's second most important destination for trade, behind only the United States. Equally significantly, as well as increased bilateral trade that stood at EUR 428 billion for 2011, the most recent trend has seen a marked rise in EU goods exported to China, growing by 20 per cent in 2011. This key export relationship provides the Chinese with an important source of advanced

machinery, transport equipment and chemicals, as well as a number of knowledge-based services (European Commission, 2012a, p. 3). Moreover, according to Chinese estimates, there were over 33 000 European businesses operating across China in 2009 that offered jobs, technical knowhow and management skills to those Chinese employed with them, in addition to generating an estimated EUR190 billion in total sales that will have undoubtedly cushioned the effects of recession at their European headquarters (Chen, 2011). However, China's own export-led model for growth has come under strain during the global recession due to external demand shortfalls inadequately compensated by domestic rebalancing, with consequential impact on confidence and business stability in previously thriving areas such as Wenzhou and Guangzhou (Buckley, 2011; World Bank, 2011; Bradsher, 2012). The current difficult conditions faced by Europe and the impact that these challenges have had on China actually illustrate just how much both sides need each other. Outward Foreign Direct Investment (FDI) from China into Europe has also been increasing, and although currently only a fraction of the value of total trade, this is an area of growing interest by Chinese enterprises. Within the broader context of China's government-encouraged "going out" strategy for domestic firms, the Chinese see a myriad of opportunities from bilateral investment treaties with Member States and through taking advantage of the single market regulated by the European Commission with FDI reaching EUR 3.1 billion by the end of 2011, and significantly up on previous years (European Commission, 2012b, p. 2). A number of reasons have been suggested for this trend, beyond the weakness and instability of the euro making some asset prices lower in terms of international transactions. Further reasons include a Chinese desire for better access to the EU market through local sales offices, while the chance to buy European brands and technologies to gain competitive advantage in home and overseas sectors is also seen as an important driver, as is the objective to raise levels of China's domestic corporate innovation levels through knowledge acquisition by establishing R&D centers within the EU's single market (Knoerich, 2012). Investment of this kind is likely to significantly increase in the future. Nevertheless, despite this economic overlap and potential for synergy, tensions remain clearly visible. The web page of the EEAS delegation to China's trade section makes this explicit by asserting that "China is the single most important challenge for EU trade policy" (EEAS, 2013). This view is manifest in ongoing recriminations over fair market access to key domestic sectors, with the EU especially vexed over China's government procurement policies, ownership limitations and the operation of China's national security review mechanism for mergers and acquisitions involving foreign investors (European Commission, 2012c).

The EU has also expressed continuing criticism over China's inward investment restrictions imposed by national regulatory authorities (European Commission, 2011a). The Chinese are also concerned about many aspects of EU trade policy, and are particularly irritated about what they see as the unjustified and political application of trade defence measures, such as anti-dumping initiatives on Chinese input costs that help perpetuate what can be interpreted as European market protectionism (Chen & Armstrong, 2010). In terms of investment policies, there has been a growing conviction in

some European quarters that a more vigorous role in defending key sectors from Chinese inward investment might now be appropriate as the Commission takes on greater responsibilities in this area after the enactment of the Lisbon Treaty. Policymakers have begun to explore the case for creating something similar to the significant review powers granted to the Committee on Foreign Investment in the United States (CFIUS) (Godement et al., 2011). Capacity building and technical assistance in terms of capacity building exercises within China, European intervention has not been wholly unwelcome and shows genuine signs of achievement. Numerous initiatives take place within key industrial sectors of the Chinese economy, reflecting the broadly defined priorities of the EU's economic policy competences in trade, investment and services. In recent years, China has sought to construct technological skills and absorb methods to create a mixed market economy while also examining aspects of Europe's health and welfare provisioning as a possible template, illustrating the positive contribution of European sector expertise (Wu, 2010). Even in controversial areas such as Intellectual Property (IP) protection, where many concerns are yet to be resolved in the context of enforcement, the Chinese have acknowledged the visible benefits from initiatives such as IPR2, which introduced European-led judicial training programs and regulatory assessment exercises into China's domestic legal evolution (IPR2, 2011). This radical initiative was designed for practitioners in specialist fields of IP law and has been coincident with Chinese government-sponsored exhortations to build a knowledge-led economy capable of fostering genuine innovation and widening local understanding of the role of IP in this process. Although inevitably a rather technical exercise, it appears to have been at least partly successful in supporting greater legal rights for domestic Chinese inventors to defend their growing interest in patents and trademarks. Indeed, the Chinese State Intellectual Property Office is now one of the top three busiest in the world, with the majority of filings also now coming from domestic residents, illustrating a new phase in Chinese IP activism (WIPO, 2011).

There are other examples of initiatives that have also been met with mutual levels of appreciation. These include efforts within the Civil Aviation sector to improve pilot training and air traffic management through a EuropeAid project (EEAS, 2011), and also examples in the area of clean-tech environment through promoting the Low-Carbon Economy Platform (LCE-P, 2011), and agreement on enhanced consumer protection policies within China's domestic manufacturing sector to better facilitate trade. Through offering a linkage between knowledge exchange and mutual learning benefits, these types of engagement, often far from the visible whirlwinds of international political dispute, seem to reflect the reality that when matching the interests of both sides, progress can be made and positive outcomes secured, even with China. Political and social transformation Disappointment in the EU-China relationship has been particularly acute across European institutions in the realm of securing meaningful political change in China. The EU has consistently postulated the view that Chinese leaders should embrace such change within their domestic political system in their own interests. The underlying message has been to encourage China to implement an internal transformation that better reflects an idealized norm of a society that more closely resembles Europe's own (Foot, 2010a). There

is prevailing pessimism over much of China's legal system development, in her attitude to human rights and the leadership's ongoing refusal to ratify the International Covenant on Civil and Political Rights, as well as in her hesitant progress with rule-of-law principles. All of this has undermined EU endeavours to facilitate change in multiple dialogues over many years at different levels of political seniority. Numerous China specialists concur that "there is currently no such value consensus between the EU and China, and neither is there a will on Beijing's side to develop such common political values" (Mattlin, 2009, p. 97), to the extent that many consider such an attempted transmission as having significantly harmed bilateral relations (Qu, 2010; Wu, 2010; Foot, 2010a).

Ongoing irritants in EU-China relations three key tensions illustrate how a values-led engagement can cut across policy spaces and perpetuate bilateral difficulties, while also tending to dominate dialogue between the two sides. These are, first, the ongoing refusal of the EU to grant Market Economy Status (MES) to China under the WTO's antidumping assessment framework. Second, the continuing imposition of the EU arms embargo on the export to China of weapons and related technologies that was imposed after the Tiananmen Square crackdown in 1989, and third, China's domestic human rights record and her emphasis on economic development for society at the expense of political emancipation for individuals. Each of these issues provides friction that prevents long-term agreement of a true strategic partnership, exacerbates problems of mutual misunderstanding, and sharpens the emerging mistrust across many different policy domains between the EU and China. These strains show no signs of abating, and illustrate that burgeoning bilateral trade alone cannot achieve qualitative social transformation (Godement, 2010; Gosset, 2012). Failure continues to blight the relationship and a timely re-appraisal of the causes of these tensions is required, together with a re-assessment of potential solutions.

The Evolution of the EU's Values-based Engagement with China

The turn of the twenty-first century heralded particular optimism in European circles concerning the opportunities presented by globalization for the EU to reach out to the world with their unique historic experience as a global civil power. This strategy of outreach, and the activist mood of values projection it implies, is perhaps most accurately captured in a speech by Romano Prodi in February 2000 speaking to the European Parliament as European Commission President, when he argued that "Europe needs to project its model of society into the wider world" and that Europe offered "a civilization deeply rooted in religious and civic values" (Prodi, 2000). Indeed, it has long been argued that the normative element is one of the key features of power possessed by the EU as an international actor. This influence resides in the EU's capacity to shape positive perceptions of key values that other states then internalize, enabling these ideas to become constituent elements within international relations, and since its inception the EU has committed itself to "placing universal norms and principles at the centre of its relations with y the world" (Manners, 2002, pp. 240-241; Mattlin, 2009; Geeraerts, 2011; Men, 2011).

The EU has therefore carved for itself an ambitious role and has tried to be distinctive from the United States in its approach to global order through promoting a vision of multilateral rules and world-order principles, projecting itself as a civilian power and aiming to construct the very definition of what is

“normal” into international behaviour. This helps to explain why the ideals of democracy, equality, the rule of law and a respect for human rights are formally encapsulated into the Preamble of the Treaty of Lisbon as core values of the EU (Treaty of Lisbon, 2007; Foot, 2010a). The driving force behind this kind of evangelical outlook has inevitably spilled over into relationship building with key bilateral partners. Such a strategy has led to the EU promoting a foreign policy outlook that appears to have been focused far more on effecting behind-the-border change in societies as an outcome from dialogue rather than building interests-based cooperation as an objective from engagement. Significantly, although such an approach may have been successful when linked to the lure of prospective membership in Central and Eastern European states over the last decade, there is growing evidence to show that when moved beyond the confines of its near-neighbourhood, positive outcomes from this approach are far harder to achieve. This is particularly the case with China. Despite over three decades of positive statements since the establishment of full diplomatic relations between the People’s Republic and the (then) European Community in 1975 and the subsequent crafting of a relationship that has now become “both extensive and intensive” in both political and economic affairs (Shambaugh et al., 2008, p. 303), there is now growing criticism about the efficacy of prioritizing this kind of values-based approach to dealing with China as a reemerging global power and a state that has its own particular priorities to promote and interests to defend (Filippini, 2009; Zhang, 2009; Wu, 2010; van Ham, 2011; Wang B, 2011). What is needed now is a better understanding of China’s strategic positioning and a re-appraisal by EU leaders of engagement options. Over the years a complex web of relationships has been assembled, with this hierarchy topped by political summits attended by the post-Lisbon Treaty “troika” of European Council President, European Commission President and the EU’s High Representative for Foreign Affairs, yet unfortunately, despite activism on both sides, it cannot be said that this has led to either long-term harmony or increased mutual understanding. A plethora of meetings progresses down the chain of importance through a myriad of more than 50 different dialogues covering a mosaic of economic, legal, technical and social policy areas (Cameron, 2009; Brown, 2012). In 2003, the commencement of an historic strategic partnership between the two economies was announced, followed by an extensive series of bilateral meetings and EU Commission-issued policy papers, all of which seemed to be laden with good intentions and optimistic outlooks.

That year, the Chinese also issued their own first (and currently only) strategy document on their plans for future cooperation with the EU, setting out a number of clear priorities for action in economic and political dialogue (State Council of China, 2003). This initiative to upgrade bilateral links was seen as vital to move the relationship beyond the trade-based framework encapsulated in the 1985. Trade and Economic Cooperation Agreement, which still remains the only legally binding document for the overall management of EU-China affairs. However, such early warmth soon cooled and negotiations have since become more problematic and politically charged. This trend can be traced back in part to the failure of attempts by China to persuade the EU to lift the arms embargo in 2005 but was also based

on growing European perceptions of a distinctive nationalist edge in China's economic model that seemed set to disadvantage non-Chinese firms seeking to exploit market opportunities through fair access to China's domestic economic sectors (Gill, 2010). Elements of mistrust and disappointment began to enter the political lexicon, highlighted most markedly by the Commission's stance as outlined in its 2006 China strategy paper that, for the first time, included a harder edge into the tone of the EU's engagement strategy (European Commission, 2006). Moves in 2007 to initiate further progress by upgrading the entire exercise to a full Partnership and Cooperation Agreement (PCA) have not as yet surmounted persistent mutual tensions (Amado Mendes, 2010; Breslin, 2011; Men, 2011; ECRAN, 2012). The requirement to include a "democracy and human rights clause" in the PCA exacerbates problems in attempting to build trust between the two sides as this whole area continues to be resonant with great symbolism in the Sino-European relationship. For the EU, the clause can be seen by supporters of its inclusion as an indicator of the norms that Europeans are seeking to project, while on the Chinese side, its existence acts as further evidence of the EU's tendency to "point fingers" at the Chinese political system and seek changes over this issue. Some analysts have concluded that finding a compromise position on the agreed choice of words in the clause might be possible if the text were to be better balanced than the wholly western interpretation of political values that it currently implies. For example, adding greater emphasis on economic rights and the characteristics of a harmonious society that underlie the Chinese leadership's own vision for social development might help bridge the values-gap (Van der Borght & Zhang, 2010).

However, such a compromise seems difficult to achieve, as its inclusion also lays bare tensions within the Brussels institutional network over attitudes towards human rights in the Chinese bilateral dialogue. There are differences in emphasis about the importance of this clause between the European Commission, for whom it represents perhaps more of a procedural requirement to overcome, and the European Parliament, for whom the whole issue is far more serious, encapsulated by the Parliament's ongoing activism in hosting regular debates that are largely critical about China's human rights record. Given Parliament's strengthened post-Lisbon Treaty powers of consent on accords such as the PCA, these differences complicate the creation of a unified and coherent approach across EU institutions to securing progress with China. Coupled with divisions in Europe, the Chinese themselves have become increasingly confident and forceful at promoting their own distinctive perspective on a number of these politically sensitive issues, and this mismatch between different visions of political principles helps to explain many of Europe's difficulties dealing with China (Foot, 2010b; Crookes, 2013).

4.2 An Opportunity to Achieve Further Deepening of Commercial Relations

Yet the EU-China talks cannot end there. If the ambitions are not higher than implementation of WTO commitments the likelihood that China will change its policy in these areas will certainly be smaller. More importantly, both parties will sign off an opportunity to achieve further deepening of commercial relations which go beyond WTO commitments. Mapping an EU-China bargain. Thirdly, the negotiations should focus on the areas which cause real frictions in current commercial relations. There are irritations

and demands on both sides. Europe particularly wants increased access to Chinese service markets, which are heavily protected, and better tailored policies to prevent infringements of intellectual property rights in key areas of innovation, such as pharmaceuticals and through forced technology transfer. These two areas also hang together. For European services to enter the Chinese market, or sign contracts with Chinese service input suppliers, there needs to be a better enforcement of key intellectual property rights as many services have IPRs at the centre of their business model. For many firms in the financial, software and telecommunications sectors, it is today too risky to invest in China as their intellectual property is likely to be infringed. Better and targeted enforcement of IPRs are also in the interest of China. If Chinese firms want to climb the value-added chain and become a hub for trade in services, Beijing must give better assurances of IPR protection. China desires better discipline in the EU's anti-dumping policy and wants to be granted so-called Market Economy Status, which would prevent the EU from using some of the "innovative" and highly dubious techniques available to motivate anti-dumping duties. China justifiably feels that its companies are not fairly treated in Europe's anti-dumping policy. In 2007, a year of deliberate restraint in the launch of new anti-dumping investigations, China was highly represented in the EU's trade-remedy activities. In fact, European anti-dumping policy appeared to be directed predominantly at China.

Chinese companies were involved in all six new anti-dumping investigations (in only one case were companies from other countries involved). Of the six investigations that in 2007 concluded with the imposition of provisional duties, Chinese companies figured in four of the eight cases that concluded in 2007 with the imposition of definite duties, Chinese firms were involved in seven. As the EU's trade-defence policy is gaining speed again, with an increase in the number of new cases, China's concern is understandable. Furthermore, China is concerned more generally with the EU's contingent protection against export and investments from China, and wants disciplines to avoid hidden protectionism. Demands for the Chinese Sovereign Wealth Funds (SWFs), especially the China Investment Corporation which controls approximately US\$200 billion, to display corporate-governance structures are naturally part of this concern. Yet Chinese anxieties are less about SWFs, which typically only acquire small stakes in companies or in funds, and more about its outward-oriented companies, some of which are awash with cash and in search of companies to buy in Europe. China also knows that while European governments eagerly welcome foreigners investing on their stock exchanges, they are wary of foreign companies buying entire companies, especially European "champions" or those previously owned by a government. China especially requires from Europe better restraint of governmental action in the so-called "pre-establishment phases" of mergers or acquisitions (when an investment is made). Post-establishment phases are generally well-governed in Europe (partly because governments have subjected these matters to single-market disciplines), but governments have recently interfered on several occasions when foreigners have been involved in mergers and acquisitions. Furthermore, some European governments have introduced "poisonous-pill" regulations, which

immediately slow the acquisition process down when a foreign investor is involved. Other countries, like Germany, toy with the idea of introducing more far-reaching legislation.

Europe and China's core commercial concerns are legitimate and can be addressed in bilateral negotiations. These negotiations should be sequenced: a smaller bargain can be achieved in the new EU-China dialogue and a larger bargain can be facilitated in the forthcoming PCA negotiations. To make such progress possible, however, it is also necessary for political leaders to adopt a constructive approach and stay away from political grandstanding and empty phraseology (Erixon & Messerlin, 2009).

Question is why should the EU grant Market Economy System (MES) to China? In addition to the symbolism inherent in such a move, denying China the same status as already accorded to Russia and India does seem difficult to justify and exacerbates mistrust and frustration over politically led decisions. Moreover, China's perception is that denial of MES is used by the EU as a tool to impose unfair anti-dumping levies on Chinese manufacturing as part of trade defence measures that do little more than legitimise the EU's protectionist instincts and further engender mistrust. Although granting MES would have some material impact on the methodology of assessing China's input costs in trade defence measures, according to the European Commission's own trade directorate-general only around 1 per cent of Chinese imports are subject to such trade defence instruments, calling into question the real value of something that is clearly symbolically counter-productive. By removing the thorn of MES status from high-level trade and economic dialogues, negotiations could then move on to tackle meaningful changes to China's restrictions on investment in valuable service and technology sectors in which EU firms hold a competitive advantage, using reciprocal access to the EU's single market as the key bargaining counter. Discussions on market access fairness between the EU and China have been subject to setbacks over recent years in many different ways, in arguments over indigenous innovation, sector-based ownership restrictions, enforced technology transfers and IP enforcement. In all of these disputes, the alleged lure of being granted MES appears to have done very little to persuade China to review its behaviour. EU market access is a much more compelling argument to use in negotiating with the Chinese. Entry into European industrial markets could thus be directly linked to progress on achieving the same fair basis as demanded by the EU into China's domestic sectors. The EU currently presents a genuinely more open market to Chinese foreign investment than does, for example, the United States, where some Chinese enterprises have particular difficulty in achieving traction due to imposed controls on ownership and supposed national security concerns—Huawei is one notable example, but others also exist. For the Chinese, Europe's openness is especially valuable, as it coincides with a time when their most successful businesses are internationalising their activities and where the EU's single market offers genuine attraction. FDI into the EU from China is a mix of technology seeking and market seeking varieties but it also has considerable political salience in achieving ongoing sustainable development for China, as well as overlapping with the Communist Party's economic legitimacy in delivering future levels of growth (Knoerich, 2012).

An EU-wide monitoring role for the Commission already forms part of their post-Lisbon remit and presents an opportunity to add teeth to calls for reciprocal market access into China. Such moves need not be necessarily institutionalised along the lines of the CFIUS but could work within existing templates that review intra-EU competition policy, and could still give Chinese state actors pause for thought. Moreover, an EU-wide implementation of some form of monitoring and control mechanism would not be an unreasonable step given the recent Chinese decision to create their own national security review regulations on foreign mergers and acquisitions. European moves along these lines have been discussed by various Directorate Generals within the Commission and prompted an EU-wide consultation document in May 2011, although no agreement on future policy action has yet to emerge (European Commission, 2011b, p. 2). Political and social change: Human rights dialogues and civil society empowerment. What is the value to the EU of continuing in human rights dialogues with China? They appear to have been manifestly unsuccessful in achieving meaningful change in China, and they seem very unlikely to make any appreciable difference in future. Existing dialogues have been criticised as giving too much power to the Chinese side to set the tone for discussion.

In an online review by Human Rights Watch in China of perspectives from NGO representatives, EU official involvement was characterised as having become “progressively inhibited” for the sake of ensuring at least some semblance of a successful outcome. Even the most experienced international human rights organisations continue to face formidable challenges in trying to operate in China, after years of EU activism on this issue, with the best progress being achieved by these bodies through patiently building links with domestic Chinese civil society groups rather than through the rhetoric of political elites. Moreover, the very continuance of such dialogues appears to empower the Chinese side with an ability to constrain European behaviour through the constant threat of them being publicly postponed as some sort of punishment for errant actions by the EU in its human rights discourse. Normative-led engagement, to all intents and purposes, appears to have failed and it would not be an illogical response for the EU to cancel further exercises in futility. Indeed, the very symbolism of such a public cancellation could carry its own message internationally. This would not mean that the EU renounces the importance of human rights in the wider philosophy of European society, nor does it mean inhibiting the ability of EU elites to promote these principles in speeches and policy documents to the wider world, and to the Chinese leadership in particular. Instead it eliminates the need to perpetuate the pursuit by the EU of an unlikely transformation in China’s social system at an official dialogue level, thus redirecting effort to make more headway in other policy areas. It should also be remembered that democracy has previously taken root within East Asian societies through a number of interconnected influences, as in Taiwan and the Republic of Korea.

Structurally, factors of socio-economic development have favoured traction of democratic principles, which have been coupled with both actor-centred elite commitments supporting democratic transition and the dissemination of self-expressed (internalised) values that coalesce within a citizenry around democratic ideas. Although external influences may play some part in such transformations, the driving

forces appear to be endogenous, and no such trend can be observed within China that could currently overlap with the combination of these conditions (Horowitz et al., 2007; Rich, 2007; Wang, 2008; Karackattu, 2010). Indeed, in an internationally respected survey of domestic attitudes by the Pew Research Centre, over 80 per cent of Chinese citizens expressed satisfaction with their country's direction and their own sense of personal progress (Bell, 2011). Given these realities, any kind of offensive normative strategy by the EU would seem bound to fail (Crookes, 2013).

4.3 China in the Process of Rebalancing Its Economy

China will enter a world market in which many of the spoils have already been appropriated. But fewer and fewer major firms may actually dominate the world economy. Some countries, like Mexico, will possess few, if any, decreasing cost industries. They will have to send their labour elsewhere to retain economic advantage. China will be studded with United States, Japanese, and European firms contributing high technology to Chinese development.

China is already in the process of rebalancing its economy towards greater reliance on domestic drivers of growth, in particular consumption. This transition was underpinned by the 12th Five-Year Plan (FYP) and has been encouraged by the development of social programmes, such as public health and pension systems, which are also helping make growth more inclusive. In order to continue its fast convergence in living standards with more prosperous societies, China will also need to increasingly rely on multifactor productivity gains as the key engine of growth. Labour productivity in both manufacturing and services are under 10% of the US level, demonstrating the distance to the technology frontier. Although the agriculture sector is a much smaller share of the economy than in the past, there is also ample scope to improve its productivity while easing resource constraints by strengthening agriculture innovation. A possible policy roadmap for sustaining this transition towards a more inclusive, high-productivity.

Under these circumstances, even very strong countries economically will be at least partly dependent on industries headquartered somewhere else. Even today, America does not represent the attainment of unipolarity in economics, whatever its military might. It is dependent upon money market and foreign direct investment from China, Japan, and Europe. Economic concentration today has three or four different nodes, not just one. The same will be true in 2020 or 2030. Decreasing cost (increasing returns) industries will be located in different zones and no one Great Power will monopolize them all. Europe will boast the London-Frankfurt and Zurich-Milan corridors. America will find large-scale competitive champions in two zones-Boston to North Carolina and San Diego to Seattle. China will have industrial or software concentrations in north China, Fujian, and Guangdong terminating in the Pearl River Delta. But no country, however powerful in terms of GDP, will incorporate all worldwide industrial or service potential. It is even possible that the defence industry on an international basis is one of increasing returns to scale. Under the circumstances, there will be overlapping zones of economic competency among Great Powers, and some countries will be left out altogether.

The assumed result of one Great Power hegemony replacing another and a shift between unipolarities will not be obtained in the next few decades. Thus, even very powerful countries militarily will find

themselves needing the products and markets of countries (and corporations) located somewhere else. In theory, a very strong power militarily might be able to expand to take over the industries on which it has become dependent, but for a host of reasons this is unlikely. Again, cost-benefit reasons would cut against any attempt at conquest—opens would provide access to such industries much more efficiently than seizure that would not be successful in the longer term (Rosecrance, 2006, p. 35).

History shows that states sometimes engage in war for insufficient reasons, neglecting the ties that bind nations together. Short-term motives take precedence over long-term maximization. But they are not likely to do so between the United States and China, both long-term maximizers. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success.

In addition, should she decide otherwise, there are neighbouring power that would present barriers to extensive expansion. Japan, a unified Korea, India, and Russia all border on China. Even if the United States were not a major power guarantor of the existing settlement, these powers would make Chinese external expansion difficult if not impossible. Japan, perhaps, has traditionally underused her power, but this is not true of Russia or India. A unified Korea will represent another uncertainty for China. Again, economic ties with these nations will be preferable to military expansion against them. And the presence of the United States and its military bases will occasion additional hesitation. No one can be certain that relations among Great Powers will be peaceful ones over the long term. But the current economic, political, and military relationships make that prospect much more likely than it has been in the past (Rosecrance, 2006, p. 35).

It is important underline that intensive development through economic growth is generally preferable to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. Access to the economies of other nations is sufficient; a rising nation does not need territorial control of them. Peaceful development can thus take the place of aggressive expansion. Since World War II, a number of economies have adopted this principle, including Germany, Japan, China and other East Asian Nations (Rosecrance, 2006, p. 33). Afterwards, Asian demands for modification to the international system will likely increase, and unless resolved, will be increasingly likely to be imposed by force. The question raised by this empirically grounded extrapolation is whether the West will see China's rise as an opportunity for cooperation (as former European enemies did when responding to the post-World War II resurgence of Germany by creating the EU) or for conflict (Kugler, 2006, p. 39).

4.4 The Current Position in Relations between EU and China

The important question is how can the EU better understand the Chinese and their perspectives? One particularly apposite description of China is as a country with a “dual identity”, combining a “developing country reality and world power aspiration” that creates “issue-oriented national interests”, which can easily conflict with the type of values-based relationship most preferred by the EU (Crookes, 2013). Others have pointed out that China is not only “becoming more assertive by the day”, but it is also

“undeniably becoming a regional power”. The EU needs to respond to these changes in the international order, but its policy engagement strategy with China indicates that it may not have yet recognised these current realities. One starting point is to appreciate just how important the role of history continues to be in shaping Chinese attitudes to the outside world, perhaps best described by one scholar as a strategic emphasis on “keeping the past alive”. Historically, China learned about the principles of European society during the nineteenth and early twentieth centuries through the barrel of a gun, as powers such as Britain, France and Germany sought to carve out by force not only economic gains across the country but also to impose a sense of social and cultural superiority over the traditions of Chinese society and of the East Asian international system of which China was at the centre (Suzuki, 2009; Ringmar, 2011).

This focus on past humiliations has created what many analysts have characterised as a continuing legacy of victimhood at the hands of foreigners that still resonates deep within the sensitivities of the Chinese psyche and that is regularly refreshed by the infusion of patriotic education and identity construction across all levels of society. These legacies matter in China, making both elites and the wider populace alike more predisposed to view warily the projection of yet another western rights model on to an Asian society as a new form of cultural hegemony (Foot, 2010a, 2010b; Banks, 2011).

Moreover, this narrative has consolidated China’s hard-power strategic culture. In this context, the EU’s post-modern liberal institutional manifestation is radically different from a Chinese state focused on re-emergence as a power both within Asia and at global forums such as the United Nations and WTO. Confucian Institutes and bilateral cultural festivals can and do certainly play some part in Chinese foreign relations, with the much-heralded EU-China “Year of Intercultural Dialogue” launched at the EU-China Summit in February 2012 being one such notable example (Council of the EU, 2012, p. 4). However, none of these initiatives can be seen as having trumped the significance of China’s own national interests in bilateral negotiations and the importance of prioritising these in negotiating relationships.

China’s foreign policy towards the EU is constructed through interplay among a diverse group of traditional and non-traditional actors. Principal among the former category comprise the Communist Party’s Foreign Affairs Leading Small Group that has included key members of the Politburo Standing Committee and State Counsellors such as Dai Bingguo, the Ministry of Foreign Affairs and the Ministry of Commerce (Miller, 2008, p. 10; Jakobson & Knox, 2010, pp. 5-7). In the non-traditional category, government-controlled financial institutions, key state-owned enterprises and an emerging group of major think-tanks all have their role to play in the evolution of foreign policy (Jakobson & Knox, 2010, pp. 24-31).

Nevertheless, despite this complexity and the reality of sometimes competing interests in determining objectives, China’s key priorities in national strategy, which underpin policy preferences, have more recently become clearer to discern. Evidence of the nature and content of these interests needs to be constructed from various sources, but can be derived from documents such as work reports from the Chinese Communist Party (CCP), speeches of China’s national politicians, and articles by leading Chinese academics who are sometimes used as a proxy for debating forthcoming leadership strategy

(Yuan, 2006; Heath, 2012; Zhang F., 2012a). Taking these as the basis for an examination of China's strategic concerns, there are a number of recurring themes, such as defending sovereignty, maintaining social stability and fostering economic growth (Wang J., 2011). Indeed, these principles are at the heart of the country's proclaimed "core national interests" that have been projected by official sources over recent years (Crookes, 2013) and which underpin the focus of many in China's political elite on achieving what has been termed the "rejuvenation of the Chinese nation" into a recognised re-emerged regional power.

In this way, China's policy priorities become clearer: first, the empowerment of the government to prioritise economic development over political pluralism as a function of the CCP's modern-day legitimacy with the people; second, safeguarding the absolute leadership of the CCP within the political system in China that it controls; third, the necessity of maintaining social stability across different provinces through reducing material inequality by promoting further domestic economic development and sustainable growth; and fourth, safe-guarding the integrity of the motherland through an intolerance to separatist unrest in Tibet and the secession of Taiwan.

Viewed through a Chinese prism, ongoing policy tensions with the EU are perhaps easier to understand. The Chinese see the arms embargo as "an insult to the strategic partnership" at best (Wang B., 2011, p. 38) and deliberate political discrimination and the pursuit of a containment strategy against China at worst (Xia, 2010). Similarly, the issue of MES is typically interpreted by China as one of prejudice, inequality and a lack of respect by the EU towards China as an equal that engenders memories of long-expired but still emotionally charged unequal treaties of past centuries, coupled with concern over how its application is used to constrain China's current economic prosperity (Chen, 2011). Moreover, it can now be more clearly seen why dialogues with China over issues such as human rights, political pluralism, Tibetan nationalism and the Chinese state's activism in the economy are likely to have very limited effect in realising significant policy shifts as they represent the bedrock issues on which the legitimacy of the CCP's right to rule continues to be maintained (Crookes, 2013).

4.5 EU Responses to Reset the Engagement Strategy

Question is what options exist for the EU to recast its engagement with China in such a way that meaningful progress can be made? Before addressing this directly, some practical assessments are needed of just how much of an effective foreign policy actor is the EU today, so as to put options and outcomes into context. The EU's role in foreign affairs is made particularly challenging by the method through which priorities in foreign policy are constructed within the Union. The Common Foreign and Security Policy emerged from the Lisbon Treaty as a special competence, whereby engagement could be categorised into two distinct levels. The first at Union level, led by Brussels-based activism manifested in a number of thematic and geographical directorates and led by a High Representative for Foreign Affairs and Security Policy (who holds the dual post of Vice President of the Commission), and the second at Member State level, led by national governments acting independently through individual, and

sometimes mutually competing, initiatives that “reflect a lack of faith among Member States that the EU can act as a guarantor of their national interests” (Fox & Godement, 2009, p. 30; Smith, 2011).

This arrangement has been characterised as inadequate for effective strategic decision making, and the largely intergovernmental nature of foreign affairs renders the Union’s contribution as unhelpful at best and counterproductive at worst. The system has been criticised as having led to unwieldy complexity that has led some to posit that “there is no European position on the growth of Chinese power” and that in terms of effective power projection and decision making coherence, the European project “is on the verge of collapse” (Simms, 2012, p. 49).

Nevertheless, it is impossible to ignore the very real progress that has been made over the last few years to enhance and consolidate the Union’s credibility and capability in the foreign affairs domain. There is now a greater opportunity for the EU as an international actor to create and defend an effective foreign policy position on a range of matters. For example, the EEAS was brought into being by the Lisbon Treaty in January 2011 and has a budget of EUR464 million, employing more than 3600 staff both in Brussels and spread over 140 diplomatic delegations around the world (EUinsight, 2012, p. 1).

5. Conclusion

Accordance to the foreign trade policy theory further trade liberalisation and improved framework policies would increase trade and promote growth. With new investments, China can transform its position through industrial expansion at home and sustain it through international trade. With or without further trade agreements between two partners, services will be more traded and trade policies will have to adjust to changes in the organisation of global value change. China may continue their development to specialise in innovation especially in electronics and increasingly in services and knowledge based economy. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success. The bilateral trade relationship also between EU and China is undoubtedly a strong one, and has considerable opportunity for expansion and further development.

The current position in relations between the two sides begs two questions: why have EU policies to secure a closer partnership in so many areas with China manifestly failed, and what should the response in Brussels be to such failure? On the first question, a couple of reasons appear to stand out in answer. On the one hand, there has been a failure by EU actors to properly understand how Chinese strategic interests overlap with different policy areas in ways that make Europe’s normative strategy almost bound to collide with immovable positions on certain matters of national importance. On the other hand, there has also been an inadequate attempt by the EU to embrace areas of potential compromise with the Chinese in ways that could more effectively link to Europe’s own policy priorities on a broad range of bilateral concerns within a wider interests-led foreign policy positioning.

The physical infrastructure is coupled with greatly enhanced visibility in international affairs, which include a defined legal status in all international institutions for the EU as a whole, its special status at the

United Nations, its role at the annual Asia Europe Meeting, the EU's presence at ASEAN Regional Forums, and the forthcoming EU membership of the East Asia Summit facilitated by the anticipated ratification of The Treaty of Comity under the Plan of Action of the Nuremberg Declaration. All of this could represent a potentially formidable arsenal to use in asserting European interests into the Asia region, and with China in particular.

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Note

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