

**UNIVERSITY OF LONDON**

**A critical analysis of European Union Foreign Policy towards China  
(1995-2005)**

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## Preface

*“No man is an island, entire of itself; every man is a piece of the continent, a part of the main”*  
John Donne

It is only when you reach the end and look back that you realise how many people have supported your project.

I have a great deal of respect and appreciation for the guidance provided by Dr Christopher Hughes and, in the first stages of the thesis, Professor Michael Yahuda. Dr Hughes, in particular, has provided generous comments, offered critical observations, and helped to keep the entire project in perspective, as well as focused on the goal. If this thesis has been finished in good time, it is because of Dr Hughes continuing support and encouragement.

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In the end, however, I alone remain responsible for the content of this thesis and for any errors or misinterpretations contained herein.

This thesis is dedicated to my parents, Ivo Casarini and Amalia De Chiara, and to Patrizio Paoletti whose teaching has provided me with a larger vision of the world, the people and the things.

London, May 2006

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## List of Acronyms

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of South-East Asian Nations
ASEM	Asia-Europe Meeting
BAE	British Aerospace
CASA	Construcciones Aeronauticas
CAS	Chinese Academy of Sciences
CASS	Chinese Academy of Social Sciences
CCP	Chinese Communist Party
CCP	Common Commercial Policy
CFSP	Common Foreign and Security Policy
COCOM	Coordinating Committee (for the control of strategic exports to communist countries)
CSCE	Conference on Security and Co-operation in Europe
CSP	Country Strategy Paper
CSSC	China State Shipbuilding Corporation
DGAP	Deutsche Gesellschaft für Auswärtige Politik
EADS	Aeronautic Defence and Space Company
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Grouping
EC	European Communities
EC	European Commission
EIB	European Investment Bank
EMS	European Monetary System
EMU	European Monetary Union
EP	European Parliament
EPC	European Political Cooperation
ESA	European Space Agency

ESDP	European Security and Defence Policy
ESS	European Security Strategy
EU	European Union
FPDA	Five-Power Defence Arrangements
GAERC	General Affairs and External Relations Council
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GJU	Galileo Joint Undertaking
GNP	Gross National Product
GPS	Global Positioning System
GSOMIA	General Security of Military Information Agreement
GSP	Generalised System of Preferences
IFRI	Institut Français des Relations Internationales
IISS	International Institute for Strategic Studies
IPR	International Property Rights
MBB/DASA	Messerschmitt-Bölkow-Blohm/Daimler-Benz Aerospace
MES	Market Economy Status
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
NAS	New Asia Strategy
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
NDPC	National Disclosure Policy Committee
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Countries
NOAA	National Oceanic and Atmospheric Administration
NPC	National People's Congress
NRSCC	National Remote Sensing Centre of China
NRSSTD	National Research Centre for Science and Technology Development
PLA	People's Liberation Army
PNT	Positioning, Navigation and Timing
PPP	Purchasing Power Parity
PRC	People's Republic of China
SEA	Single European Act
TCA	Trade and Co-operation Agreement

UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNCHR	United Nations Commission on Human Rights
US	United States
WB	World Bank
WEF	World Economic Forum
WEU	Western European Union
WTO	World Trade Organisation



*The starting point of critical elaboration is the consciousness of what one really is, and is 'knowing thyself' as a product of the historical process to date, which has deposited in you an infinity of traces, without leaving an inventory...therefore it is imperative at the outset to compile such an inventory*

Antonio Gramsci

# Introduction

The development of a strategic, mutually beneficial and enduring relationship with China is one of the EU's top foreign policy priorities for this century. In achieving this goal we must convince the international community that the EU-China partnership is not a threat, but an opportunity to create a more stable and balanced international order.

José Manuel Barroso, President of the European Commission, 15 July 2005<sup>1</sup>

China and the EU have the same broad agenda in seeking to address current global challenges...they are natural partners in many ways.

Javier Solana, EU High Representative for Common Foreign and Security Policy, 6 September 2005<sup>2</sup>

Developing the comprehensive strategic partnership at the beginning of the 21<sup>st</sup> century not only serves the mutual interests of China and the European Union but also contributes to peace, stability and development in our respective regions and the world at large.

Wen Jiabao, Premier of the State Council of the People's Republic of China, 6 May 2004<sup>3</sup>

## Summary

In the last years, EU-China (or People's Republic of China – PRC) relations have been growing steadfastly. Since 2004, China has become the EU's second biggest trading partner (after the US) and, according to China customs, the EU has become China's biggest trading partner – ahead of the US, as well as Japan. If current trends continue, Beijing is poised to become the Union's most important commercial partner in the near future. EU cooperation with China is also growing and a significant number of dialogues and exchanges on sectoral policies, as well as technical issues have flourished in recent years with the aim to support China's integration in the world economy and

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<sup>1</sup> José Manuel Barroso, *The EU and China: painting a brighter future together*, Speech by the President of the European Commission, Beijing, Chinese Academy of Social Sciences, 15 July 2005; <http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/444&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>2</sup> Javier Solana, "Driving Forward the China-EU Strategic Partnership, Speech by the EU High Representative for the Common Foreign and Security Policy at the China-Europe International Business School, Shanghai, 6 September 2005, available at: <http://www.delchn.cec.eu.int/en/whatsnew/pren060905.htm>

<sup>3</sup> Wen Jiabao, *Vigorously Promoting Comprehensive Strategic Partnership Between China and the European Union*, China-EU Investment and Trade Forum, Brussels, 6 May 2004; <http://www.chinamission.be/eng/zt/t101949.htm>

the country's transition to an open society. At the political level, since 1998 an annual EU-China summit is held between European heads of state/government and Chinese leaders to discuss bilateral, as well as global issues and since October 2003, the EU and China have acknowledged each other as strategic partners. Central to this strategic partnership is the idea that relations between the EU and the PRC have gained momentum and acquired a new strategic significance. The declaration of strategic partnership has been accompanied by two substantial moves: the signature of the agreement allowing China to participate in the Galileo global navigation satellite system and the promise by EU policy makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo on China imposed in the aftermath of the Tiananmen Square events. The development of a security-strategic linkage between the EU and China has increasingly attracted the attention – and concern – of the United States. According to Washington, the above initiatives may contribute to help China's military modernisation and potentially tilt East Asia's strategic balance in Beijing's favour in a situation where there could be future tensions in US-China relations, especially over Taiwan.

This thesis examines the evolution of the EU-China relationship in the post-Cold War era. The focus is on the European side with the aim to trace the development of Europe's engagement with China from the adoption of the policy of constructive engagement in the mid-1990s to the establishment of the strategic partnership. The thesis begins with a historical overview of the first twenty years of EU-China relations (Chapter 2). The following chapter examines Sino-European relations in the post-Cold War period in the context of the EU's New Asia Strategy and the Asia-Europe Meeting process (Chapter 3). Following up on this, Chapter 4 focuses on the policy of constructive engagement with its emphasis on economic matters. In this context, the Chapter examines the growing significance attached to both sides to the development of trade links which has resulted in China becoming the EU's second biggest trading partner and the EU being China's biggest trading partner. Particular attention is devoted to the analysis of EU member states' commercial competition for acquiring increasing shares of the Chinese market and the political consequences of this commercial scramble for the EU-China human rights dialogue. The following chapters (5 and 6) concentrate on the security-strategic dimension. This section begins with an examination of European and Chinese policy makers' discourses on strategic

partnership and it argues that beyond the rhetoric, three substantial – and interrelated - issues are giving meaning and content to the strategic partnership: (i) China's participation in the Galileo satellite network; (ii) European advance technology transfers to China – (both analysed in Chapter 5) - and (iii) the proposed lifting of the EU arms embargo on China (Chapter 6). The last chapter examines the EU's Taiwan policy in the context of the EU's Asia policy and growing EU-China relations (Chapter 7). In Chapters 5, 6 and 7 this study also discusses the United States' concern – and opposition - towards the emergence of a EU-China security-strategic linkage. It is argued in the conclusion that the future challenge for EU policy makers is to find the ways to accommodate the growing EU-China strategic partnership with the traditional transatlantic relationship in order to create a positive triangulation EU-China-US with the aim to avoid serious transatlantic disputes over China and continue, at the same time, the development of the EU-China relationship.

This thesis is the result of researches initiated in the academic year 1998-1999 when this author was preparing a MSc dissertation on EU-Asia relations at the Graduate Institute of International Studies in Geneva. This present study also benefited - in terms of material/information collected and people contacted - from a three-months project undertaken in the Asia-Pacific division of the Department of Political Affairs at the United Nations headquarters in New York in 1999 and a one-year appointment as a Junior Researcher in the Asia division of the Istituto per gli Studi di Politica Internazionale in Milan in 2000-2001. When this author arrived at the LSE in October 2001, the idea was to bring together all the different strands and pieces of research that over the years had produced a policy paper on the ASEM process, a few short articles on EU-Korea and EU-China relations and some working papers on the East Asian developmental model and on China's rise. The aim was then to specialise on EU-China relations in the context of broader EU –Asia relations and an international environment characterised by American primacy.

At the beginning of this research, in October 2001, the scholarly literature on EU-China relations was quite limited. Most of the scholars and commentators who had written on EU-China relations had tended to focus on the economic and commercial dimension of the relationship, or limit their analysis to the study of the China's policy of a particular European country (mainly the large ones: Germany, France, the UK and

Italy), or uncritically present a list of achievements in terms of cooperation projects between the European Commission and the PRC. However, in recent years – especially from 2004 – due to growing EU-China relations and the establishment of the strategic partnership, many more scholars and commentators in Europe, China and also the US have started to pay attention to the EU-China relationship and publish both scholarly and (increasingly so) policy works. This thesis has followed – largely by accident - the evolution of the EU-China relationship of the last years. The first part of the thesis (Chapters 2-3-4) had been written before 2003, when the economic dimension was prominent. The second part of this study (Chapters 5-6-7), focusing on the security-strategic dimension, has been written from 2004. The establishment of the EU-China strategic partnership in October 2003, concomitant with the signature of the agreement on China's participation in Galileo and the beginning of the debate on the lifting of the arms embargo have provided the necessary material for the second part of this thesis. At the practical level, while material for the first part was largely available in the printed form, knowledge and information on the security-strategic dimension was mainly held by policy makers and was, in Europe, largely scattered across different institutions and ministries/agencies within the large EU member states, while being quite difficult to access in China. Thus, this study has relied on interviews to collect the relevant material on the security-strategic dimension. The methodological implications of such an approach will be discussed in the following pages.

### **Aim and contribution**

This study aims to provide the reader with (i) a comprehensive and updated analysis of EU-China economic, political and security-strategic relations set against the background of EU-Asia relations; (ii) original empirical data on the security-strategic dimension of EU-China relations; (iii) an examination of US' concerns towards the more security-related elements of the relationship; and (iv) a contribution to the scholarly literature on contemporary EU-China relations and the emergence of the EU as a global actor.

The empirical data are based on fieldworks and a large number of interviews carried out in Europe (Brussels, London, Paris, Berlin and Rome), China (Beijing and Shanghai) and Japan (Tokyo) in 2004, 2005 and the first months of 2006.

The scholarly literature on EU-China relations has focused, until recently, mainly on the relations of some individual European countries with China or has addressed the issue from, predominantly, an economic perspective. This study intends to contribute to this literature by including the security-strategic dimension. Moreover, it studies the interplay of the national and the EU level in the elaboration of EU foreign policy towards China. By tracing the process of convergence in the EU's China policy (among EU member states, but also between the Commission and the Council), this study intends to piece together an accurate picture of the dynamics of common policy towards China at both the EU and the diverse national levels (with particular emphasis on the large member states: Germany, France, the United Kingdom and Italy).

The research findings confirm the views of those scholars who consider contemporary EU-China relations as having acquired a new strategic significance and having, as a result, an increasing impact on East Asian affairs and transatlantic relations. This position is held by diverse scholars: in the US by David Shambaugh and Robin Niblett; in Europe by Frank Umbach and Francois Godement; and in China by Song Xinning. Moreover, the research findings invite to qualify the academic conventional wisdom of the EU as a civilian-normative or soft power. On certain policy issues the EU does indeed show a distinctive behaviour that we would expect from a civilian-normative or soft power. For instance, in the case of the growing number of cooperation projects by the European Commission and the Nordic countries aimed at civilising China according to Western values and transform the Middle Kingdom into an open society. On other issues, the EU and its member states pursue policies and initiatives that we would expect to come from a more traditional power. For instance, in the case of China's participation in the Galileo satellite system where the EU and some of the large EU members have intentionally sought to cooperate with the PRC in order to counter a perceived American primacy in the aerospace sector. Moreover, the proposal to lift the EU arms embargo on China is clearly aimed at taking advantage of the opportunities offered by China's defence procurement budget, the third largest in the world after the US and Russia. The decision of the EU and its member states to establish a security-strategic linkage with China derives from the desire to acquire new markets for the European defence industry and challenge the dominant position of American defence companies, as exemplified by the commercial competition between Airbus and Boeing for acquiring increasing shares of the Chinese market.

Overall, it is possible to argue that the EU and its member states - notwithstanding all the contradictions and recurrent setbacks inherent in that particular type of unfinished international actor that the EU is - have indeed succeeded in developing, at least in a piecemeal and sometimes un-coordinated fashion, a distinctive strategic approach to China that has increasingly attracted the attention - and concern - of the United States. The strong US' opposition to the lifting of the arms embargo and China's passing of the anti-secession law in March 2005, coupled with a lack of real progress in its human rights record, have laid the basis for the subsequent postponing of the arms embargo issue. An eventual lifting, however, would have given both meaning and content to the recently established EU-China strategic partnership, as well as substantiated the emergence of the EU as a global strategic actor. Now, whether one views this as a success or failure depends heavily on the theoretical lens which one views the role that the EU should have in the emerging balance of global order. We will discuss this question in more detail in the following pages. Here it suffices to say that it is the belief of this author that the shelving of the lifting of the arms embargo was, in the end, the best possible decision in the current international circumstances. However, it is argued here that a renewed European strategic approach to China will soon resurface. This author expects that the new EU-China Framework Agreement (currently under discussion) and the recently established EU-US and EU-Japan Strategic Dialogues will provide the institutional and political framework for the further development of the EU strategic approach to China.

### **Assumptions**

Overall, three main assumptions have accompanied this study. They are the following:

- 1) EU-China relations in the post-Cold War era have acquired a new strategic significance. The relationship is therefore worth studying on its own and not anymore as a function of relations with the United States.
- 2) There are transatlantic differences on China's policy. The EU-China relationship is not fraught with the same strategic and military considerations of the US-China relationship. The absence of a "China threat" discourse in Europe (with the exception of some economic/societal concerns about a "China's challenge") explains the growing Sino-European partnership in both the economic and the security-strategic dimensions.

- 3) China is a test for the EU foreign policy and, more generally, for the emergence of the EU as a global actor. The EU's China policy is but a reflection of the particular nature and characteristics of this unique and unfinished type of international actor that the EU is. In essence, the EU and its member states' engagement with China show elements that we would expect from a civilian/soft power and elements that we would expect from a more traditional great power.

We will discuss these assumptions in more detail in the following pages.

#### *The new significance of contemporary EU-China relations*

EU-China relations have been growing steadfastly, especially since the end of the Cold War. This is explained by the fact that overall, there are no contentious issues, nor there is any substantial dispute between China and the EU. As the China's EU Policy Paper stated: "There is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other".<sup>4</sup>

The main legal framework for EU-China relations is still the EC-China Trade and Cooperation Agreement (TCA) signed in 1985 and which covers economic and trade relations as well as the EC-China cooperation programme. Economic and commercial considerations have always occupied an important place in the relationship. Both sides regard it as the "basis for continuous development of Sino-European relations".<sup>5</sup> In 2004, China became the EU's second biggest trading partner (after the US) and, according to China customs, the EU became China's biggest trading partner – ahead of the US as well as Japan. Since 1978, when China started to open up its economy, EU-China trade has increased more than 40-fold to reach around €175 billion in 2004. If current trends continue, Beijing is poised to become the Union's most important commercial partner in the near future. Moreover, since the mid-1990s, EU companies have invested heavily in China, bringing the current stock of EU Foreign Direct Investment (FDI) to over US\$35 billion (around 3% of FDI).<sup>6</sup>

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<sup>4</sup> China's Ministry of Foreign Affairs, *China's EU Policy Paper*, Beijing, October 2003.

<sup>5</sup> European Commission, *A Maturing Partnership - Shared Interests and Challenges in EU-China Relations*, Brussels, COM (2003), 533 final, September 2003; see also *China's EU Policy Paper* (2003).

<sup>6</sup> Data from the Delegation of the European Commission to China (<http://www.delchn.cec.eu.int/>).



The current EU cooperation with China is growing in quantity and quality. It is currently defined in the last China Country Strategy Paper (2002-2006), which concentrates its activities in three areas: (1) support for the social and economic reform process and China's integration in the world economy; (2) prevention of environmental degradation; and (3) support for the transition to an open society based on the rule of law and respect of human rights.<sup>7</sup> Moreover, a significant number of exchanges on sectoral policies and technical issues have flourished in recent years. These so-called sectoral dialogues now cover a wide range of areas: from space technology to enterprise regulation, and from environmental issues to education and the information society. For instance, a Science and Technology Agreement was signed in 2000 (renewed in 2004). The Commission and the Chinese government also launched a dialogue on cooperation in space science, applications and technology. In October 2003, an agreement was reached between the EU and China for Beijing's cooperation and commitment to finance 200 million euros (out of an estimated final cost of 3-4 billion euros) of Galileo - the global navigation satellite system. An agreement covering joint research on the peaceful use of nuclear energy was signed at the 7<sup>th</sup> EU-China Summit at the Hague in December 2004. Finally, a major agreement granting Approved Destination Status (ADS) came into effect in 2004. The ADS allows Chinese tourists to benefit from simpler procedures to visit the EU and it will have a significant impact on the European tourism industry.

In the political dimension, the 1985 TCA agreement was complemented in 1994 and 2002 by exchanges of letters establishing a EU-China Political Dialogue including a Dialogue on Human Rights. Moreover, since 1998 an annual EU-China summit is held between European heads of state/government and Chinese leaders to discuss bilateral, as well as global issues and in October 2003 at the 6<sup>th</sup> EU-China summit the two sides established a strategic partnership. In December 2003, the European Security Strategy (ESS) *A Secure Europe in a Better World*, mentioned China as one of the Union's major strategic partners and called for a strategic partnership with Beijing in the context of the EU's CFSP.<sup>8</sup> In a further move, at the 8<sup>th</sup> EU-China Summit in September 2005, Brussels and Beijing agreed to set up a Strategic Dialogue to discuss global strategic issues, such as the proliferation of weapons of mass destruction, international terrorism, global security of energy supply, regional crises, and the environment. More

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<sup>7</sup> European Commission, *China: Country Strategy Paper 2002-2006*, Brussels, March 2002.

<sup>8</sup> See: European Union, *A Secure Europe in a Better World European Security Strategy*, Brussels, 12 December 2003.

importantly, the Dialogue allows the EU and China to exchange views on the emerging global order and, more particularly, East Asia's strategic balance. The EU-China Strategic Dialogue, whose first meeting took place on 20 December 2005, is meant to complement the EU-US and EU-Japan Strategic Dialogues on North-East Asia (the first initiated in May 2005 and the latter in September 2005).

In the security-strategic dimension, since 2003 consultations on security and defence matters, military exchanges and joint manoeuvres with the People's Liberation Army (PLA) have been undertaken by some EU member states (for instance, France and Britain; Germany only held consultations). Cooperation over Galileo is promoting both the EU's and China's space programmes, with important consequences for East Asia's security (and transatlantic relations). Finally, since the European Council of Brussels in December 2003, all EU member states have agreed, in principle, to start discussions on the lifting of the EU arms embargo on China. The latter has become a sensitive and contentious issue between China and the EU, between the EU and the US and within the EU itself. The EU has currently postponed any decision regarding the lifting of the arms embargo, due to strong US opposition and China's failure to provide clear and specific evidence on the improvement of its human rights record. However, the hope in Brussels and Beijing is that a solution is found soon, so that the EU-China strategic partnership can develop further. The resolution of the arms embargo issue is also an important test for the EU's cohesiveness and capacity to develop a clear and comprehensive strategic vision about China.

At the institutional level, the growing significance of EU-China relations was evident during fieldwork and interviews conducted by this author with European and Chinese officials. For instance, the Department of European Affairs in the Chinese Ministry of Foreign Affairs has become the largest Department in terms of number of officials (more than 130 at the end of 2005).<sup>9</sup> At the same time, there are currently more than 100 professionals working on China in the European Commission, across the different Directorate-Generals.<sup>10</sup> According to EU officials, China is the single non-EU country which receives most of the attention – in terms of projects, cooperation agreements, issue specific dialogues, Commissioners' visits, etc - from Brussels, even

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<sup>9</sup> Personal consultation with Chen Wenbing, Second Secretary, Department of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, 7 May 2005.

<sup>10</sup> Personal consultation with James Moran, Head, China Desk, DG I – External Relations, European Commission.

more than the US, the Russian Federation, or Japan. The Council, in turn, is increasingly staffed with experts seconded by member states. Also EU member states devote more and more time, energy and resources to developing relations with China in all fields and at all levels. China is one of the countries visited more frequently by European heads of state/government. For some EU members, such as France and Germany (in particular, during the Schroeder governments: 1997-2005) even more than the US. At the societal level, an increasing number of cultural and people-to-people exchanges between Europe and China is taking place. A growing number of Chinese students and scholars is studying/researching in European countries (in particular, in the United Kingdom) and more and more Europeans “go East”. China has also become increasingly visible across Europe. For instance, there has been a proliferation, in recent times, of the *Year of China* in many EU member states.

EU-China relations have also become significant both at the regional and global level. As discussed earlier, US scholars and policy makers have started to notice that some elements of the EU-China strategic partnership have the potential to affect Washington’s strategic interests in the Asia-Pacific. For instance, the recent proposal of lifting the EU arms embargo on China has provoked strong opposition from the US and led to intense transatlantic discussions. The arms embargo issue has become a “wake-up” call for Washington (and Tokyo as well). According to interviews conducted with American and Japanese officials, the EU is increasingly being regarded not only as an economic power bloc, but also as an emerging strategic global actor whose policies may have an impact on Washington’s and Tokyo’s strategic interests in East Asia. For the first time since the end of World War II, in fact, some European initiatives towards China are conflicting with Washington’s interests (and role) in the region. According to the Bush administration and the more conservative American scholars and think tanks (PNAC, the Heritage Foundation, the Cato Institute), but also for elements within more liberal think tanks (Brookings, the CSIS), China’s participation in the Galileo project (with the related issue of advanced technology transfers) and the eventual lifting of the EU arms embargo on China may contribute to help China’s military modernisation and potentially tilt East Asia’s strategic balance in Beijing’s favour in a situation where there could be future tensions in US-China relations, especially over Taiwan.

The problem is that Washington is committed to the maintenance of the strategic balance across the Taiwan Straits. The term “strategic balance” refers here to the

relative capabilities of the two sides to achieve their respective strategic objectives in relation to the other. For China, this strategic objective is reunification with Taiwan on China's terms. Taiwan's objectives are to maintain its political independence, freedom of action, and way of life, free from coercion or undue influence from China, and to gain acceptance as a member of the international community. The concept of a strategic balance encompasses but is broader than an assessment of the military balance between two sides - though the military balance is what deters China to take over Taiwan, according to most American analysts. Cross-strait strategic balance, however, also includes the impact of economic, social and cultural ties between China and Taiwan on cross-Strait strategic dynamics; the influence of changing social developments on each side as they affect notions of self-identity, mutual identity, etc.; and the effect of international perspectives and involvement in cross-Strait affairs. Washington is the ultimate guarantor of the above strategic balance and as such is concerned if other players (in this case the EU) take initiatives which may have the potential to affect this strategic balance without prior consultation to - and/or accommodation with - the US.

In sum, the Bush administration has voiced its criticism – and strongly opposed - the more security-related elements of the EU's China policy, since with these initiatives, Washington argues, the Europeans do not take into adequate consideration (i) the US' strategic interests in East Asia and (ii) the role of Washington as the ultimate guarantor of regional security. This provides EU policy makers with a crucial challenge: how to continue to develop and further upgrade relations with Beijing and, at the same time, seek to avoid serious transatlantic disputes over China? In other words, recent development of EU foreign policy towards China are posing a major challenge to EU policy makers as Europe's "love affair" with China (as the Far Eastern Economic Review dubbed it)<sup>11</sup> needs to be accommodated with the traditional transatlantic relationship.<sup>12</sup> The EU's China policy of the last years has indeed revealed profound differences between the EU and the US on how to deal with China's rise. We will discuss it further in the following section.

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<sup>11</sup> David Murphy and Shada Islam, *China's Love Affair With Europe*, Far Eastern Economic Review, 12 February 2004, pp. 26-29.

<sup>12</sup> See: U.S.-China Economic and Security Review Commission, *Symposia on Transatlantic Perspectives on Economic and Security Relations with China*, Washington, 108 Congress, Second Session, Brussels 30 November 2004 and Prague 2 December 2004; available at: [http://www.uscc.gov/hearings/2004hearings/transcripts/04\\_11\\_30\\_transcript.pdf](http://www.uscc.gov/hearings/2004hearings/transcripts/04_11_30_transcript.pdf).

The EU's policy of engagement with China

With the publication of the European Commission's document *A Long-Term Policy for China-Europe Relations* in 1995 advocating a policy of constructive engagement towards Beijing, the EU entered the debate already underway in the US and East Asia as to whether China should be contained or engaged. The examination of the EU's China policy of the last decade contained in the next Chapters indicates that the EU and its member states have firmly adhered to the arguments in favour of engagement, in stark contrast with the more fleeting attitude of the US. Until 2000, however, coinciding with the end of President Clinton's second mandate, the US' China policy helped condition the development of the EU's China policy. We will briefly examine the US' - and other Asian countries' - China policy in order to put the evolution of the EU's China policy in its proper international context.

The US policy toward China has been rather fleeting in the last decade, shifting from a relatively hard-line stance by the mid-1990s to a more conciliatory approach during President Clinton's second mandate (1996-2000). For instance, from advocating a policy of containment at the beginning of his mandate - and being judged to have benefited from this in the 1992 election campaign - President Clinton moved towards a more cooperative rapprochement vis-à-vis China. In 1996, Washington granted China normal trading relations, began to lower the hurdles it had set for China's WTO accession, and moved towards a policy of engagement with Beijing. Although the business lobbies in the US won the debate over China's MFN status, a powerful array of human rights groups, labour unions, and the Taiwanese lobbies within both the Republican and Democratic parties succeeded in ensuring that the administration kept at least a degree of critical and more political focus on China.<sup>13</sup>

Also Japan, after suspending its aid programme in 1996 in response to China's missile tests, launched a new policy of engagement in 1997, with generous commitments of aid and loans. Similar moves on the part of other Asian states, such as Singapore and South Korea, also helped condition the development of the EU's China policy. In 2000 the US administration finally granted China permanent normal trading

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<sup>13</sup> See: Alastair I. Johnston and Robert S. Ross (eds.), *Engaging China: The Management of an Emerging Power* London, Routledge, 1999 and Robert S. Ross (ed.), *After the Cold War: Domestic Factors and US-China Relations*, New York, M.E. Sharpe, 1998.

relations. The Democrats linked this to the creation of a new Congressional Human Rights Commission on China and Republicans sought to extract further guarantees on security cooperation. While also a number of EU member states were berated by opposition parties and human rights groups in their respective countries, the domestic politicisation of China, and the consequent linkages between commercial and political issues, remained significantly less marked than in the US. More significantly, Western policy towards China came to be conditioned by the commercial competition between the EU and the US. The rivalry between Airbus and Boeing for new contracts in China was the most dramatic example of this increasingly intense competition.<sup>14</sup>

By the end of the Clinton presidency, China had become Washington's strategic partner. The Bush Administration dropped the conciliatory approach adopted by his predecessor by dubbing China, only a few months after his official investiture, a "strategic competitor". After the events of 11 September 2001, the Bush Administration put the "China question" aside and allied Beijing in the global fight against terrorism. However, in 2005 the debate as to whether Beijing should be contained or engaged has resurrected in Washington.<sup>15</sup>

Contrary to Sino-American relations, EU-China ties have continued to improve steadily and Europeans have not bought into the China's threat discourse coming from the other side of the Atlantic. The more consistent European attitude vis-à-vis China is explained by the fact that, unlike the US, the EU does not have immediate strategic interests in the Asia-Pacific, nor is there a Taiwan question that could trouble EU-China relations. However, in the last years there has emerged in some EU member states a discourse related to a perceived "China's challenge", mainly directed at Europe's economy. The perception here is that China's active industrial policy is turning the country into a low-cost competitor in high-skill industries. As a matter of fact, the overall share of high-skill industries in China's manufacturing exports to the EU-15 has already risen above 20%, which is twice as high as the share of high-skill industries in the exports of the ten new EU member states to the EU-15. The rapid growth of skill-intensive imports from China represents a challenge to the EU, for which China traditionally was a supplier of low-skill goods. China has started to seriously challenge EU industries that are considered sensitive, in particular the chemical, engineering and

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<sup>14</sup> This will be discussed in more detail in Chapter 5.

<sup>15</sup> See the debate in *Foreign Affairs*, vol. 84, n. 5, September/October 2005.

the textile sectors. The latter, in particular, has become a contentious issue across Europe reinforcing the perceived need of protectionist measures against China. The question of cheap Chinese products invading the EU's market has become a political issue in some EU member states, in particular in France and Italy. Besides the above challenges to certain European industrial sectors, however, China continues to be perceived in Europe as a country of almost limitless business opportunities. Moreover, the domestic politicisation of China, and the consequent linkages between commercial and political issues, is significantly less marked in the EU than in the US.

While there is a clear separation in the US' China policy between the economic – which has continued to flourish - and the security-strategic dimensions – which is the one that poses problems and that we will discuss later - in the case of the EU it is precisely the security-strategic dimension that has been developed in recent years, on already sound economic ties. As already discussed, there is no Taiwan question that could trouble EU-China relations. In this context of complete absence of issues that could provoke a conflict between the two sides (as opposed to US-China relations), in the last years, the political and security-strategic dimensions have become – according to European Commission officials – as important as the more traditional economic and commercial ones. The emergence, since 2003, of a significant security-strategic dimension in EU-China relations is probably the most striking difference between the EU's and the US' China policy.

In essence, by inviting China to play a prominent role in the development of the Galileo satellite system and by proposing to lift the arms embargo (though the latter is currently shelved), the EU and its member states intend to build trust with China. It is, in other words, the extension in the security-strategic dimension of the policy of constructive engagement that has characterised the EU's China policy in the last decade. On the contrary, the Bush administration appears to be intent on a policy of containment of China's power projection and military modernisation. The US is worried about China's potential to become a peer competitor of the US and be able in a not too distant future to challenge America's dominant position in East Asia.

The overriding general objective of the EU's China policy is to promote the fullest possible Chinese involvement in the international arena, whether in the economic, social, political, or security-strategic dimensions. This objective is based on

the understanding that in a situation of growing interdependence, the developments in China not only have a far-reaching impact on itself, but also have global and regional implications. As a result, the EU believes that an engagement policy with China at all levels and in all dimensions is conducive to supporting China's integration in the world economy and its transition to an open society. The transformation of China into a good citizen of international society is seen in Europe as a highly strategic objective since a fully integrated China will be a responsible stakeholder in the international system. Furthermore, since China plays an increasingly important role in maintaining regional stability, political developments in China that could affect East Asia's security environment would have a direct detrimental effect on China's – and East Asia's – economic growth and, consequently, on EU exports and FDI in the region, thus impacting directly upon EU's economic interests and security. For all the above reasons, the EU thinks that it is in its interests (and of the international community as a whole) to engage firmly and fully (i.e. across all dimensions) with China. We will see in the next section that some American policy makers and scholars have quite different views on the best policy to pursue with regard to China's rise.

### The US' China policy

Most of IR scholars agree that the US-China relationship is one of the most important (if not the most important) relationships of the post-Cold War era. China's ascendancy is reshaping Asia's economic and political power relations in a context where the US remains the security linchpin for Asia while the US-Japan alliance serves as the cornerstone of the US security strategy in the region.<sup>16</sup> According to Wang Jisi, "the general trend in Asia is conducive to China's aspiration to integrate itself more extensively into the region and the world, and it would be difficult for the United States to reverse this direction".<sup>17</sup>

US-China relations are key to the maintenance of regional stability. At the economic level there seems to be an implicit bargain with Beijing: Washington tolerates China's surging exports to the US and the resulting bilateral trade surplus for China, but

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<sup>16</sup> Ralph Cossa, "US Security Strategy in Asia and the Prospects for an Asian Regional Security Regime", in *Asia-Pacific Review*, Vol. 12, No. 1, 2005, p. 64.

<sup>17</sup> Wang, Jisi, "China's Search for Stability with America", in *Foreign Affairs*, Vol. 84, No. 5, September/October 2005, pp. 39-48, p. 43.



China recycles its new wealth by helping to finance the US budget deficit. Economically, therefore, China and the US are more and more interlocked. Together, they have been driving the world economy in the last years. At the political level, though, things are different. In the 2002 National Security Strategy, the Bush administration stated that the US “welcome[s] the emergence of a strong, peaceful, and prosperous China”.<sup>18</sup> However, the US also believes that China’s declared “peaceful rise” cannot be taken for granted and that the lack of democratisation and political liberalisation in China could presage tensions in future US-China relations. Moreover, the Taiwan issue continues to loom large on US-China relations. At the beginning of his first mandate in 2000, President Bush dubbed China a strategic competitor. Bush himself has declared his firm commitment to the defence of Taiwan and Secretary of State for Defence, Donald Rumsfeld, has expressed alarm with regard to the pace and nature of China’s military build-up.<sup>19</sup>

Thus, while China is an important commercial partner of the US, Beijing is neither a political partner nor a military ally of Washington. Since 2005 the debate has resurfaced in the US as to whether China should be contained or engaged. Henry Kissinger has characterised the US-China relationship as “beset with ambiguity”.<sup>20</sup> In the 2006 Quadrennial Defence Review Report (QDRR) the Department of Defence identifies China as having “the greatest potential to compete with the United States and file disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies”.<sup>21</sup> The Pentagon’s perception of China as a military threat appears to contrast with assessment by officials of the State Department or the Office of the National Intelligence. Robert Zoellick, currently Deputy Secretary of State, has urged China “to become a responsible stakeholder” in the international system.<sup>22</sup> According to John Negroponte, the Director of National Intelligence, China must be seen rather as a challenge than as an enemy or military threat.<sup>23</sup>

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<sup>18</sup> George W. Bush, President of the United States of America, *The National Security Strategy of the United States of America*, Washington, September 2002, in particular section VIII; <http://www.whitehouse.gov/nsc/nss.pdf>

<sup>19</sup> Victor Mallet and Guy Dinmore, “The Rivals: Washington’s Sway in Asia is Challenged by China”, *Financial Times*, 18 March 2005, p. 19; see also *The United States and Asia: Toward a New US Strategy and Force Posture*, Santa Monica, RAND, 2001.

<sup>20</sup> Henry Kissinger, “Conflict is not an option”, in *International Herald Tribune*, 9 June 2005, p. 9.

<sup>21</sup> US Department of Defence, *Quadrennial Defence Review Report*, Washington, 6 February 2006, p. 29.

<sup>22</sup> Robert B. Zoellick, “Whither China: From Membership to Responsibility”, Remarks to the National Committee on US-China Relations, Washington, 21 September 2005.

<sup>23</sup> For more details see: Bill Gerts, “China’s emergence as military power splits strategists on threat to U.S.”, in *The Washington Post*, 7 February 2006, p. 9.

American scholars and policy makers alike can be divided, broadly speaking, in three different schools of thought. One side of this debate points to China's accumulation of military capacity, its emergent economic strength and its increasingly nationalistic and adversarial postures on certain issues – in particular on the Taiwan question. As a consequence, they advocate a firm US (and possibly Western) policy of restricting the projection of such power. The scholars and policy makers in favour of a containment policy are to be mainly found in the Department of Defence and in the more conservative think tanks (American Enterprise Institute/Project for the New American Century, the Heritage Foundation, the Cato Institute), but also within more liberal think tanks (the Brookings Institution and the Center for Strategic and International Studies). To those arguing for such a policy of containment, lenient policies undertaken with the aim of securing strategic partnership with China would merely embolden the Chinese Communist Party (CCP) in its authoritarianism at home, encourage further nationalistic posturing abroad, and, by facilitating the growth of China's trade surplus, provide resources for additional arms development.

On the other side, there are those who favour an engagement policy vis-à-vis China. The advocates of engagement argue that China is still relatively weak militarily (compared to the US), spending less as a proportion of Gross Domestic Product (GDP) on defence than the US and still handicapped by relatively primitive military hardware based on Soviet technology. Moreover, some scholars argue that the potential of the Chinese market may be overstated and that China is facing so many internal challenges that the Chinese leadership needs a stable and peaceful international environment in order to focus on domestic issues. Among the problems that are presenting a challenge to the current Chinese leadership there are the role of the CCP, political liberalisation, ethnic conflicts, but also the social costs of the reform of the ailing State-Owned Enterprises (SOEs), unemployment, inflation, the growing gap between rich and poor and between the coastal areas and the interior, migration due to inequalities in regional development or to environmental degradation. In sum, for the advocates of engagement, the above problems suggest the need for cooperation with China at the bilateral level as well as in multilateral (i.e. UN, WTO), inter-regional (APEC) and regional bodies (ASEAN Regional Forum). Hence, the insistence of some American scholars and policy makers on a firm policy of engagement toward China. Traditionally, members of this approach are found in the Department of State and the Bureau of the US Trade

Representative, as well as within the more liberal think tanks (with some exceptions, as discussed earlier).

For other commentators, the containment versus engagement debate does not fully capture the complexity of the US-China relationship and its consequences for the Asian region. Some scholars currently argue that there could be no question of not engaging with China and supporting China's new regional diplomacy, but that there is equally no good reason for pandering to China and being less critical to its authoritarian regime. As Aaron Friedberg has emphasised, many realists are actually optimistic about the future of US-China relations in the face of China's rise and disagree with others about the likelihood – let alone the inevitability – of military conflict accompanying this rise.<sup>24</sup> Some realists such as Robert Ross, Avery Goldstein and Zbigniew Brzezinski argue that the nuclear revolution and geography make territorial conquest more difficult in East Asia. As a result, most realists agree with many non-realists that, given these realpolitik forces for stability, the real threats to regional peace and stability are posed not by shifts in relative material power alone, but by those shifts combined with mutual perceptions of hostility that are rooted in historical conflicts, outstanding territorial sovereignty disputes, and so forth.<sup>25</sup>

In a recent article in *International Security*, Thomas Christensen has argued that whether one views the US' Asia policy since the end of the Cold War as a success or a failure depends heavily on the "theoretical lens with which one views the challenges posed by the rise of the People's Republic of China".<sup>26</sup> Christensen argument is more nuanced and will likely influence American foreign policy towards Asia since the author has recently assumed a position within the US Department of State. In essence, he argues for a moderate US strategy toward China and the region that mixes elements of containment and engagement. In such a strategy a firm security posture toward China would not only hedge against a potential turn for the worse in Chinese domestic politics and foreign policy but it would also help shape long term Chinese political and

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<sup>24</sup> Aaron L. Friedberg, "The Future of U.S.-China Relations: Is Conflict Inevitable", *International Security*, Vol. 30, No. 2, Fall 2005, pp. 7-45.

<sup>25</sup> See: Robert S. Ross, "The Geography of the Peace: East Asia in the Twenty-first Century", in *International Security*, Vol. 23, No. 4, Spring 1999, pp. 49-80; see also Avery Goldstein, *Rising to the Challenge: China's Grand Strategy and International Security*, Stanford: CA, Stanford University Press, 2005; and Zbigniew Brzezinski, in Brzezinski and John J. Mearsheimer, "Clash of the Titans", in *Foreign Policy*, No. 146, January/February 2005, pp. 46-50.

<sup>26</sup> Thomas J. Christensen, "Fostering Stability or Creating a Monster? The Rise of China and U.S. Policy toward East Asia", in *International Security*, Vol. 31, No. 1, Summer 2006, pp. 81-126, p.1.

diplomatic evolution in directions that reduce the likelihood of unwanted conflicts and tensions in US-China relations. At the same time, continues Christensen, positive US diplomatic and economic initiatives towards China would not simply build trust and reassurance in the region, but would also maximise US leverage over the region in case of future US-China tensions. In other words, the American scholar is advocating a combination of the stick and the carrot: a firm security posture – especially with regard to any unilateral move by China to take Taiwan by force – but at the same time behaving in a constructive way towards Asia and China, since it if appears that the US are provocative toward Beijing, that might force regional actors to make a stark and unwelcome choice between Beijing and Washington, with the risk to jeopardise US’ policy in the region.

A difference stance has been expressed by Donald Rumsfeld, US Secretary of Defence. In June 2005 Rumsfeld declared that China “appears to be expanding its missile forces, allowing them to reach targets in many areas of the world, not just the Pacific region. China also is improving its ability to project power, and developing advanced systems of military technology ...Since no nation threatens China” – Rumsfeld asked – “one must wonder: Why this growing investment? Why these continuing robust deployments?”.<sup>27</sup> Following up on his boss’ remarks, the 2005 US Department of Defence Report on the Military Power of the People’s Republic of China (MPPRC) concluded that the modernisation of the PLA had gone beyond preparing for a Taiwan scenario and was likely to threaten third parties operating in the area, including the US.<sup>28</sup>

While Chinese leaders insist that their country is engaged in a “peaceful rise” and “harmonious development”, some powerful voices in the US argue that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait.<sup>29</sup> The US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of

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<sup>27</sup> The IISS Asia Security Conference, First Plenary Session, The Hon. Donald Rumsfeld, 4 June 2005, available at: <http://www.iiss.org/>

<sup>28</sup> US Department of Defence, *Report on the Military Power of the People’s Republic of China* (MPPRC), October 2005.

<sup>29</sup> *2004 Report to Congress of the US-China Economic and Security Review Commission*. Chapter 8: China’s Military Modernization and the Cross-Strait Balance, available at: <http://www.uscc.gov/researchpapers/2004/04reportpage15.pdf>

diplomatic recognition from Taipei to Beijing.<sup>30</sup> On the basis of the Taiwan Relations Act, the US export weapons to the island. The US President, George W. Bush, declared in April 2001 that the US would do “whatever it takes” to defend Taiwan against an attack by mainland China.<sup>31</sup> Washington has recently reminded Beijing that the US has committed itself to reduce progressively arms sales to Taiwan but also to maintain a qualitative advantage in favour of Taipei which, according to the above mentioned MPPRC Report, is currently diminishing due to recent acquisitions by the PLA.<sup>32</sup> Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of the Chinese territory. In March 2005 the Chinese National People’s Congress adopted the anti-secession law, which reiterates the “sacred duty” for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Any tension in Cross-Strait relations could thus presage tensions between Washington and Beijing. In this context, recent European initiatives aimed at establishing a security-strategic linkage with Beijing are impacting on Sino-US relations. This explains the strong opposition of the US against the lifting of the arms embargo and the need to obtain reassurances from European partners that China will not be allowed to access the encrypted features of the Galileo satellite system. The arms embargo issue, in particular, has become a “wake-up” call for the US and has led some American commentators to dub Europe an “irresponsible” player in East Asia.<sup>33</sup> Robert Zoellick, currently US Deputy Secretary of State and himself in favour of a policy of engagement with China, posed the following question in April 2005 with regard to the EU proposal to lift the arms embargo on China: “As Europe becomes a larger player on a global stage, we urge it to consider some of the messages it sends. Why would Europe want to send that symbolic message to this point?”<sup>34</sup>

Following up on Zoellick’s remark we will now discuss what kind of power the EU is (and/or should be), what we should have expected EU foreign policy towards

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<sup>30</sup> Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

<sup>31</sup> See: Ashley J. Tellis, “Military Modernization in Asia”, in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 3-40 and Michael D. Swaine and Roy D. Kamphausen, “Military Modernization in Taiwan”, in *ibid. Strategic Asia 2005-06*, pp. 387-422.

<sup>32</sup> Michael D. Swaine and Roy D. Kamphausen, “Military Modernization in Taiwan”, in *Strategic Asia 2005-06*, pp. 387-422.

<sup>33</sup> This emerged with interviews with all US scholars and policy makers.

<sup>34</sup> *International Herald Tribune*, 6 April 2005.

China to be in the period under consideration (1995-2005) and what would constitute, eventually, an effectively EU strategic approach to China.

*China as a test for the emergence of the EU as a global actor*

China is a test for the EU foreign policy and, more generally, for the emergence of the EU as a global actor. The EU's China policy is but a reflection of the particular nature and characteristics of this unique and un-finished type of international actor that the EU is. According to Hans Maull, during the Cold War, the role of the European Community was to provide vital economic and military support for the US in its efforts to contain the Soviet Union and in this context it constituted a key part of the Cold War global order. Moreover, the EC created a new way of ordering regional interstate relations that came to be associated with the term civilian (or normative) power.<sup>35</sup> In the post-Cold War era, however, the EU is seeking its proper place and role in the emerging global order. In this vein, Maull's article asks whether Europe will continue to support American hegemony, or become an alternative source of power and attraction in an emerging multipolar system, or become itself a superpower. In essence - Maull asks - what will be the EU's role in the new balance of global order?<sup>36</sup> This thesis findings attempt to contribute to these important questions. For Maull, the EU will remain, for the foreseeable future, a collective of nation states, i.e. "a post-modern actor, but neither a great power nor a quasi-state in the making".<sup>37</sup> More specifically, Maull argues, the EU will continue to be a civilian power which, however, does not entail an inability or unwillingness to use military power, but rather it suggests the specific way in which military power is exercised and applied – i.e. towards a civilising of international relations.<sup>38</sup> At the same time, Maull argues, the EU is also a power able to influence other actors in the system. Its principal instruments of influence are its economic weight, capital and technology resources, and soft power – mainly in the form of development aid and cooperation programs. But, Maull argues, "the EU is not a power in international relations in the traditional sense of the world and it is unlikely to become one any time soon".<sup>39</sup> While Maull's comments are worth taking into consideration and provide us with useful analytical tools for conceptualising the role of

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<sup>35</sup> Hans Maull, "Europe and the New Balance of Global Order", in *International Affairs*, Vol. 81, No. 4, 2005, pp. 775-799, p. 776.

<sup>36</sup> *Ibid.*, p. 776.

<sup>37</sup> *Ibid.*, p. 777.

<sup>38</sup> *Ibid.*, p. 781.

<sup>39</sup> *Ibid.*, p. 793.

the EU in international relations, this thesis finds that in the case of the EU's China policy the EU and its member states have also pursued actions and displayed behaviours that we would expect to come from a more traditional great power.

A starting point for conceptualising a great power is the definition provided by Martin Wight in his *Power Politics*. In the section on Great Powers, Wight makes reference to the definition of a great power made at the Paris Conference in 1919, which distinguishes between powers with general interests and powers with limited interests. According to this definition, "great powers are powers with general interests, i.e. whose interests are as wide as the states-system itself, which today means world wide".<sup>40</sup> Wight also reports the definition given by Arnold Toynbee: "A great power may be defined as a political force exerting an effect coextensive with the widest range of the society in which it operates" as well as the definition of Sir Alfred Zimmern: "every Foreign Minister of a great power is concerned with all the world all the time".<sup>41</sup> From these classical definitions of a great power it is possible to argue that the EU, today, does show elements in its actions and behaviours that can be associated to those of a traditional great power. The point here is not that the EU is either a civilian power whose aim is civilising international relations or a great power that pursues power politics. The EU, today, is both.

The analysis of the EU's China policy indicates that on certain policy issues the EU does indeed show a distinctive behaviour that we would expect from a civilian-normative or soft power. For instance, in the case of the growing number of cooperation projects by the European Commission and the Nordic countries aimed at civilising China according to Western values and at transforming the Middle Kingdom into an open society. At the same time, on other issues the EU and its member states pursue policies and initiatives that we would expect to come from a more traditional great power. For instance, in the case of China's participation in the Galileo satellite system the EU and some of the large EU members have intentionally sought to cooperate with the PRC in order to counter a perceived American primacy in the aerospace sector. Moreover, the proposal to lift the EU arms embargo on China is clearly aimed at taking advantage of the opportunities offered by China's defence procurement budget, the second largest in the world after the US. The decision of the EU and its member states

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<sup>40</sup> Martin Wight, *Power Politics*, London, Continuum-RIIA, 1995, p. 50.

<sup>41</sup> As quoted in *ibid.*, p. 50.

to establish a security-strategic linkage with China derives from the desire to acquire new markets for the European defence industry and counter American primacy in the defence and aerospace sector.

The existence of both civilian – or soft power - Europe and great power Europe comes from the distinctive type of international actor that the EU is. This dual nature derives from the diversity of the actors involved in the EU foreign policy. For instance, in the political/human rights dimension of the EU's China policy, while the European Commission and the more principled EU member states (mainly the Nordic countries, the Netherlands, Ireland and the United Kingdom, to a certain extent) have channelled resources into development cooperation projects aimed at Chinese civil society, the other EU member states (mainly the large core members: Germany, France, Italy and the other Latin countries) have tended to overlook human rights and democratisation issues and have sought to maintain, instead, good political relations with the Chinese leadership. As a result, they have given the impression of acquiescing to the current CCP leadership. Moreover, in the security-strategic dimension, the large EU member states (Germany, France, the United Kingdom, Italy and Spain) have supported China's participation in the Galileo satellite system and advocated, at least initially, the lifting of the arms embargo (France, Italy and Spain still support the lifting). At the same time, the smaller and neutral countries (in particular the Nordic countries) have criticised the more security-related elements of the EU's China policy and asked that the lifting be lifted only if and when China makes real progress in its human rights' record and legislation. In sum, it appears that there has been a division of labour in EU foreign policy towards China. While the EU level (i.e. the European Commission) and the more principled EU member states (mainly the Nordic countries) have been used to engage Chinese civil society and put human rights and democratisation pressure on Beijing, the large EU members have rather engaged the Chinese government by seeking to maintain good political relations with the Chinese leadership in order to boost commercial exchanges.

In such a context, what we should have expected EU foreign policy towards China to be in the period under consideration (1995-2005) and what would constitute, eventually, an effectively EU strategic approach to China?



With the policy of constructive engagement adopted since the mid-1990s and upgraded in 2003 to include a security-strategic dimension, the EU and its member states have consistently focused on promoting China's fullest possible involvement in the international arena, i.e. in the economic, social, political, security-strategic and even military dimensions. The emphasis has been on supporting China's integration in the international community and its transformation into an open society with the underlying belief that this approach would lead, over time, to greater political liberalisation within the country. This EU's strategy is aimed at supporting Chinese civil society and, at the same time, at maintaining a stable domestic environment.

Thus, the EU and its member states have adopted a strategy of engagement towards China aimed at both the state and the societal level. The latter, more in tune with the notion of civilian power Europe, has been mainly carried forward by the European Commission and the more principled EU member states. We will see in Chapter 4 that the European Commission and the Nordic countries have channelled a considerable amount of resources and energies into projects aimed at supporting China's transformation process. The European Commission, in particular, assists China's transformation process through, firstly, support for the social and economic reform process, focusing primarily on China's integration in the WTO, on providing expertise on information and communications technology, on social security (pensions, health, unemployment, insurance) and on the development of human resources such as the exchange and training of managers and the participation of Chinese students in the Erasmus Mundus programme. Secondly, the EU provides Beijing with expertise on environment and sustainable development. Thirdly, the Commission supports a number of projects in China aimed at providing support for the transition to an open society based on the rule of law and respect of human rights, through the promotion of good governance and democracy and human rights-related policies.

With regard to Europe's engagement with China at the state level, we will see in Chapters 2, 3 and 4 that the German China policy model of prioritising good political relations with China has succeeded in influencing the behaviour of the other EU member states, especially the large ones (Germany, France, the United Kingdom, and Italy). Since the mid-1990s, the large EU members have consistently sought to maintaining good political relations with Chinese leaders and avoided raising contentious issues. This is due to both domestic and strategic factors. Domestically, by

the desire to acquire increasing shares of the promising Chinese market with the aim to redress growing trade deficits and protect Europe's (relative) welfare position (in particular in Europe's core members: Germany, France and Italy). Strategically, the EU and its member states have become concerned of the possible implications of an abrupt collapse of the CCP regime in an environment of growing nationalism. The perception is commonly held that the rise of nationalism is actually the flip-side of the process of economic liberalisation, insofar as it is being driven by the CCP leadership's need, faced with new centripetal forces, to find a discourse capable of holding China together. Therefore, it is widely assumed among officials interviewed at the European Commission and in the large member states that the EU needs to engage Beijing in all dimensions (economic, social, political, security-strategic) and at all levels (state and societal) so as to help China integrate in international society such that the benefits flowing from this would serve to temper internal instability – and thus avoid disruptions to Europe's growing economic interests in the area. Moreover, the EU policy makers interviewed largely believe that through an active engagement and cooperation at all levels and in all dimensions, it would be possible to further the protection of human rights and advance political liberalisation. This idea stems from the assumption that human rights tend to be better understood and better protected in societies open to the free flow of trade, investment, people, and ideas. This is a major reason for the EU and its member states to continue to engage China at all levels and in all dimensions.

The EU foreign policy towards China in the last decade raises the question of whether the EU is a truly strategic international actor. In other words, whether European governments have been willing and able to think “strategically” about their place in the world, their preferred pattern of world order, and their preferred strategic partners. In their edited book on *Rethinking European Order*, William Wallace and Robin Niblett have examined the question of how far European governments and elites responded to the transformation of their strategic environment at the end of the Cold War by rethinking their strategic foreign policies. Taking into consideration the period 1989-1997, they concluded that in almost all the cases, European governments and elites tended to avoid world order issues and Europe's role and place in it.<sup>42</sup>

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<sup>42</sup> Robin Niblett and William Wallace (eds.), *Rethinking European Order: West European Responses, 1989-1997*, Basingstoke, Palgrave, 2001.

In the case of the EU's China policy, since 2003 it appears that EU policy makers have started to think strategically about China. However, it seems that this European strategic approach is the result of the insistence of the Chinese leadership to think about EU-China relations in strategic terms and place the Sino-European strategic partnership within discourses of the emerging global order. In September 2003, the Commission released its last policy paper on China *A Maturing Partnership: Shared Interests and Challenges in EU-China Relations*, which called for a strategic partnership with Beijing, stating that: "It is in the clear interest of the EU and China to work as strategic partners on the international scene....Through a further reinforcement of their cooperation, the EU and China will be better able to shore up their joint security and other interests in Asia and elsewhere".<sup>43</sup> In October 2003 the Chinese Ministry of Foreign Affairs released its answer to the Commission's document. In the *China's EU policy paper* it is pointed out that "China is committed to a long-term, stable and full partnership". The Chinese document clearly states that Beijing wants closer political ties with the EU, indicating that China will continue to deepen its relations with individual EU governments.<sup>44</sup>

China's interest in cultivating a partnership with the EU and, individually, with the large EU members (UK, France, Germany, Italy and Spain) is part of China's attempt to cope with the constraints of American power in the post-Cold War era and to hasten the advent of an international system in which the US would no longer be so dominant. Chinese policy makers and scholars repeatedly stress that Beijing's partnerships with other great powers are both a reflection of the transition to multipolarity and an arrangement that will accelerate the process.<sup>45</sup> According to Avery Goldstein, the purpose of establishing strategic partnerships "has been to enhance [China's] attractiveness to the other great powers while retaining flexibility by not decisively aligning with any particular state or group of states".<sup>46</sup> Thus, since the mid-1990s, strategic partnerships allow Beijing to address its own concerns about the US primacy without alienating the economically indispensable US. In this context, establishing a strategic partnership with the EU and its large members is seen in Beijing as a move that enhances China's international status, as well as foster the emergence of

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<sup>43</sup> European Commission, *A Maturing Partnership - Shared Interests and Challenges in EU-China Relations*, Brussels, COM (2003) 533 final, 10 September 2003.

<sup>44</sup> *China's EU Policy Paper* (2003).

<sup>45</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 23 September 2004.

<sup>46</sup> Avery Goldstein, "The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice", in *The China Quarterly*, No. 168, December 2001, pp. 835-864, p. 846.

a multi-polar world order (but being flexible enough to change direction if circumstances change).<sup>47</sup>

In this vein, Chinese leaders have repeatedly stated that the strategic partnership with the EU should serve to promote “global multilateralism”, the “democratisation of international relations” and what is being referred to as “global multipolarisation”. In Beijing’s view, China and the EU are both on a “peaceful rise”, i.e., on the way to become “global balancing forces” pursuing similar international political strategies. Thus, Chinese leaders hope to enlist the EU as one of the emerging poles that, at least in principle, could work with Beijing on fostering a multilateral environment and limit some of the perceived American unilateral attitudes in world affairs.<sup>48</sup> The discourse on multipolarity is shared by some EU policy makers, in particular the French political elite and, to a lesser extent, elements within the European Commission in Brussels. However, both China’s and France’s discourse on multipolarity cannot be seen as power balancing in the classic sense. In the case of China, multipolarity is taking the form of the establishment of strategic partnerships with other great powers within a broader multilateral system based on the United Nations and international law. For French policy makers as well, the notion of multipolarity is not employed for balancing against the US in the classic sense, but rather for meaning an international system in which “each large geographic region, each big power and collectivity of states, can assume together their responsibilities, with the UN being the grand symbol”.<sup>49</sup> In other words, “a benign multipolar international system whose *modus operandi* is multilateralism”.<sup>50</sup>

Thus, it seems that both Chinese and French leaders were willing to think strategically about their place (in the case of French leaders, this place would be both France and Europe) in the world, their preferred pattern of world order, and their preferred strategic partners. Although EU policy makers have remained vague with regard to the concrete objectives and purpose of the strategic partnership with China (with the only exception of French leaders), the EU and its members states have stressed multilateralism as a common ground for the development of the EU-China

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<sup>47</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 23 September 2004.

<sup>48</sup> Personal consultation with Chen Wenbing, Second Secretary, Deptment of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, 26 September 2004.

<sup>49</sup> Dominique de Villepin during the joint press conference of the French, Russian and German foreign ministers, Paris, 5 March 2003, [www.diplomatie.gouv.fr](http://www.diplomatie.gouv.fr)

<sup>50</sup> Michael Brenner and Guillaume Parmentier, *Reconcilable Differences: US-French Relations in the New Era*, Washington: DC, Brookings Institution, 2002, p. 118.

relationship.<sup>51</sup> Thus, the European strategic approach to China entails the idea – *grosso modo* – that Europe’s preferred pattern of world order is a benign multipolar international system whose *modus operandi* is multilateralism. Europe’s preferred strategic partners, in the same vein, are those countries which, according to the *European Security Strategy*, are committed to an effective multilateral system and to upholding and developing international law and the role of the United Nations. The EU hopes to enlist China among the countries that are committed to an effective multilateralism. The ESS makes clear that the transatlantic relationship is irreplaceable and that the EU is seeking an effective and balanced partnership with the US. In this lies a future challenge for the EU: to accommodate the emerging EU-China strategic partnership – based on multilateralism – with the traditional transatlantic relationship and the unilateral attitudes of the United States during the George W. Bush administration.

### **Research design**

This research has been conducted using a qualitative approach. The latter is a research strategy that emphasizes words (or discourse) rather than quantification in the collection of data. Moreover, this study has employed an inductive approach to the relationship between theory and research. In this way, it has been possible to draw generalisable inferences out of empirical data.

The terms “critical” and “analysis” have been added to EU foreign policy towards China. An explanation of the meaning of the two words will help the reader understand this choice. The semantic origin of the word critical stems from the Greek *crisis* (verb: *crinomai*) which stands for distinguish, discriminate, separate, meaning the capacity of discriminating or judging. Analysis is the result of the combination of the Greek word *ana* and *lyo*. *Ana* means upwards, towards higher levels and *lyo* means to free something in the sense of decomposing or deconstructing something. The idea here is that by moving upwards, i.e. reaching a higher position, it is possible to achieve a better and more comprehensive vision of the subject at hand. Analysis, therefore, means to free something, to deconstruct with the idea of an upward movement. Thus, a critical analysis means that the aim is to move upwards in order to reach a higher position – a

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<sup>51</sup> On this point see also: European Union, *A Secure Europe in a Better World: European Security Strategy*, Brussels, 12 December 2003.

vantage point - from where it is possible to deconstruct something, to show how the different parts of the whole hang together and what their relationship to each other are. The vantage point is particularly important for identifying the levels of analysis best suited for studying EU-China relations, as well as for selecting the relevant actors.

In terms of level of analysis, it is argued here that current EU-China relations need to be studied taking into consideration three levels: (i) the bilateral; (ii) the inter-regional; and (iii) the global. David Kerr has recently proposed to adopt the “emergent, but often contradictory, linkages between states, regions, and world order” for the study of the China-Europe relationship.<sup>52</sup> While at the beginning of the 1990s Michael Yahuda had remarked that the EU-China relationship was one of “secondary significance”<sup>53</sup>, more recently David Kerr has argued that this relationship “has fallen back to third place”. According to Kerr, “the primary relationships are within regions; the secondary relationship is with the US hegemon; inter-regionalism is now a tertiary relationship”.<sup>54</sup> This present study proposes to employ the following three-level analysis:

- 1) *First level: EU-China relations*. This includes the interplay between the EU level and the national level. The actors under consideration here are, on the one hand, the European Commission (EU level) and, on the other hand, the large member states - Germany, France, the United Kingdom and Italy (national level), both in their bilateral dealings with China and in their common positions taken within the CFSP framework.
- 2) *Second level: EU-Asia relations*. The analysis of EU foreign policy towards China is placed within the broader frameworks of EU-Asia relations, in particular the EU’s New Asia Strategy (NAS) and the Asia-Europe Meeting (ASEM) process. In particular, ASEM has become the most important inter-regional forum for discussion and cooperation between the EU and East Asia, providing both the Europeans and East Asians with an institutional mechanism within which to engage – and manage – China’s rise.

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<sup>52</sup> David Kerr, “Between Regionalism and World Order: five structural factors in China-Europe relations to 2025”, paper presented at the international conference on *The International Politics of EU-China Relations* held at the British Academy, London, on 20-21 April 2006.

<sup>53</sup> Michael Yahuda, “China and Europe: The Significance of a Secondary Relationship”, in Thomas W. Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory & Practice*, Oxford, Clarendon Press, 1995, pp. 266-282.

<sup>54</sup> David Kerr, (2006), p. 15.

- 3) *Third level: Global level.* EU foreign policy towards China is increasingly having an impact on the United States and other concerned Asian partners of the Union. China's participation in the development of Galileo, European advanced technology transfers to Beijing and the proposed lifting of the arms embargo (though currently postponed), have the potential to affect East Asia's strategic balance, thus impacting directly on American interests in the region.

#### The sampling of material and actors

In social and political research, the sampling process is the first step in the research design. The sampling in qualitative research is concerned with the selection of documents for content and discourse analysis, as well as with the selection of people to be interviewed/consulted. In the case of documents, both primary and secondary sources have been used. In particular, the author's fellowship at the EU Institute for Security Studies in Paris (October-December 2005) has allowed him access to unpublished material and internal documentation from the Council of the EU.

With regard to interviews, they have provided an invaluable resource for confirming hypothesis or gain new perspectives. The present research has employed the following sampling strategies for selecting the interviewees: (i) convenience sampling (accessibility); (ii) snowball sampling (referral by one interviewee to another) and (iii) triangulation, i.e. interviews in different sites: for instance, the Commission in Brussels and the Commission delegations in China and Japan; foreign ministry in the UK, France, Germany and Italy and embassies of the above countries in Beijing; Chinese foreign ministry in Beijing and Chinese embassies in the UK and France; Japanese foreign ministry in Tokyo and Japanese embassy in the UK. This method - triangulation - has allowed this author to verify and confirm the consistency of the information and data collected.

With regard to the EU, this thesis has taken into consideration the institutions which have been directly involved in the production of EU foreign policy towards China: the Council and the European Commission. Moreover, the following member states (foreign ministries and other relevant departments) have been researched: United Kingdom, France, Germany and Italy. This arbitrary selection has been operated for the following reasons: (i) influence of the above EU members in the elaboration of EU

foreign policy towards China; (ii) relevance of the above four EU members, in terms of weight, size and capacity to project their influence abroad (though to varying degrees); (iii) knowledge of the language of the above countries and, thus, possibility to engage with primary documents (iv) manageability of the thesis and interviews to be conducted.

With regard to officials selected for interviews, the aim at the beginning of the research was to consult with the Director/Deputy Director of the Division or Office responsible for China in the institutions mentioned above. The reason for this selection is related to the combined problem of accessibility and authority of the source/person interviewed. The above director/head (or deputy director/deputy head) is ultimately responsible for the output of the official papers and positions which are consequently worked out at the highest political level (usually, much more difficult to reach, in particular given the fact that the more security-strategic related elements of the EU's China policy seems to have become the prerogative not of the Foreign Ministry but of the office of the Prime Minister/President/Chancellor). By consulting with the director/head (or deputy director/deputy head), it has been possible to acquire relevant data and insightful information on the policy making process that has led to a certain position or policy adopted by the EU institutions or member states towards China. In the end, the following officials have been interviewed:

European Commission: Mr. James Moran, Head, China Desk, DG I – RELEX. Mr Moran is considered the “father” of all the policy papers on China produced by the Commission since 1995 and he is widely recognised, within the EU institutions in Brussels, as the most authoritative voice on China. In this context, a fellowship granted to this author to spend three months (October-December 2005) at the EU Institute for Security Studies in Paris for writing a policy paper on the EU's strategy towards China has greatly helped for obtaining lengthy interviews with James Moran and other high-ranking officials. Other interviewees in the China desk: Henriette Geiger, Jan Willem Blankert (Brussels); Giovanni Cremonini, First Secretary (Political), European Commission delegation in Beijing (China); Michael Reiterer, Minister, Deputy Head of Delegation, European Commission delegation in Tokyo (Japan).

Council: Dr. Antonio Tanca, Head of Section, DG E - External Relations/Asia Oceania (Japan, Korea, Oceania, ASEM). Mr Tanca is currently the most senior official in the Council dealing with China. Above him there is only Robert Cooper (Director of DG E)



and Javier Solana (High Representative for the CFSP). Other officials interviewed in the DG E - External Relations/Asia Oceania: Ana Ramirez Fueyo.

Council - Office of the Personal Representative of the High Representative on Non-proliferation of Weapons of Mass Destruction: Ms. Annalisa Giannella, Director, Personal Representative for Weapons of Mass Destruction. Ms Giannella is the most senior official within the EU dealing with the arms embargo issue. She travels extensively and she does not give official interviews. She has overall responsibility for explaining the EU's position on the proposed lifting of the arms embargo to Europe's closest partners in America and Asia. It was possible to consult with her at the margins of the international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute (Italy) in Rome on 11 March 2005 and at the margins of the annual conference of the EU Institute for Security Studies in Paris on 26 September 2005. Other people interviewed working in the office of Ms. Giannella: Dr. Stephan Klement.

Foreign & Commonwealth Office: Mr Denis Keefe, Deputy Director Asia Pacific, Head of Far Eastern Group (London); Julia Sutherland, Far Eastern Group; Ian Seckington, First Secretary (Political), British Embassy in Beijing (China).

French Ministry of Foreign Affairs: Mr Marc Abensour, Deputy Director, Far East; and Mr Pierre Levy, Director, Centre of Analysis and Forecasting (Paris); Emmanuel Lenain, First Secretary (Political), French Embassy in Beijing (China).

German Ministry of Foreign Affairs: Dr Volker Stanzel, Director, China Office; and Dr. Heinrich Kreft, Senior Strategic Analyst, Policy Planning (Berlin); Manfred Huterer, Political Department Press Counsellor, German Embassy in Beijing (China).

Italian Ministry of Foreign Affairs: Ms Cristina Ravaglia, Head, Division of Asia-Pacific (Office 3: China, Japan, North-East Asia); and General Alberto Traballese, Representative of the Prime Minister for Coordination of Production and Export of Weapons (Rome); Antonio Enrico Bartoli, First Secretary (Political) and Vincenzo del Monaco, First Secretary (Economic and Commercial), Italian Embassy in Beijing (China).

Chinese Ministry of Foreign Affairs: Ms Yang Hua, Deputy Director, Department of European Affairs; and Chen Wenbing, Second Secretary, Department of European Affairs (Beijing); Chen Wen, Second Secretary, Chinese Embassy in London (UK); Wang Yi, First Secretary (Political), Chinese Embassy in Paris (France).

Japanese Ministry of Foreign Affairs: Otaka Junichiro, Deputy Director, European Policy Division, European Affairs Bureau (Tokyo); Jun Hasebe, Second Secretary, Japanese Embassy in London (UK).

United States: Matthew Goodman, former Assistant Secretary for International Affairs (East Asia), US Department of the Treasury; and Maura Connelly, Minister Counselor for Political Affairs, US Embassy in London (both consulted in London).

Taipei Representative Office in the UK: Dr Edgar Lin, Representative of Taiwan to the UK.

A complete list follows:

European Commission: DG I – RELEX: China Desk and ASEM Desk; DG V- TREN: Galileo Desk; Commission delegation in Beijing and Tokyo.

Council: General Secretariat, DG E - External Relations/Asia Oceania

European Parliament: (Luciano Vecchi, Italy, Socialist group; Graham Watson, UK, Lib-Dem).

Germany: Ministry of Foreign Affairs; German Embassy in Beijing.

France: Ministry of Foreign Affairs; French Embassy in Beijing.

United Kingdom: Foreign and Commonwealth Office (FCO); British Embassy in Beijing.

Italy: Ministry of Foreign Affairs; Italian Embassy in Beijing.

People's Republic of China: Ministry of Foreign Affairs; Chinese Embassy in Brussels, London and Paris.

Japan: Ministry of Foreign Affairs; Japanese Embassy in London.

United States: US Embassy in London.

Taiwan: Taipei Representative Office in the UK.

Business sector: EU Chamber of Commerce in China; EADS (France); BAE Systems (UK); Finmeccanica (Italy).

NGOs: Human Rights Watch; Amnesty International.

Moreover, a large number of scholars from the following research institutes and universities have been consulted:

London: International Institute for Strategic Studies (IISS), Royal Institute for International Affairs (RIIA);

Berlin: German Council on Foreign Relations (DGAP);

Paris: Institut Francais des Relations Internationales (IFRI), Fondation pour la Recherche Strategique (FRS);

Milan: Istituto per gli Studi di Politica internazionale (ISPI);

Rome: Istituto Affari Internazionali (IAI);

Beijing: Chinese Academy of Social Sciences (CASS), Renmin University;

Shanghai: Shanghai Institute of International Studies (SIIS), Fudan University;

Tokyo: Tokyo University;

Washington: Brookings Institution, Project for the New American Century (PNAC), Heritage Foundation, Centre for Strategic and International Studies (CSIS).

For a complete list of the persons interviewed, please see the Bibliography.

#### Methodology for the collection of data

For the collection of data the following research methods have been employed:

- 1) Qualitative interviewing – both semi-structured and unstructured.
- 2) Collection of printed documents, as well as unpublished material (working papers, internal mimeos, etc.).
- 3) Participation to conferences attended by policy-makers and academics; in particular, three conferences have provided with useful insights and access to policy makers: (i) international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute (Italy) in Rome on 11 March 2005; *Developing a European Security Perspective on China* organised by the EU Institute for Security Studies in Paris on 3 March 2006; international conference on *The International Politics of EU-China Relations* organised by David Kerr of Durham University at the British Academy in London on 20-21 April 2006.

### **The scholarly literature on EU-China relations**

As discussed earlier, this thesis aims to provide the reader with original empirical data on the security-strategic dimension and with a critical and comprehensive analysis of EU foreign policy towards China in the last decade, i.e. from the adoption of the policy of constructive engagement in 1995 until the recent strategic partnership. With comprehensive it is meant all the dimensions of foreign policy: economic, social, political, security-strategic, and even military

In Europe,<sup>55</sup> the study of EU-China relations has been approached, since the late 1970s, mainly from the two “area studies” concerned: on the one hand, scholars of China/East Asia and on the other hand, scholars of European integration studies have taken an interest in it. Most notably in the UK, a few places have emerged: the LSE, SOAS and Durham University. At the LSE, coming from China/East Asia area studies: Michael Yahuda (currently at George Washington University and one of the first to write on EU-China relations since the beginning of the 1990s) and more recently, Christopher Hughes. Also recently coming from the European integration studies and European foreign policy studies: William Wallace and Christopher Hill (currently at Cambridge University). At SOAS, coming from China/East Asia area studies: Robert Ash. At Durham, coming from China/East Asia area studies: William Callahan (currently at Manchester University) and David Kerr, organiser of the most comprehensive conference to date on the international politics of EU-China relations.<sup>56</sup>

In France, the study of EU-China relations has been carried out, most notably, by the Centre Asie of the Institut Français des Relations Internationales (IFRI): François Godement (former Director) and Valerie Niquet (current Director); by the French Centre for Research on Contemporary China: Jean Pierre Cabestan (former Director and currently Senior Researcher at the CNRS); and the centre CERI-Sciencespo: Jean-Luc Domenach (Director of Research) and Françoise Mengin (Researcher). In Germany, at

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<sup>55</sup> This writer was commissioned by the EU Institute for Security Studies in Paris to produce a list of European experts on China/East Asia which was subsequently used by the EUISS to organise the conference: *Developing European Security Perspectives on China*, Paris, 5-6 March 2006.

<sup>56</sup> *The International Politics of EU-China Relations*, held at the British Academy, London, on 20-21 April 2006.

the Stiftung Wissenschaft und Politik (SWP): Gudrun Wacker (Head Research Unit Asia) and Kay Moeller (Senior Researcher); at the Research Institute of the German Council on Foreign Relations (DGAP): Eberhard Sandschneider (Director) and Frank Umbach (Researcher). In Italy, EU-China relations have been carried out at the Aspen Institute (Italy): Marta Dassu (Head of International Programs) and Roberto Menotti (Researcher); and at the Istituto per gli Studi di Politica Internazionale (ISPI): Maria Weber (Senior Research Fellow – Asia Division).

In China, the scholarly community of European specialists has begun to take shape in the early 1980s. During that decade, the Institute of West European Studies was established in the Chinese Academy of Social Sciences (CASS), a national Association of European Studies was founded, and European sections were developed in the principal international relations research institutes. Since the mid-1990s, Chinese scholars have taken an active interest in European developments and, more particularly, the emergence of the EU as an autonomous actor from Washington. In this context, Chinese scholars have argued for a multi-polar perspective in international politics and have interpreted the role of – and hoped for - a united Europe as a compromise between the traditional dependence on the US and greater autonomy in the future. In China three places have emerged for the study of Europe-China relations: (i) the Institute of European Studies, Chinese Academy of Social Sciences (Zhou Hong, Director; and the following professors: Luo Hongbo; Wu Baiyi; Wu Xian); (ii) the Centre for European Studies, Renmin University of China (Song Xinning, Director); and (iii) the Centre for European Studies, Fudan University (Dai Bingran, Director).

In the United States, David Shambaugh (George Washington University and Senior Fellow at the Brookings Institution) is the foremost scholar to have worked on EU-China relations since the early 1990s. Robin Niblett at the Center for Strategic and International Studies (CSIS) in Washington DC has also taken an interest in EU-China relations and published articles on China in transatlantic relations. The lack of expertise in the US on EU-China relations has been the cause for much transatlantic misunderstanding, especially during the debate on the arms embargo issue.

Since the early 1990s, the scholarly literature on Europe-China relations has approached the subject matter from three main perspectives, which reflect the level of analysis discussed above.

### The bilateral level

Scholars have taken the following approaches:

- (i) The historical and diplomatic relations between the EC/EU and China: Kay Möller<sup>57</sup> and Hervé Dejean de la Bâtie.<sup>58</sup>
- (ii) The historical and diplomatic relations between European countries and China: Eberhard Sandschneider<sup>59</sup>, Patricia Wallons.<sup>60</sup>
- (iii) The economic significance of the relationship: Franco Algieri<sup>61</sup>; Peter Ferdinand<sup>62</sup>, Marcus Taube.<sup>63</sup>
- (iv) The role of Hong Kong and Macau in China's relations with Europe: Michael Yahuda<sup>64</sup>, Miguel Santos Neves and Brian Bridges.<sup>65</sup>
- (v) The role of Taiwan in China's relations with Europe: Jean-Pierre Cabestan.<sup>66</sup>
- (vi) The strategic significance of the EU-China relationship: Michael Yahuda,<sup>67</sup> David Shambaugh,<sup>68</sup> Lanxin Xiang,<sup>69</sup> Richard Grant<sup>70</sup> and Song Xinning.<sup>71</sup>

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<sup>57</sup> Kay Möller, "Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union", *The China Quarterly*, March 2002, n. 169, pp. 10-32.

<sup>58</sup> Hervé Dejean de la Bâtie, *La politique chinoise de l'Union européenne: en progress, mais peut mieux faire*, mimeo, 13 February 2002

<sup>59</sup> Eberhard Sandschneider, "China's Diplomatic Relations with the States of Europe", *The China Quarterly*, March 2002, n. 169, pp. 33-44.

<sup>60</sup> Patricia Wellons, "Sino-French Relations: Historical Alliance vs Economic Reality", in *The Pacific Review*, Vol. 7, No. 3, 1994, pp. 341-348.

<sup>61</sup> Franco Algieri, "EU Economic Relations with China: An Institutional Perspective", *The China Quarterly*, March 2002, n. 169, pp. 64-77.

<sup>62</sup> Peter Ferdinand, "Economic and Diplomatic Interactions between the European Union and China", in Richard L. Grant (ed.), *The European Union and China: A European Strategy for the Twenty-First Century*, London, Royal Institute of International Affairs, 1995.

<sup>63</sup> Marcus Taube, "Economic Relations between the PRC and the States of Europe", *The China Quarterly*, March 2002, n. 169, pp. 78-107.

<sup>64</sup> Michael Yahuda, *Hong Kong: China's Challenge*, London and New York, Routledge, 1995.

<sup>65</sup> Miguel Santos Neves and Brian Bridges (eds.), *Europe, China and the Two SARs: Towards a New Era*, Basingstoke, Macmillan, 2000.

<sup>66</sup> Jean-Pierre Cabestan, "France's Taiwan Policy : A Case of Shopkeeper Diplomacy", in Werner Meissner and Jean-Pierre Cabestan (eds.), "The Role of France and Germany in Sino-European Relations", *East-West Dialogue*, special issue, vol. VI, n. 2 - vol. VII, n. 1, June 2002, pp. 264-291.

<sup>67</sup> : Michael Yahuda, "China and Europe: The Significance of a Secondary Relationship", in Thomas W. Robinson and David Shambaugh, *Chinese Foreign Policy: Theory and Practice*, Oxford, Clarendon Press, 1994.

<sup>68</sup> David Shambaugh, *China and Europe: 1949-1995*, London, SOAS-Contemporary China Institute, 1996.

<sup>69</sup> Lanxin Xiang, "An EU's Common Strategy for China", in *The International Spectator*, Vol. 26, No. 3, July-September 2001, pp. 89-99.

<sup>70</sup> Richard L. Grant (ed.), *The European Union and China: A European Strategy for the Twenty-First Century*, London, Royal Institute of International Affairs, 1995.

(vii) Strategic partnership: Centre for European Reform<sup>72</sup>, European Policy Centre.<sup>73</sup>

### Inter-regional level

EU-China relations have also been studied within the broader context of EU-Asia relation. Scholars have taken the following approaches:

- (i) The economic and commercial relationship between the two regions: Christopher Dent<sup>74</sup>, and Franco Algeri.<sup>75</sup>
- (ii) The diplomatic and institutional cooperation between the two regions: Georg Wiessala<sup>76</sup>.
- (iii) The prospects of regionalism and inter-regional cooperation: Paul Cammack and Gareth Richards<sup>77</sup>.
- (iv) The EU's involvement in the security mechanisms of the Asia-Pacific region: Trevor Taylor.<sup>78</sup>

It is noteworthy the publication in 1998 (in a timely coincidence with the second ASEM held in London in 1998) of the book *Europe and the Asia Pacific*,<sup>79</sup> which brings together scholars from Europe and East Asia. This is probably the most comprehensive publication of the nature of - and prospects for - the relationship between Europe and Asia.

### The global level

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<sup>71</sup> Song Xinning, "China's Rise and the European Experience", in *Teaching and Research*, No. 4, 2004.

<sup>72</sup> Katinka Barysch, Charles Grant and Mark Leonard, *Embracing the dragon: The EU's Partnership with China*, London, Centre for European Reform (CER), May 2005.

<sup>73</sup> Fraser Cameron, Axel Berkofsky, Stanley Crossick, *EU-China relations – towards a strategic partnership*, European Policy Centre, Working Paper n. 19, July 2005.

<sup>74</sup> Christopher Dent, *The European Union and East Asia: An Economic Relationship*, London, Routledge, 1999.

<sup>75</sup> Franco Algeri, "The Coherence Dilemma of EU External Relations: The European Asia Policy", in Paul Cammack and Gareth A. Richards (eds.), *Asia-Europe Inter-Regionalism* (special edition of the *Journal of the Asia Pacific Economy*), Vol. 4, No. 1, 1999.

<sup>76</sup> Georg Wiessala, *The European Union and Asian Countries*, London, Continuum-Sheffield Academic Press, 2002.

<sup>77</sup> Paul Cammack and Gareth A. Richards (eds.), *Asia-Europe Inter-Regionalism* (special edition of the *Journal of the Asia Pacific Economy*), vol. 4, n. 1, 1999.

<sup>78</sup> Trevor Taylor, *European Security and the Asia-Pacific Region*, London, Royal Institute of International Affairs, 1997.

<sup>79</sup> Hanns Maull, Gerald Segal and Jusuf Wanandi (eds.), *Europe and the Asia Pacific*, London, Routledge, 1998.

More recently, EU-China relations have been studied by scholars interested in the new significance acquired by EU-China relations for transatlantic relations and, more generally, the emerging global order: David Shambaugh<sup>80</sup>, Frank Umbach<sup>81</sup>, Markus Taube<sup>82</sup>, and Robin Niblett<sup>83</sup>. Moreover, some research institutes have devoted to the issues symposia which have been later published.<sup>84</sup>

### Structure of the thesis

This thesis is divided in 7 chapters (plus introduction and conclusion). The development of the thesis is historical. Chapters 2 and 3 provides the background for the core of the thesis (Chapters 4, 5, 6 and 7). The historical development is also mirrored in the content of the chapters: Chapters 2, 3 and 4 deal predominantly with economic issues, while chapter 5, 6 and 7 address the security-strategic dimension of EU foreign policy towards China. Security-strategic issues have emerged in the last years and most of the material for those chapters is based on interviews. The last Chapter examines the Taiwan issue which will be, according to this author, the next issue in EU-China relations, in particular around 2008, when presidential elections will be held in Taiwan and the Olympic Games in Beijing.

Chapter 1: This chapter discusses the main questions and problems posed by the EU's engagement with China: What is, after all, the EU? Does it exist a EU foreign policy?

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<sup>80</sup> David Shambaugh, "European and American Approaches towards China: Different Beds, Same Dreams?" in *China Perspectives*, No. 42, July-August 2002, pp. 4-12; see also by the same author: "China and Europe: The Emerging Axis", in *Current History*, September 2004, pp. 243-248; and "The New Strategic Triangle: US and European Reactions to China's Rise", in *The Washington Quarterly*, Vol. 28, No. 3, Summer 2005, pp. 7-25.

<sup>81</sup> Frank Umbach, "EU's Links with China Pose New Threat to Transatlantic relations", *European Affairs*, Vol. 5, No. 2, Spring 2004.

<sup>82</sup> See also Markus Taube, *Transatlantic Economic Competition and Cooperation with China in the post WTO Accession Era*, paper available at: <http://www.dgap.org/attachment/36292e5f08f727196eb4ca1f3d4df243/13d0841584596c25d89a6820d1f81764/taube.pdf>.

<sup>83</sup> Robin Niblett, *China, the EU, and the Transatlantic Alliance*, U.S.-China Economic and Security Review Commission, Hearing on "China's Growing Influence: Objectives and Strategies", Friday, July 22, 2005, available at: [http://www.uscc.gov/hearings/2005hearings/written\\_testimonies/05\\_07\\_21\\_22wrts/niblett\\_robin\\_wrts.htm](http://www.uscc.gov/hearings/2005hearings/written_testimonies/05_07_21_22wrts/niblett_robin_wrts.htm).

<sup>84</sup> See in particular: *Transatlantic Dialogue on China: Final Report*, A Joint Project of the Henry L. Stimson Center and Research Institute of the German Council on Foreign Relations with the support of the German Marshall Fund of the United States and the Volkswagen Foundation, Washington, Report No. 49, February 2003, available at: <http://www.stimson.org/tadc/pdf/finalreport.pdf>; see also Bates Gill and Gudrun Wacker (eds.), *China's Rise: Diverging US-EU Perceptions and Approaches*, Stiftung Wissenschaft und Politik German Institute for International and Security Affairs, Berlin, August 2005.



What are the instruments at its disposal? And, finally, how do EU policy makers reach foreign policy decisions about China?

Chapter 2: This chapter traces the development of the first twenty years of EU-China relations (1975-1995). More specifically, the first part of the chapter examines the evolution of the relationship from its inception in 1975 until the end of the Cold War in 1991. The second part concentrates on the evolution of the EU's China policy in the first half of the 1990s, culminated in 1995 with the adoption of the EU's policy of constructive engagement towards China.

Chapter 3: This chapter covers the period from 1993 (adoption of the German concept paper on Asia) until 1998 (ASEM II in London and first EU-China summit), with the intent to provide the reader with an analysis of the main themes that have characterised the development of the EU's New Asia Strategy (NAS) and the Asia-Europe Meeting (ASEM), the two broader frameworks within which the EU has developed the policy of constructive engagement towards China.

Chapter 4: This chapter discusses the development of the policy of constructive engagement that has characterised Europe's approach towards China since the mid-1990s. The first part of the chapter analyses European and Chinese policy makers' discourse on economic security and the reasons given for fostering EU-China commercial ties. Subsequently, the chapter focuses on the fierce competition among EU members for China's market shares and the political consequences of this commercial "scramble" for the EU-China human rights dialogue.

Chapter 5: This chapter examines European and Chinese policy makers' discourses on strategic partnership, arguing that beyond the rhetoric, three substantial and interrelated issues are giving meaning and content to the EU-China strategic partnership: (i) China's participation in the Galileo satellite network; (ii) European advanced technology transfers to China; and (iii) the proposed lifting of the EU arms embargo on China. After discussing the discourse on strategic partnership, this chapter analyses Galileo and the related issue of European advanced technology transfers to China.

Chapter 6: This chapter examines the other key element of the EU-China strategic partnership: the arms embargo issue. The first part examines the debate on the lifting of

the arms embargo, as well as the positions of the EU member states. The following section analyses the current provisions of the EU Code of Conduct and the role of the European defence sector. In the last part, the chapter discusses the international politics of the arms embargo issue, with particular emphasis on the US's opposition to the lifting.

Chapter 7: The first part of the chapter examines the evolution of the EU's Asia strategy since the late 1990s and discusses whether the EU has become an additional factor – albeit unconsciously – of East Asia's strategic balance. In this context, the rest of the chapter analyses the Taiwan issue and the EU's Taiwan policy from its inception in 1972. In the conclusion, the chapter evaluates the EU's Taiwan policy in light of the EU's Asia policy and growing EU-China relations.

In the Conclusion, the more important points raised in the thesis are discussed, as well as some promising avenues for future research. In particular, we will present the reader with some concluding remarks on China in transatlantic relations and the EU's pretensions to be a global actor and its capabilities. In this vein, in the following Chapter we will discuss EU foreign policy and the instruments at its disposal to engage China.

## Chapter 1

### European Union foreign policy and China

This chapter discusses the following: First of all, what is the EU? Does it exist a EU foreign policy? And what are the instruments at its disposal? Secondly, how do EU policy makers reach foreign policy decisions about China?

#### 1.1 The European Union as a global actor

Over the years, scholars have formulated different – and diverging – conceptualisations as to what entity the EU is and whether there exists a distinctive European Union foreign policy as such. For instance, William Wallace has defined Europe as a “partial polity”, i.e. a political entity which lacks, however, many of the features that we might expect to find in a traditional state. Accordingly, Wallace describes the EU policy-making as “post-sovereign”, since “it spills across state boundaries, penetrating deep into previously domestic aspects of national politics and administration”.<sup>85</sup> According to Brian White, the EU has succeeded in building an international order between nation-states that challenges the traditional state-based system of international relations.<sup>86</sup> Given its distinctive, if not unique, type of internationally-acting body, the EU has increasingly been studied as a particular kind of global actor. According to Christopher Hill and Michael Smith,

Empirically the EU can be seen as one of the world’s two economic ‘superpowers’, and an increasingly significant influence in the realms of international diplomacy, ‘soft security’, and broader world order. Analytically, the Union poses major challenges by virtue of its status as something more than an intergovernmental organisation but less than a fully-fledged European ‘state’.<sup>87</sup>

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<sup>85</sup> William Wallace, “Post-sovereign Governance: The EU as a Partial Polity” in Helen Wallace, William Wallace and Mark A Pollack (eds.), *Policy-Making in the European Union*, Oxford, Oxford University Press, 2005 (Fifth Edition), pp. 483-503, p. 493.

<sup>86</sup> Brian White, *Understanding European Foreign Policy*, Houndmills, Palgrave, 2001.

<sup>87</sup> Christopher Hill and Michael Smith, “International Relations and the European Union: Themes and Issues”, in Christopher Hill and Michael Smith (eds.), *International Relations and the European Union*, Oxford, Oxford University Press, 2005, pp. 3-17, p 4.

Given the hybrid nature of the EU as a partial polity, is it possible to argue that the EU is an international actor? Since European countries have begun interacting in the framework of the European Political Cooperation - and later, the Common Foreign and Security Policy (CFSP) - a number of concepts have been put forward by researchers in order to explain the international behaviour of the EC/EU. In 1977 Gunnar Sjostedt developed the concept of *actorness*, arguing that the EC/EU is indeed an international actor since it possesses the necessary structural prerequisites for action in world affairs: a legal personality, a distinctive diplomatic service (i.e. the Commission delegations abroad) and the capacity to enter into negotiations with third parties.<sup>88</sup> In 1990, David Allen and Michael Smith proposed the concept of *presence*. According to the two scholars, the EC/EU has a presence in international relations since it exhibits distinctive forms of external relations and, more importantly, is perceived to be a significant player in the international system by other important actors.<sup>89</sup> Ben Rosamond has added that the EU has a “subjective aspect”, represented by the fact that an European “collective self” is validated by other significant actors in the international system<sup>90</sup>. In sum, as Christopher Hill has underlined, Europe is a genuine international actor in some respects, but not all.<sup>91</sup>

Having established that the EU has some attributes of international actorness and that it has presence in international affairs, researchers have turned their attention to the question of the kind of power that the EU is. The majority of scholars have argued that the EC/EU is a civilian – or normative – power. In 1972 Duchene created the term *civilian power*, arguing that the EC/EU should not try to imitate traditional power politics states, but rather seek to become an entity intent on spreading civilian and democratic values abroad.<sup>92</sup> In recent years, scholars have supported the idea of normative power Europe. For instance, Karen Smith has argued that military power would be both too expensive and too politically divisive for the EU. Instead, Smith argues, the EU should focus on its soft power capabilities, since the Union is very well

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<sup>88</sup> Gunnar Sjostedt, *The External Role of the European Community*, Farnborough, Saxon House, 1977.

<sup>89</sup> David Allen and Michael Smith, “Western Europe’s Presence in the Contemporary International Arena”, in *Review of International Studies*, Vol. 16, No. 1, January 1990, pp. 19-39.

<sup>90</sup> Ben Rosamond, *Theories of European Integration*, London. Macmillan, 2000, pp. 176-177.

<sup>91</sup> Christopher Hill, “The Capability-Expectations Gap, or Conceptualising Europe’s Foreign Policy”, in *Journal of Common Market Studies*, Vol. 31, No. 3, September 1993, pp. 305-328.

<sup>92</sup> François Duchêne, “Europe’s Role in World Peace”, in Richard Mayne (ed.), *Europe Tomorrow: Sixteen Europeans Look Ahead*, London, Fontana/Collins (for Chatham House), 1972, pp. 32-47.

placed for this.<sup>93</sup> Chris Hill, on the contrary, has pointed out to the continuing importance of military power for the conduct of international relations and has accused the advocates of a civilian power Europe of making a virtue out of necessity.<sup>94</sup> More recently, Bastian Giegerich and William Wallace have questioned the notion of the EU as a soft power by analysing the empirical evidence of the EU's military involvements abroad.<sup>95</sup> In sum, if the EU as a global actor has been defined in different ways, what about EU foreign policy?

## 1.2 EU foreign policy

Over the years, scholars have provided different definitions of European Union (or simply European) foreign policy. It is clear that it cannot be easily contained within a traditional state-centred analysis with relatively clear boundaries between internal and external policy environments. According to Brian White, EU foreign policy must be the object and the subject of analysis in a way that it is qualitatively different from the analysis of national foreign policies.<sup>96</sup> Among the different definitions of EU foreign policy, Roy Ginsberg has defined it as the activity that “refers to the universe of concrete civilian actions, policies, positions, relations, commitments and choices of the EC (and EU) in international politics”.<sup>97</sup> From this definition it is clear that EU foreign policy is a complex and unique policy domain both in terms of context and types of activity. In fact, EU foreign policy emerges from this unique type of international actor – “a partial polity” – that is the EU. In addition, the EU foreign policy does not emerge from a single, authoritative source but comes in at least three forms or types of activity.<sup>98</sup>

The first form can be identified as the foreign policy - or external relations - of the European Community which emerged as a direct consequence of the establishment

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<sup>93</sup> Karen Smith, “Beyond the civilian power EU debate”, in *Politique Européenne*, Vol. 17 (2005), pp. 63-82; see also Jan Zielonka, *Explaining Euro-paralysis: why Europe is unable to act in international politics*, New York, St. Martin's Press, 1998.

<sup>94</sup> For more details on the debate see Christopher Hill, “European Foreign Policy: Power Bloc, Civilian Model – or Flop?” In Reinhardt Rummel (ed.), *The Evolution of an International Actor: Western Europe's New Assertiveness*, Boulder, CO, Westview, 1990.

<sup>95</sup> Bastian Giegerich and William Wallace, “Not Such a Soft Power: The External Deployment of European Forces”, in *Survival*, Vol. 46, No. 2, Summer 2004, pp. 163-183.

<sup>96</sup> Brian White (2001).

<sup>97</sup> Roy Ginsberg, *The European Union in International Politics: Baptism by Fire*, Lanham: MD, Rowman & Littlefield, 2001, p.3.

<sup>98</sup> Brian White (2001), p. 13.

of the original European Communities in 1957 and cover principally trade, aid and development relations with third parties. This type of policy can be regarded as constituting the foreign economic policy dimension of the EU foreign policy.<sup>99</sup> The European Commissioner for External Relations (head of the Directorate-General I for External Relations: DG RELEX) is thus responsible for – and acts on behalf of the EU – only in matters that fall within the competence of the Commission. As a matter of fact, the four Commission documents on China, as well as the China Strategy Paper produced so far by the China desk of the DG RELEX cover economic, aid and development issues, but not political and security issues which are dealt in the CFSP framework.

Thus, while EC foreign policy is constituted by economic issues, the political and security dimension of the EU foreign policy – since the Treaty of Maastricht the CFSP – is differentiated from the EC foreign policy by issue area and by its location in the “pillar” structure of the EU.<sup>100</sup> For instance, it is within the CFSP framework that the lifting of the EU arms embargo on China is discussed.<sup>101</sup> Finally, there is a third type of EU foreign policy, namely the foreign policies of the member states themselves. Thus, each analysis of the EU foreign policy must include what Christopher Hill has called “the sum of what the EU and its member states do in international relations”.<sup>102</sup> In recent years, scholars of EU foreign Policy have adopted the concept of Europeanisation to explain the incremental reorientation of EU member states’ foreign policies. We will discuss Europeanisation in more detail in the following section.

### 1.3 Europeanisation

Europeanisation is a relatively new concept in the scholarly literature. There is still much debate on the nature, causes and effects of Europeanisation and, needless to say, little agreement on the definition. One of the oldest conceptions defines Europeanisation in terms of national adaptation to EU membership. In other words, an “incremental

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<sup>99</sup> Ibid., p. 15.

<sup>100</sup> The three-pillar structure of the “new” European Union includes: a) the first pillar, now referred to as the European Community, composed by the three originally separated Communities: European Steel and Coal Community, European Economic Community and European Atomic Energy Community; b) the second pillar of a Common Foreign and Security Policy; c) the third pillar for co-operation in Justice and Home affairs, these last two pillars being intergovernmental.

<sup>101</sup> The arms embargo was imposed by member countries in 1989 in the framework of the then European Political Cooperation.

<sup>102</sup> Christopher Hill, “Convergence, Divergence and Dialectics: National Foreign Policies and the CFSP”, in Jan Zielonka (ed.), *Paradoxes of European Foreign Policy*, The Hague, Kluwer, 1998.

process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organisational logic of national politics and policy-making".<sup>103</sup> The national adaptation school suggests that Europeanisation is a top-down process translating change from the supranational/European level to the national level in decision making politics. For instance, the China Strategy Paper adopted by the European Commission in 2002 aims at coordinating and harmonising the existing development policies of member states. In this sense, the European Commission is reorienting the direction and shape of member states development policies towards China.<sup>104</sup> In contrast to this approach, scholars have also pointed out to a bottom-up understanding of Europeanisation. In the national projection school, member states are the primary actors and agents of change, rather than passive subjects. In this case, the notion of Europeanisation views the state, especially the large ones, as being pro-active in projecting its preferences, policy ideas and models to the European Union.

We will see in Chapter 4 that in the case of the German China policy model, Bonn/Berlin has been able to project its national policy and policy style at the EU level. In other words, Germany has succeeded in Europeanising its national priority and strategy towards China (and East Asia too, as we will see in Chapter 3). This has had several benefits for the German government: firstly, it has increased its national influence; secondly, it has reduced the risks and costs of pursuing a controversial/negative policy towards Beijing. The Europeanisation of Germany's China (and East Asia's) policy – in the version of national projection - is not only evident in the influence of the German approach towards China on the other member states (especially the large ones), but also in the adoption by the European Commission of the policy of constructive engagement towards China strongly advocated and sustained by Bonn since the early 1990s. Thus, national projection works both in the horizontal (or sideways) direction – i.e. influence upon other member states - and the bottom-up direction – i.e. influence and preferences projected upon EU institutions.

Another meaning of Europeanisation refers to the reconstruction of identities in contemporary Europe. This version is used mainly by anthropologists and social

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<sup>103</sup> Robert Ladrech, "Europeanisation of Domestic Politics and Institutions: The Case of France", in *Journal of Common Market Studies*, Vol. 32, No. 1, 1994, pp. 69-87, p. 69.

<sup>104</sup> Commission Working Document, *Country Strategy Paper China: 2002-2006*; available at: [http://ec.europa.eu/comm/external\\_relations/china/csp/02\\_06en.pdf](http://ec.europa.eu/comm/external_relations/china/csp/02_06en.pdf).

constructivists for describing elite socialisation among national officials attached to the Commission and the other EU institutions in Brussels or in the delegations of the Commission abroad. In this context, EU officials are increasingly thinking in “European” rather than “national” terms. Christopher Hill and William Wallace have underlined the potential transformational effects of elite socialisation.<sup>105</sup> This phenomenon of elite socialisation was fairly evident during this author’s interviews in Beijing with officials from the Embassy of Great Britain, France, Germany and Italy and the European Commission delegation.

To sum up, Europeanisation is characterised by three directions: (i) a top-down process; (ii) a bottom-up and sideways process involving the export of national preferences and models; (iii) the socialisation of interests (and identities). While scholars have offered other definitions of the concept of Europeanisation, it seems to this author that the above three capture the whole essence of the process.<sup>106</sup> The question is to what extent Europeanisation explains member states foreign policy towards China? Britain and France, for instance, increasingly accept that they can no longer, today, pursue a totally independent foreign policy towards China. In particular, Jacques Chirac, the French President, has repeatedly declared that the size and weight of China cannot be engaged by France alone, but only by a political entity of bigger magnitude such as the EU. Even the UK, the member state traditionally most opposed to European supranational integration and in favour of intergovernmental decision making within the EU, has in recent years increasingly moved towards using the EU as a platform for advancing its policies – and interests - towards China and East Asia.<sup>107</sup>

The Europeanisation perspective portrays the member states as subject to the constraints, opportunities and influences of EU membership. At the same time, the intergovernmental perspective (with its realist and liberal variants), views the member state as an independent power driven by its national interest, a state that shapes, influences and sets the pace of EU foreign policy and determines its level of cooperation according to its interests in the issue at hand.<sup>108</sup> The supranational-intergovernmental

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<sup>105</sup> Christopher Hill and William Wallace “Introduction: Actors and Actions”, in Christopher Hill (ed.), *The Actors in Europe’s Foreign Policy*, London, Routledge, 1996, pp. 1-16., p. 6.

<sup>106</sup> For more details on other “Europeanisation” schools, see Reuben Wong, “The Europeanisation of Foreign Policy”, in Christopher Hill and Michael Smith (eds.), *International Relations and the European Union*, Oxford, Oxford University Press, 2005, pp. 134-153.

<sup>107</sup> Interview, Foreign & Commonwealth Office, 13 April 2006.

<sup>108</sup> Wong (2005).



divide has narrowed in recent years as member states adjust to the increasing “Brusselsisation” of foreign policy making, namely the steady enhancement of Brussels-based decision making bodies (the Council and the Commission). According to Costanza Musu:

In the intergovernmental framework within which the EU’s CFSP is elaborated, EU member states have hitherto displayed little desire to set out binding foreign policy convergence criteria that might limit their freedom of action. On the other hand, we have to acknowledge that in the sphere of foreign policy, coordination – albeit in an informal, incremental and not codified fashion - does take place.<sup>109</sup>

It can be argued that the ensuing foreign policy of each member state towards China is the end product of a complex series of negotiations between governments, EU institutions, (Commission, Council, and the EP), officials, and member state representatives, as well as a process of policy learning and emulation between individual member states.<sup>110</sup> What about the foreign policy towards China of the large EU member states?

#### **1.4 The large EU member states’ strategies towards China**

With regard to EU member states, this study concentrates on the four large EU members – Germany, France, the United Kingdom, and Italy. We will now briefly look at their strategic approaches to China.

Since the early 1990s, Germany has consistently concentrated its energies on building good economic and political relations with Beijing. This pragmatism goes back to 1955, when despite the Hallstein doctrine that denied diplomatic recognition to all states that recognised East Germany, the Federal Republic established a trade office in China. This pragmatic economic policy soon paid good dividends. By 1966, West Germany was China’s major European trading partner. In the 1980s, it was estimated that almost 50% of the foreign technology imported into China came from West Germany.<sup>111</sup> Sino-German commercial relations have largely benefited from Berlin’s strategy to avoid raising confrontational issues with Beijing and to reaffirm the “one

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<sup>109</sup> Costanza Musu, “European Foreign Policy: A Collective Policy or a Policy of Converging Parallels?”, in *European Foreign Affairs Review*, Vol. 8, No. 1, Spring 2003, pp. 35-49.

<sup>110</sup> Wong (2005).

<sup>111</sup> Kay Möller, “Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union”, in Richard L. Edmonds (ed.), *China and Europe since 1978: A European Perspective*, Cambridge, Cambridge University Press, 2002.

China” policy in many occasions.<sup>112</sup> For instance, in January 1993 Chancellor Kohl refused to approve the sale of 10 submarines and 10 frigates to Taiwan in order not to upset relations with the PRC.<sup>113</sup> This German China policy model has been founded, according to Christoph Neschöver, on three principles: (i) silent diplomacy – i.e., no confrontation with Beijing on human rights or other sensitive issues; (ii) change through trade – i.e., encouraging political liberalisation in China via economic development; and (iii) a strict “one China” policy – i.e., without conceding to the pro-Taiwanese lobby.<sup>114</sup> This strategy of depoliticising economic relations with Beijing has brought home tremendous commercial results: since the mid-1990s, Germany had become, by far, China’s most important European trading partner. At the political level, the relationship is underpinned by regular state visits, including an annual visit to China by the German chancellor. In 2004 the Sino-German relationship has been upgraded to strategic partnership and a hotline between heads of state has been opened.

France views China as a great business opportunity, but also as a strategic partner within its vision of a multipolar international system. France was the first country to establish full diplomatic relations with China at the ambassadorial level in January 1964, but the smooth relationship suffered a severe setback when France sold Mirages 2000-5s and La Fayette-class frigates to Taiwan in the early 1990s. At the economic level, France is now China second largest European trading partner. Economic relations are highlighted by the sale of Airbus aircrafts to China, and France’s cooperation in technological sectors such as atomic power, defence, and satellite technology. Traditionally weaker cultural ties were recently intensified by the “Chinese Culture Year” declared in France in 2003/2004, the largest cultural exchange between China and an European country to date. First among European countries, France established its strategic partnership with the PRC in 1997, and has since set up a hotline between the heads of state. At the strategic level, France is the EU member states, which has

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<sup>112</sup> The “one China” policy is the principle that there is one China and that mainland China, Tibet, Hong Kong, Macao, Xinjiang and Taiwan are all part of that China. The “one China” policy is also a requirement for any political entity to establish diplomatic relations with the People’s Republic of China.

<sup>113</sup> Personal consultation with Dr. Heinrich Kreft, Senior Strategic Analyst, Policy Planning Staff, German Foreign Ministry, 6 March 2006.

<sup>114</sup> Christoph Neschöver, “Bonn et Paris face à Pékin (1989-1997) : vers une stratégie commune ?” in *Politique Étrangère*, 1/1999, pp. 91-106 ; see also Reuben Wong R, *Towards a Common European Policy on China? Economic, Diplomatic and Human Rights trends since 1985*, paper presented at the International Political Science Association Conference on: “The European Union and the World: Asia, Enlargement and Constitutional Change”, Beijing, Chinese Academy of Social Sciences (CASS), 5-6 May 2005.

supported more strongly China's participation in the Galileo satellite system, as well as the lifting of the arms embargo.

The UK views China through the prism of its global ambitions. Sino-British relations were dominated, and are still influenced, by the issue of Hong Kong. Although Britain was one of the first Western European states to recognise the PRC (in 1950), full diplomatic relations were not commenced until March 1972. In the run-up to the 1997 handover of the former British crown colony of Hong Kong to the PRC, under the "one nation-two system principle", relations came under strain due to the different political visions of Hong Kong's future. Relations smoothed under the Blair government. The UK perceives China as not only an important trade partner, but also as holding very high strategic relevance, given that both countries sit permanently on the UN Security Council. In May 2004 Tony Blair and Wen Jiabao officially announced the upgrading of Sino-British relations to strategic partnership, implementing a mechanism of mutual visits by the respective heads of government and foreign ministers. Complementing the government's initiative, the UK-China interaction group of the British parliament has also started to plan activities.

Italy views China through the prism of a great business opportunity as well as history and civilisation. However, in recent years Italy has also started to consider the PRC as a challenge, expressed in the fear of an invasion of large quantities of Chinese products. The emergence of a "China question" in Italy is explained, in large part, by the fact that in a wide range of low-tech productions (such as textiles, shoes, etc.), Italy and China compete against each other, with the difference that Italy does not enjoy China's comparative low labour costs. At the political level, Rome has constantly maintained good political relations with Beijing. The Italian government was the first European country to resume relations with China in the months following Tiananmen and the Italian government started to lobby the other EC members as early as Autumn 1989 in order to ease sanctions against Beijing.<sup>115</sup> Since 2004 Italy-China relations have been upgraded to strategic partnership underpinned by a mechanism of mutual visits by the respective heads of government and foreign ministers. Strategically, Italy has strongly supported China's participation in the Galileo satellite system and the lifting of the arms embargo.

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<sup>115</sup> Personal consultation with Gianni de Michelis, Italian MP and former Italy's Foreign Minister at the margins of the international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute, Rome 11 March 2005.

EU member states compete against each other, especially in the economic-commercial dimension. As discussed earlier, however, EU member states are increasingly committed to a common – but not single – foreign and security policy towards Beijing. What are then the instruments at the disposal of the EU to implement its foreign policy decisions towards China?

### 1.5 The instruments of EU foreign policy

Signed on 7 February 1992, the Treaty of Maastricht laid the foundation for the CFSP and a future common defence policy (which later grew into a European Security and Defence Policy). The Treaty devised a new political community – the European Union – axed on a “three pillars” structure: Economic Community/EMU (first pillar); CFSP (second pillar); and co-operation in judicial and home affairs (third pillar). Each pillar was under the direction of a different institution and each had its own decision-making process. Under the new Treaty, the European Council was to decide what areas should become areas of joint action and define matters on which decisions were to be taken by a qualified majority.<sup>116</sup> The Commission was accorded a right of initiative on CFSP matters.<sup>117</sup>

The pillar structure meant that the European Parliament and the European Court of Justice were excluded from involvement in it. As Arnhild and David Spence argued, “with CFSP defined as a separate pillar of the Union, co-operation was to operate on intergovernmental lines...The paradox was that there was a fundamental ambiguity: a single institutional framework was an objective countermanded by the pillar structure in theory, and, as later became clear, by policy making in practice”.<sup>118</sup> This ambiguity was clearly manifested, for example, in the external representation of the EU, which was the shared responsibility of the Presidency and the Commission, the latter being in charge of areas falling within the competence of the EC (mainly trade policy), and the Presidency representing the Union in CFSP matters (the so-called *high politics*).

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<sup>116</sup> Treaty on European Union, Title V, Article J.3.1-2. Available at: <http://europa.eu.int/en/record/mt/top.html>.

<sup>117</sup> Ibid., Article J.8.3

<sup>118</sup> Arnhild and David Spence, “The Common Foreign and Security Policy from Maastricht to Amsterdam”, in Eliassen (ed.), 1998, pp. 43-58. Quotation from p. 45.

In developing the CFSP, the Maastricht Treaty determines the roles and responsibilities of different actors in this field as well as describing certain instruments and procedures through which cooperation can be organised. The responsibility for CFSP decision making rests with the Council of the European Union (or simply, the Council) which can meet either as heads of state and government (in this case it takes the name of European Council) or at the level of ministers with specific issue areas. The CFSP is dealt with by foreign ministers meeting in the framework of the General Affairs Council (GAC). The Council defines the principles and objectives of particular policy initiatives and decides which instrument should be used to achieve those objectives. For instance, the decision to initiate discussions leading to the eventual lifting of the EU arms embargo on China was taken at the Council meeting and inserted in the Presidency Conclusions in December 2003.

The Treaty of Amsterdam in 1997 created the position of the High Representative for the CFSP, who is also the Secretary-General of the Council. Javier Solana became the first High Representative on 18 October 1999. The High Representative assists the Council “in particular through contributing to the formulation, preparation and implementation of policy decisions, and when appropriate and acting on behalf of the Council at the request of the Presidency, through conducting political dialogue with third parties”.<sup>119</sup> After the member countries, acting in the framework of the CFSP, decided to initiate discussion on the lifting of the arms embargo, the office of Javier Solana became the focal point for the preparation and eventual implementation of the decision. In this context, Annalisa Giannella, the Personal Representative on Non-proliferation of Weapons of Mass Destruction to Solana travelled to the United States, Japan, Australia and to the other concerned Asian partners of the EU, to explain why the Europeans were considering lifting the EU arms embargo on China.

The Council is presided over for a period of six months by each member state in turn. The Presidency organizes and chairs all meetings and takes the leading role in working out compromises capable of resolving difficulties. The objective in creating the position of the High Representative and linking his activities with those of the Presidency was to increase the overall coherence of the CFSP in conditions where EU member states were interested to retain their sovereignty in this area of decision making.

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<sup>119</sup> Treaty on Amsterdam, article J.8.5.

In the case of the CFSP towards China, the role of the Presidency has become extremely important. It was in October 2003, during the Italian Presidency, that the EU-China strategic partnership was established, China's cooperation over Galileo agreed upon and discussions for the lifting of the arms embargo initiated (with the Presidency Conclusions of December 2003 mentioning for the first time the lifting of the arms embargo). We will see in Chapter 4 that Italy has consistently been one of the strongest supporters of the policy of constructive engagement towards China.<sup>120</sup> The UK Presidency in the second half of 2005, instead, has been responsible for steering the CFSP towards China during the most troublesome period, characterised by the strong opposition of the US to the lifting of the arms embargo and by the passing of the anti-secession law (clearly directed at Taiwan) by the National People's Congress (NPC) in March 2005. It was the delicate work "behind the scenes" of the British Presidency that found a compromise on the lifting of the arms embargo (postponement and no-discussion) and begun the EU-China strategic dialogue (initiated in December 2005) alongside the EU-US and EU-Japan strategic dialogues on East Asia.<sup>121</sup> Thus, in the case of China the Presidency has become, over the years, an increasingly important actor for the agenda-setting and for initiating (or pushing) certain *dossiers*.

The Commission of the European Communities (or simply the Commission) is considered to be fully associated with the CFSP but is not part of it. The Commission may submit proposals to the Council but may not initiate policies or actions independently. In this context, the role of the Commission within the CFSP differs from its role in matters where the supranational European Communities (EC) have an overriding legal competence. This explains why the four Commission's papers on China are *Communications from the Commission to the Council and the European Parliament*. Furthermore, there is a certain degree of overlapping – and incommunicability sometimes – between the China desk of the European Commission and the DG E (External Relations/Asia Oceania) of the Council, which has emerged during the interviews.

In terms of foreign policy instruments, the Treaty of Maastricht introduced two new foreign policy instruments: *joint actions and common positions*, which were to

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<sup>120</sup> Interview with Cristina Ravaglia, Italian Ministry of Foreign Affairs, Head, Division of Asia-Pacific (Office 3: China, Japan, North-East Asia), 14 December 2004.

<sup>121</sup> Interview with Denis Keefe, Foreign & Commonwealth Office, Deputy Director Asia-Pacific, Head of Far Eastern Group, 13 April 2006.

serve the purpose of providing the CFSP with means of action; later, the Treaty of Amsterdam introduced a further instrument, the *common strategy*. Currently, only three common strategies have been adopted: towards Russia, Ukraine, and the Mediterranean. No joint action, common position, or common strategy has been adopted vis-à-vis China. In a final move towards the harmonisation of EU's policy-making, the EU member states have signed in Rome, on 29 October 2004, the Treaty establishing a Constitution for Europe. Its main aims are to replace the overlapping set of existing treaties, streamline decision-making among the 25 member states, and provide a coherent basis for the actions and policies of the Union. In other words the Constitution, by enhancing the EU's capacity to act internationally, is meant to mark a significant step on the way towards convergence.

In the Constitution, EU member states, commit themselves to drastically overhaul the way in which Europe conducts its foreign policy. They declare that: "The Union's competence in matters of foreign and security policy shall cover all areas of foreign policy and all questions relating to the Union's security, including the progressive framing of a common defence policy that might lead to a common defence".<sup>122</sup> Furthermore, the European Constitution not only calls for a fully-fledged Union Minister for Foreign Affairs,<sup>123</sup> but it also intends to create a European External Action Service (EEAS)<sup>124</sup> – i.e., a European diplomatic service – and a European Defence Agency (EDA). It also calls for a stronger Council presidency to solve the ever-present problem of the rotating presidencies.

Despite of all its contradictions, the EU Constitution certainly symbolises how far the EU member states had come in accepting political, alongside economic, integration – first suggested in 1970. Subsequent developments in the ratification process of the Constitution, however, seem to indicate that more obstacles than initially foreseen are lying on the road ahead. Had the ratification process been successful in fact, the Treaty would have been scheduled to enter into force on 1 November 2006. However, in 2005, both France and the Netherlands rejected the Constitution in two separate referenda. Although several EU countries have approved the Treaty - including Spain and Luxembourg - unanimity is required before it can enter into force. At the time

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<sup>122</sup> Art. I-16.1 European Constitution; the text of the Treaty establishing a Constitution for Europe is available at:

<sup>123</sup> Art.I-28 European Constitution.

<sup>124</sup> Art III-296.3 European Constitution.

of writing, numerous states have put on hold the ratification of the Treaty, and the future of the Constitution and the implementation of its provisions are therefore highly uncertain.

## **Conclusion**

We have discussed in this chapter that EU foreign policy towards China is, in essence, the sum of what the EU and its member states do in their relations with Beijing. The main actors of the EU's China policy are the European Commission and the large EU member states (Germany, France, the United Kingdom, and Italy) with the notable contribution of the Nordic countries with regard to development cooperation with China. It appears that there has been a division of tasks, which will be discussed in more detail in Chapter 4. This division of labour in EU foreign policy can be summarised as follows: while the EU level (i.e. the European Commission) has been used to engage Chinese civil society and put human rights and democratisation pressure on Beijing, the large EU members have rather engaged the Chinese government by seeking to maintain good political relations with the Chinese leadership in order to boost commercial exchanges.

The above division of labour is but the result of that particular international actor that the EU is. The EU remains an unfinished international actor and its foreign policy will continue to mirror its internal integration process. As the reader will see in the following chapters, the EU's engagement with China in the period 1995-2005 has provided the EU with one of its crucial and most complex tests for assessing its capacity to emerge as an effective global actor. In the next Chapter, we will examine the first twenty years of the EU-China relationship (1975-1995), while the remainder of this study concentrates on the last decade (1995-2005).



## Chapter 2

### **From secondary relationship to post-Cold War partnership: EU-China relations in the period 1975-1995**

In analyzing the international situation, we pay particular attention to Europe, for Europe plays a key role in determining if there will be peace or war. For many years our relations with Eastern Europe were abnormal. Now, basing ourselves on an objective judgment, we are of the opinion that both Western and Eastern Europe are a force for maintaining peace. Both Eastern and Western Europe need to develop, and the more they develop the stronger force for peace they become.

Deng Xiaoping, April 1980 <sup>125</sup>

Under the present complex international situation, strengthening the ties between the EC and China is of great importance to world peace and stability.

Gianni de Michelis, Italy's Foreign Minister, 28 September 1989 (a few months after Tiananmen)

#### **Introduction**

This chapter traces the development of the first twenty years of EU-China relations (1975-1995). More specifically, the first part of the chapter examines the evolution of the relationship from its inception in 1975 until the end of the Cold War in 1991. The second part concentrates on the evolution of the EU's China policy in the first half of the 1990s, culminated in 1995 with the adoption of the EU's policy of constructive engagement towards China.

A closer examination of Sino-European relations prior to 1991 reveals that the relationship was of a secondary significance and that Europe-China relations were, overall, derivative of the Cold War and broader relations with the superpowers. Chinese leaders, for instance, viewed relations with the European states more as a dependent

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<sup>125</sup> Renmin Ribao (People's Daily), 2 April 1980, as quoted in Harish Kapur, *Distant Neighbours: China and Europe*, London and New York, Pinter, 1990, pp. 124-125.

variable to China's relations with the two superpowers than as a fully-developed relationship in its own worth pursuing regardless Cold War constraints. At the same time, in the 1970s and 1980s only a few European countries pursued relations with Beijing independent of Washington and Moscow, the exceptions being the Scandinavian countries, Albania and France. This general European neglect was implemented within the context of the Cold War and Washington's trade and strategic embargo on China. The end of bipolarity, thus, created new possibilities for the EU-PRC relationship.

In the second part, the chapter focuses on post-Cold War developments in Europe and China. At the beginning of the 1990s, Chinese leaders had come to perceive the post-Cold War environment as a transition process from a bipolar to a multi-polar system of international relations, while EU policy makers tended to avoid world order issues and became intent on deepening the integration process and on equipping the EU with a common foreign and security policy.<sup>126</sup> It is argued, here, that it was the fleeting bilateral relations between the large EU member states and China that characterised the first part of the 1990s and that would have a significant impact upon the evolution of the EU's China policy.

In this context, particular attention will be devoted to the examination of the German China policy model. Germany's approach to Beijing – spearheaded by the Kohl government - has been founded on three principles: (i) silent diplomacy – i.e., no confrontation with Beijing on human rights or other sensitive issues; (ii) change through trade – i.e., encouraging political liberalisation in China via economic development; and (iii) a strict “one China” policy – i.e., without conceding to the pro-Taiwanese lobby. The success of the Germany's China policy made an impact on the rest of Europe's policy making elite. Thus, by the mid-1990s, due to the new weight acquired by Germany after the reunification, its lead in formulating a pragmatic approach to Beijing, and the awesome commercial results that ensued from it, Germany's China policy was Europeanised. In other words, by influencing the behaviour of other EU member states (especially the large ones), there has been a national projection (sideways) of Germany's China policy on the other large EU members. Moreover, Germany's

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<sup>126</sup> For more details on the question of how far European governments and elites responded to the transformation of their strategic environment at the end of the Cold War by rethinking their strategic foreign policies see: Robin Niblett and William Wallace (eds.), *Rethinking European Order: West European Responses 1989-1997*, Basingstoke, Palgrave, 2001.

national preferences vis-à-vis China were also projected upon the EU level (i.e. Commission), in the sense that the German China policy model came to influence the policy of constructive engagement put forward by the European Commission since the mid-1990s (bottom up process). With the publication of its first policy paper on China in 1995, the European Commission ushered in a policy of firm engagement towards Beijing, marking the beginning of a new era in Sino-European relations

The new EU's China policy of 1995 followed the adoption, in 1994, of the EU's New Asia Strategy (NAS), which aimed at putting relations between EU member states and Asian countries into a single, integrated framework. In 1993, Germany had become the first EU member state to elaborate a strategy towards Asia, and something similar to the case of the China policy happened, i.e. Germany's Asia policy was also Europeanised. This will be discussed in more detail in the next Chapter, after having examined the first twenty-years of EU-China relations.

## **2.1 Europe-China relations during the Cold War**

In 1975, when the PRC and the European Community (EC) established diplomatic relations, both sides had already enhanced their respective international standing. Beijing had entered into an anti-Soviet partnership with Washington in 1971-72, and the EC in 1970 had launched the European Political Cooperation (EPC) process, as the forebear for the future CFSP. The European Parliament (EP) had seen its role bolstered with the first direct elections scheduled for 1979. Also in 1974, EC heads of state and government had agreed henceforth to convene as the European Council, a *de facto* executive for dealing with the most important matters and for setting the agenda of the whole European integration process. Moreover, the EC had been authorized to collect its own revenues and to advance into new areas of cooperation such as common trade policies. In this context, some scholars viewed the establishment of diplomatic relations between the EC and the PRC, in September 1975, as the acknowledgement of "each other's future international potential".<sup>127</sup> Chinese leaders hoped that the EC would assume a higher political profile in world affairs, thereby helping to play a more active role in containing the Soviet Union while contributing to the PRC's own economic and

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<sup>127</sup> Among the others, Kåy Moller, "Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union", in *The China Quarterly*, March 2002, n. 169, pp. 10-32; David Shambaugh, *China and Europe: 1949-1995*, London, School of Oriental and African Studies (SOAS), Contemporary China Institute, Research Notes and Studies No. 11, 1996.

technological modernisation. The launching in 1975 of Prime Minister Zhou Enlai's "four modernizations" led European policy makers hope that an incipient opening up of the potential greatest market of the world was imminent. As well as being deemed important in order to benefit from China's new commercial potential, such an engagement was argued to be legitimate on the grounds that China's economic reforms could be expected to presage change in the political domain.

Furthermore, other developments in Chinese domestic politics would have a significant impact on the relationship. Indeed, by July 1977, Deng Xiaoping had regained its position as vice-chairman of the Chinese Communist Party (CCP) by the Third Plenary of the Tenth Central Committee. The following year, the Third Plenary of the 11<sup>th</sup> Central Committee confirmed the victory of Deng's pragmatic line over what remained of the Gang of Four. As a result, Beijing embarked on an active policy of improving relations with all countries outside the Soviet orbit, establishing full diplomatic relations with the US and trying to commit Japan to a more pro-active anti-Soviet line. Chinese leaders also started to perceive Western Europe increasingly in terms of Beijing's national security. In this vein, China became a vociferous advocate of the North Atlantic Treaty Organization (NATO) in order to ease Soviet pressure from the tense Sino-Soviet border. In Mao's three-world view, Europe belonged to the "second world" and as such could be mobilised into a worldwide anti-Soviet front.

From the mid-1970s, Chinese officials would encourage European policy makers to spend more on defence in an open anti-Soviet move. Chinese leaders would oppose any Western moves toward détente with Moscow and support NATO so strongly that by the late 1970s China had been labelled by many as the "16<sup>th</sup> member of NATO".<sup>128</sup> Such status also afforded China increased access to European defence suppliers. From 1975 to 1980, China dispatched dozens of inspection and shopping missions to NATO member states. Furthermore, People's Liberation Army officers were allowed to access important NATO bases and introduced to defense industrialists. The Chinese were primarily interested in NATO's frontier defense planning against a Soviet land invasion, the use of battlefield tactical nuclear weapons and antitank technology. At that time, Beijing purchased anti-air and anti-tank missiles from Italy and West Germany, radars from France, and jetfighter engines and technologies from

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<sup>128</sup> Shambaugh (1996), p. 12.

Great Britain.<sup>129</sup> This was possible since following the re-establishment of US-China diplomatic relations, Washington had accepted that its European partners sold certain weapons to the PRC which the US itself, due to domestic constraints, was still unable to sell. These moves led the Assembly of the Western European Union (WEU)<sup>130</sup> to table a draft resolution in May 1978 recommending a careful examination of “the role that China can play regarding European security”, as well as favourable consideration of the “rising Chinese demands for industrial technology”.<sup>131</sup>

Further developments in both Western Europe and China in the 1980s moved the relationship onto a further stage. In 1979, under the impulse of France and Germany, the European Monetary System (EMS) was devised, as a first step towards monetary union. In the early 1980s, further steps towards enhanced political cooperation were taken and in 1986 the EC member states adopted the Single European Act (SEA). At the same time, the PRC had gone through three important policy shifts. In 1978, Deng Xiaoping had reaffirmed the primacy of economic development over all other policies. Four years later, in 1982, China started adopting a more independent stance vis-à-vis both superpowers, a line that was subsequently approved by the 12<sup>th</sup> CCP Congress in September 1982. In the mid-1980s, another major policy shift occurred: starting with the assumption that the world was going through important changes, Deng Xiaoping officially did away with the Maoist thesis of the inevitability of a nuclear world war and became more supportive of disarmament and *détente* as a matter of principle. Moreover, in these new circumstances, Europe as a whole was to be given special consideration. According to Deng himself:

In analyzing the international situation, we pay particular attention to Europe, for Europe plays a key role in determining if there will be peace or war. For many years our relations with Eastern Europe were abnormal. Now, basing ourselves on an objective judgment, we are of the opinion that both Western and

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<sup>129</sup> David Shambaugh, “China’s Quest for Military Modernization”, in *Asian Affairs*, May-June 1979, pp. 295-309.

<sup>130</sup> Founded in 1954 as a collective security pact by the United Kingdom, France, the Benelux States, Italy and Germany, and succeeding the previous Brussels Pact uniting the former three against a possible resurgence of German militarism, the WEU had come close to oblivion by the 1970s because it lacked military structures of its own. It was revived ten years later, however, after EPC had failed to make a difference during the Soviet invasion of Afghanistan. In 1987, the WEU was charged with co-ordinating EC members’ out-of-area activities. In the last years, some EU member states – for instance, France, Germany and the Benelux countries – tabled plans for the incorporation of the WEU into European Security and Defence Policy (ESDP). In 2002, the WEU Research Institute became the EU Institute for Security Studies based in Paris.

<sup>131</sup> Frederick Bennett, *La Chine et la sécurité européenne*, Paris, West European Union, 1978. These concerns have resurfaced in recent years with regard to European technology transfers to China and the arms embargo issue. For more details, see Chapter 5.

Eastern Europe are a force for maintaining peace. Both Eastern and Western Europe need to develop, and the more they develop the stronger force for peace they become.<sup>132</sup>

From the mid-1980s onwards, it was also Western Europe's potential role as a new pole in a future multi-polar world, and not only as a bulwark against Soviet hegemony, that attracted Beijing's attention.<sup>133</sup> Some Chinese scholars had argued for a multi-polar perspective in international relations and had interpreted the role of a united Europe as a compromise between the traditional dependence on the US and greater autonomy in the future. This was not only due to China's own strategic about turn, but also to the growing realisation that the European integration process would have a major role to play in the gradual political emancipation of Eastern Europe from Moscow.<sup>134</sup>

The theme of a united Europe appears in official Chinese statements from the second half of the 1980s. In April 1985, Deng Xiaoping stressed the importance of a "strong and united Western Europe", while CCP Secretary-General Hu Yaobang in 1986 declared his wish for "Eastern and Western Europe uniting and jointly conducting a policy of independence and self-reliance in opposition to war".<sup>135</sup> Moreover, in May 1987 speaking during an official visit to the Netherlands, prime Minister Zhao Ziyang declared that: "The unification of Europe, its growth and strength, the strengthening of the cooperation between China and Western Europe, and the rapprochement between Eastern and Western Europe will play an important role for the maintenance of global peace".<sup>136</sup> Later, Deng Xiaoping called for the establishment of a "united, strong and developing Europe".<sup>137</sup> It was in this context of growing expectations for a united Europe that Chinese leaders began to strengthen relations with the different institutions of the EC. In 1983 high level consultations at the ministerial level were launched to address a wider range of issues. Furthermore, biannual meetings were initiated between the political affairs directors of the country holding the EC presidency and the Chinese ambassador to the country concerned. Also in the early 1980s, Chinese leaders started

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<sup>132</sup> Renmin Ribao (People's Daily), 2 April 1980, as quoted in Harish Kapur, *Distant Neighbours: China and Europe*, London and New York, Pinter, 1990, pp. 124-125.

<sup>133</sup> Ding Hong and Zhang Baoxiang, *Opportunity, Policy and Role: On Western Europe's Role in Present Day World*, Beijing, China Institute of Contemporary International Relations, 1987, p. 2, as quoted in Kapur, *Distant Neighbours*, p. 171.

<sup>134</sup> Guo Fengmin, "Xiou guojia wajiao zhengcede jiben sixiang" ("Basic thinking in the foreign politics of Western European countries"), *Guoji wenti yanjiu (Journal of International Studies)*, No. 2, 1981, pp. 25-34.

<sup>135</sup> Xinhua News Agency in English, 17 April 1985 as quoted in *Ostinformationen*, Bonn, Federal Press and Information Office, 28 April 1985, p. 24.

<sup>136</sup> *Radio Beijing* in Chinese, 11 May 1987, as quoted in *Ostinformationen*, Bonn, Federal Press and Information Office, 12 May 1987, pp. 29-30.

<sup>137</sup> *China Daily*, 13 May 1987, p. 1.

establishing relations with the European Parliament through an exchange of delegations with the National People's Congress (NPC). Although the EP did not play a major role in the European integration process, nonetheless it consistently supported the strengthening of Sino-European ties and had urged the Commission and the Council, back in the second half of the 1980s, to promote China's re-entry into the General Agreement on Tariffs and Trade (GATT).<sup>138</sup>

China's professional community of Europe specialists also began to take shape during the 1980s, along with the more general development of area studies. The Institute of West European Studies was established in the Chinese Academy of Social Sciences (CASS), a national Association of European Studies was founded, and European sections were developed in the principal international relations research institutes.<sup>139</sup> In the early 1980s, Chinese international affairs specialists also began to put forward the idea that the US defence build-up had begun to stabilise the balance of power between the superpowers. Moreover, these analysts perceived the emergence of an increasingly multi-polar world order as the defining feature of the international system of that period. For China this meant that close alignment with the United States and NATO was not as necessary to Chinese security as had been the case during the previous decade.

The gradual thaw in Sino-Soviet relations further contributed to this perception. Based on this assumption of a changing international system, China proclaimed its "independent foreign policy" in 1982.<sup>140</sup> In this new multi-polar world order, Chinese scholars saw Europe as constituting one of the poles. Accordingly, Western Europe could act as a counterweight not just against Moscow but against the United States as well. Such an analysis reflected China's desire for the suppression of a bipolar world order and the creation of an international system in which regional powers such as China played defining roles. However, according to David Shambaugh, in the case of Western Europe such perceptions seriously underestimated two factors. First of all, Chinese leaders overestimated the political unity of Western Europe while rarely taking

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<sup>138</sup> European Parliament Working Documents, *Document A2.56/87*, Brussels, European Communities, 18 May 1987, p. 6. To note that the EP has been the most prominent critic, in recent years, of China's human rights violations. For more details see Chapters 6 and 7.

<sup>139</sup> Interview with Professor Luo Hongbo, Deputy-Director, Institute of European Studies, Chinese Academy of Social Sciences (CASS), Beijing, 7 May 2005.

<sup>140</sup> See: Michael Yahuda, *The International Politics of the Asia-Pacific*, London, Routledge, 2005 (second and revised edition), in particular Chapter 3 (pp. 72-97).

into consideration the divergences among member states. Secondly, China held the view that Western Europe was independent from the US within NATO. There was an underlying assumption prevalent among many of China's Europe specialists that NATO was an organisation forced upon Europeans by Americans.<sup>141</sup> This assumption led Chinese leaders to cultivate anti-American sentiment within Europe in an attempt to drive a wedge between Washington and its allies. According to Huan Xiang, "the positions and interests of the allies on the two shores of the Atlantic do not actually have much in common".<sup>142</sup> This reading was based on a biased perception of the forces at work within Europe. It is not surprising that Huan Xiang was giving these remarks in France, a country that historically sought to distance itself – and tried to convince the rest of Europe as well – from a too strong an American embrace. It is therefore possible that these misperceptions emerged as a consequence of personal and intellectual ties that many Chinese leaders had developed over time with the French political and cultural elite, which is well-known for its anti-Americanism. Thus, whereas China sought to cultivate anti-Soviet elements in Europe during the 1970s, in the 1980s increased efforts were made to woo anti-American and anti-militarist elements. A new strategy of cultivating the European Left was put forward by Beijing during the 1980s. Proponents of European nationalism and anti-militarism were viewed by Beijing as natural allies in its new strategy to accelerate the world's trend toward multi-polarity.

From an economic perspective, during the 1980s in an attempt to diversify its growing dependence on Japan and the US for imported technology, China began to increase its commercial ties with West Europeans. On 3 April 1978, a trade agreement was signed with the EC, which in 1984 was extended to a broader Trade and Co-operation Agreement (TCA). The EC offered Most Favoured Nation (MFN) access and included in the Community's Generalised System of Preferences (GSP) provisions from 1980, in stark contrast with Beijing's exclusion from the GSP of the United States. By 1987, two-way trade totalled \$13 billion. Of this amount, Chinese imports from Western Europe had grown by 169% over the same period. Nonetheless, this amounted to a mere 15% of China's total foreign trade, and a scant 1% of total European Community trade. Among West European states, Germany gained the upper hand, accounting for nearly 40%. As of 1987, France, Italy, the United Kingdom and then West Germany accounted

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<sup>141</sup> David Shambaugh, 1996, p. 14.

<sup>142</sup> Interview with Huan Xiang, "Pekin et les trois mondes", *Politique Internationale*, Spring 1986, p. 191, as quoted in Jean-Pierre Cabestan, "Sino-European Relations", in Gerald Segal (ed.), *Chinese Politics and Foreign Policy Reform*, London, Kegan Paul International, 1990, p. 219.



for only 1.7% of total foreign direct investment in China (\$39 million).<sup>143</sup> While the 1980s saw a gradual and persistent growth of economic relations between China and Western European countries, Sino-European political relations continued to be dependent on Cold War imperatives.

## 2.2 Tiananmen

The PLA crackdown on students' demonstrations of 4 June 1989 had a considerable impact on China-West European relations. In the aftermath of the massacre, the EC responded by imposing a range of sanctions that paralleled those of the US, although cultural exchanges were not officially suspended as was the case with the US. At the European Community's summit in Madrid on 26-27 June 1989, European leaders agreed to impose punitive economic sanctions individually and in the framework of the EC, suspend all military contacts and arms sales, withhold all ministerial-level official visits to China and defer those already scheduled, freeze all government-guaranteed loans, and issue a strong statement condemning the massacre.<sup>144</sup> Tiananmen caused particular problems to the French and British governments. France gave sanctuary and political asylum to numerous Chinese involved in the pro-democracy movement and this caused strains in Sino-French relations. The British government was in a very delicate position since London and Beijing were involved in sensitive negotiations over the content of the Hong Kong Basic Law and other important details related to the retrocession of the British colony to Chinese sovereignty. In the aftermath of the massacre, hundred of thousands of demonstrators flooded the streets of the city for unprecedented demonstrations against Beijing and this put a lot of pressure on London.<sup>145</sup>

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<sup>143</sup> David Shambaugh, "China and Europe: the Development from a Secondary to an Independent Relationship", in Song Xinning and Zhang Xiaojin (eds.), *China and Europe Towards the Twenty-First Century* (Zouxiang Ershiyi Shiji de Zhongguo yu Ouzhou) Hong Kong, The Social Sciences Press, 1997, pp. 33-63; see also Michael Yahuda, "China and Europe: The Significance of a Secondary Relationship", in Thomas Robinson and David Shambaugh (eds.), *Chinese Foreign Policy: Theory and Practice*, Oxford, Oxford University Press, 1994, pp. 266-282.

<sup>144</sup> See: [http://aei.pitt.edu/archive/00001453/01/Madrid\\_june\\_1989.pdf](http://aei.pitt.edu/archive/00001453/01/Madrid_june_1989.pdf)

<sup>145</sup> The Hong Kong issue became still more contentious when in 1992 the new Governor, Chris Patten, unveiled plans to substantially broaden the political enfranchisement of Hong Kong citizens in voting for their representatives in the Legislative Council. For more details on Hong Kong takeover, see Michael Yahuda, *Hong Kong: China's Challenge*, London and New York, Routledge, 1996; and Hanns Maull, Gerald Segal and Jusuf Wanandi (eds.), *Europe and the Asia Pacific*, London, Routledge, 1998 (in particular chapter 4 and 5).

On 4 July 1989 the European Community announced its intention to re-establish political contacts with China. On 28 September 1989, Italy's Foreign Minister, Gianni de Michelis, met with his colleague Qian Qichen at the margins of the United Nations (UN) General Assembly declaring that "under the present complex international situation, strengthening the ties between the EC and China is of great importance to world peace and stability".<sup>146</sup> Subsequently, the Italian government started lobbying the other EC member states for relaxing sanctions against China.

In the months following the massacre, Beijing made a small number of minor changes to its human rights legislation and these were received by the EC as justification for restoring normal relations. Moreover, following the Group of Seven (G-7) summit and US President Bush's declaration that the US would not oppose the allies' lifting of sanctions, the European governments reinitiated ministerial contacts and government-backed loans. On 22 October 1989 EC foreign ministers decided to gradually resume economic co-operation and to re-establish high-level contacts. Arms sales and military contacts remained frozen (the latter were lifted in 1994), but ministerial and head of state visits resumed. In the end, most of West European sanctions were lifted during the Summer of 1990. In its turn, China was much less vociferous in its condemnation of West European than of American sanctions, although it did blame European countries for the economic sanctions adopted that had caused a sharp reduction in two-way trade.<sup>147</sup>

In conclusion, until 1991 China's relations with Europe continued to be derived from - and dictated by - its relations with the two superpowers. Whether as a function of Chairman Mao's post-war two camp worldview, the Sino-Soviet and Sino-American estrangements, Mao's theory of the three worlds, of Deng Xiaoping's polycentric diplomacy, until 1991 Europe's position in Chinese foreign policy was largely determined by Beijing's relations with Washington and Moscow. Therefore, relations with the European states were viewed by Chinese leaders more as a dependent variable to China's relations with the two superpowers than as a fully-developed relationship in its own. As David Shambaugh argued, China's relations with Western Europe were

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<sup>146</sup> Personal consultation with Gianni de Michelis, Italian MP and former Italy's Foreign Minister at the margins of the international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute, Rome 11 March 2005.

<sup>147</sup> Markus Taube, "Economic Relations between the PRC and the States of Europe", *The China Quarterly*, No. 169, March 2002, pp. 78-107.

“largely pursuit as a means to exploit fissures in their relations with the United States, a latter-day version of ‘using the barbarians to control the barbarians’ (*yi yi zhi yi*)”.<sup>148</sup> The same occurred in China’s relations with Eastern Europe, after the Sino-Soviet split. Also in this case, Chinese leaders tended to use relations with European countries as part of their policy to gain strategic advantage vis-à-vis the Soviet Union and the United States.

By the same token, in the 1970s and 1980s only a few European countries pursued relations with Beijing independent of Washington and Moscow, the exceptions being the Scandinavian countries, Albania and France. This general neglect, as some scholars have called it,<sup>149</sup> was implemented within the context of the Cold War and Washington’s trade and strategic embargo on China. The US’ West European allies cooperated in the efforts of the Coordinating Committee for the control of strategic exports to communist countries (COCOM), based in Paris to embargo high technology sales and transfers to the PRC.<sup>150</sup> Thus, Sino-European relations and vice-versa, prior to 1991, were derivative of the Cold War and broader relations with the superpowers. The end of bipolarity, thus, created new possibilities for the EU-PRC relationship.

### **2.3 Developments in Europe and China at the beginning of the 1990s**

It was not only the events of Tiananmen Square that had an impact on EU-China relations. In November 1989 the Berlin Wall had crumbled opening up new possibilities for Central and Eastern European countries. The future of NATO was being questioned as well as the US’ willingness to remain committed to Europe’s defence. The German reunification cast doubt on the principle of territorial integrity enshrined in the Final Act of the Conference on Security and Co-operation in Europe (CSCE) held in Helsinki in 1975.<sup>151</sup> At the same time, the US was putting pressure for greater European support in military operations beyond the alliance’s traditional concerns, as the allied intervention in the Gulf in 1991 later demonstrated.

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<sup>148</sup> Shambaugh (1996), p. 3.

<sup>149</sup> William E. Griffith, “China and Europe: Weak and Far Away”, in Richard Solomon (ed.), *The China Factor*, Englewood Cliffs: New Jersey, Prentice Hall, 1981.

<sup>150</sup> See Chapters 5 and 6.

<sup>151</sup> See: <http://www.hri.org/docs/Helsinki75.html>.

The European Community embarked upon a process of deepened integration with the aim to raise its international profile. In June 1990, negotiations were launched in Dublin on the establishment of the European Monetary Union (EMU) and of a political union. The CFSP also featured on the agenda of the 1991 Intergovernmental Conference on EMU and EPC in Rome, and proposals were made for the incorporation of EPC into the Community system. However, as Kjell Eliassen argued, the “prevailing divisions between Atlanticists and Europeanists and between inter-governmentalists and federalists, as well as the pressing political problems of the day, resulted in the postponement of CFSP until the 1991 Maastricht summit”.<sup>152</sup>

Signed on 7 February 1992, the Treaty of Maastricht laid the foundation for the CFSP and a future common defence policy. The Treaty devised a new political community – the European Union – axed on a “three pillars” structure: Economic Community/EMU (first pillar); CFSP (second pillar); and co-operation in judicial and home affairs (third pillar). Each pillar was under the direction of a different institution and each had its own decision-making process. Under the new Treaty, the European Council was to decide what areas should become areas of joint action and define matters on which decisions were to be taken by a qualified majority.<sup>153</sup> The Commission was accorded a right of initiative on CFSP matters.<sup>154</sup> The WEU was requested to “elaborate and implement decisions and actions which have defence implications”.<sup>155</sup> The development of such common defence policies would take place within NATO, with members being offered dual membership. Denmark and Ireland, for instance, which did not want to join the WEU as full members, were granted observer status.<sup>156</sup>

With regard to CFSP, the pillar structure meant that the European Parliament and the European Court of Justice were excluded from involvement in it. As Arnhild and David Spence argued:

With CFSP defined as a separate pillar of the Union, co-operation was to operate on intergovernmental lines...The paradox was that there was a fundamental ambiguity: a single institutional framework was an

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<sup>152</sup> Kjell A Eliassen, “Introduction: The New European Foreign and Security Agenda”, in Kjell A Eliassen (ed.), *Foreign and Security Policy in the European Union*, London, Sage, 1998, p. 5.

<sup>153</sup> Treaty on European Union, Title V, Article J.3.1-2. Available at: <http://europa.eu.int/en/record/mt/top.html>.

<sup>154</sup> *Ibid.*, Article J.8.3

<sup>155</sup> *Ibid.*, Article J.4.1.

<sup>156</sup> Marit Sjøvaag, “The Single European Act”, in Eliassen (ed.), 1998, pp. 22-42.

objective countermanded by the pillar structure in theory, and, as later became clear, by policy making in practice.<sup>157</sup>

This ambiguity was clearly manifested, as discussed in Chapter 1, in the external representation of the EU, which was the shared responsibility of the Presidency and the Commission, the latter being in charge of areas falling within the competence of the EC (mainly trade and development aid), and the Presidency representing the Union in CFSP matters (the more security-strategic related issues).

The developments in Europe were carefully analysed by Chinese scholars and policy makers.<sup>158</sup> The fall of the Berlin Wall in November 1989 had caught Beijing as much by surprise as the rest of the world. Official reports at that time vacillated between echoing concerns about German reunification and veiled criticism of both NATO and the Warsaw Pact for “concocting schemes” to prevent Germany’s reunification.<sup>159</sup> By 1993, some Chinese scholars had identified Germany as the dominant power in Europe and thus a “big power sharing world leadership with the United States”.<sup>160</sup> Moreover, Chinese scholars started to consider the European Union as a more promising partner for Beijing on the road towards multipolarity. In this context, Chinese experts of Europe observed that Maastricht was mainly a German initiative by which Bonn had replaced Paris as the engine of the European integration process, thus changing the EU’s internal power relations. Moreover, they would remark that the introduction of a common currency would divide the Union into two separate camps, and its widening would further contribute to a Europe at two different speeds.<sup>161</sup> As far as enlargement was concerned, Beijing applied the familiar multi-polarity yardstick: accession to the EU by the Central and Eastern European countries was welcomed, accession to NATO was not.<sup>162</sup>

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<sup>157</sup> Arnhold and David Spence, “The Common Foreign and Security Policy from Maastricht to Amsterdam”, in Eliassen (ed.), 1998, pp. 43-58. Quotation from p. 45.

<sup>158</sup> Song Xinning and Zhang Maoming, “The EU Common Foreign and Security Policy and its Impact on EU-China Relations”, in Jundu Xue and Rongyao Zhou (eds.), *Sino-European Relations Towards the 21<sup>st</sup> Century*, Beijing, 2001, pp. 115-134. See also: Zhang Zuqian, *China Views the ESDP*, Shanghai Institute of International Studies (SIIS), 2002, available at: <http://www.siis.org.cn/english/journal/zqzhang.htm>.

<sup>159</sup> Kay Möller, “Germany and China: A Continental Temptation”, in *The China Quarterly*, No. 147, September 1996, pp. 706-725.

<sup>160</sup> Su Huimin, “‘Ouzhoude Deguo’ haishi ‘Deguode Ouzhou’” (“European Germany’ or ‘German Europe’”), in *Guoji wenti yanjiu* (International Studies), Beijing, No. 1, 1993, pp. 20-22, as quoted in Kay Möller, 2002, p. 19.

<sup>161</sup> Qian Nengxin, “Ouzhou lianhe: chengjiu he weiji” (European integration: achievements and crisis”), in in *Guoji wenti yanjiu* (International Studies), Beijing, No. 1, 1998, pp. 17-20, as quoted in *ibid*, p. 20.

<sup>162</sup> *Ibid*, p. 20.

In March 1992, both Li Peng, China's Prime Minister, and Qian Qichen, the Chinese Foreign Minister, visited Western Europe, and Qian's itinerary included the European Commission in Brussels and Germany. In a speech given at the German Council on Foreign Relations (DGAP), Qian Qichen outlined his views of the China-EU relationship. First of all, he argued, "both support the transition process from a bipolar to a multi-polar system of international relations". Secondly, they are "both promoting a peaceful and stable international environment and tend to solve global problems through consultations rather than the use of force". Thirdly, China and Europe acknowledge "the UN's leading role in conflict resolution". Fourthly, the two sides are "highly complementary in economic terms".<sup>163</sup> The latter was seen as increasingly important from both sides.

In the early 1990s, EU-China economic relations grew steadfastly. With the exception of arms sales, cooperation and trade relations had been restored by 1991. Negotiations for China's GATT accession, which had been broken off in 1989, were also restarted in 1991. The value of Chinese imports accorded GSP preferences increased from 2,9 billions Ecu in 1989 to 14.1 billions Ecu in 1994.<sup>164</sup> Also the EU's aid to China increased significantly in the first half of the 1990s. Politically, the only explicit form of political pressure that survived the immediate reaction to the Tiananmen Square events was the EU's practice of tabling a resolution criticising China's human rights record in the annual meeting of the United Nations Commission on Human Rights (UNCHR). Pressure at this stage was exercised principally by the UK in relation to the post-transition provisions for Hong Kong, while other EU member states maintained a low profile on this issue.

More importantly, however, by the mid-1990s neither the Commission nor the individual member states had outlined a clear and comprehensive political vision of China or expressed the content and meaning of the Sino-EU relationship, in striking contrast with the Chinese leadership.<sup>165</sup> On 12 September 1994, in a further move to improve relations with the EU and lay down China's vision of EU-China relations,

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<sup>163</sup> Bulletin of the Chinese Embassy in Bonn, 12 March 1992, as quoted by Möller (2002), p. 21; Qian also stressed that to maximise benefits from this promising relationship, the "principle of non-interference" would have to be respected.

<sup>164</sup> Data from the following websites: [http://www.europa.eu.int/comm/trade/index\\_en.htm](http://www.europa.eu.int/comm/trade/index_en.htm); and [http://www.europa.eu.int/comm/external\\_relations/china/intro/index.htm](http://www.europa.eu.int/comm/external_relations/china/intro/index.htm).

<sup>165</sup> The same happened in recent years with regard to the EU-China strategic partnership. For more details see Chapter 5.

Jiang Zemin's, the Chinese President, spelled out the "Four Principles for the Development of the Relationship between China and Western Europe". The four principles were: (i) development of relations with a view to the twenty-first century; (ii) mutual respect, search for common ground, downplaying of differences; (iii) mutual benefit; and (iv) resolution of all international problems through consultation and co-operation.<sup>166</sup> Interestingly, the Four Principles were declared in Paris, instead of Brussels. The aim of such a gesture was double. Firstly, it officially signalled the mending of Sino-French relations after the row over French arms sales to Taiwan at the beginning of the 1990s. Secondly, it conveyed the message that for Beijing what mattered were the relations with the individual states of the EU, especially the large ones. It is, therefore, to the bilateral relations between the large EU member states (the so-called "big four") and China in the first part of the 1990s that we will now turn our attention.

#### **2.4 The relations between the large EU member states and China in the first part of the 1990s**

It was the fleeting bilateral relations between some of the large EU member states and China that characterised the first part of the 1990s and that would have a significant impact upon the evolution of the EU's China policy. Sino-British relations, for instance, were strained by the problems related to Hong Kong's takeover scheduled for 1997. The events of Tiananmen Square in 1989 raised anxieties in London about the future of Hong Kong and the protection of its residents' freedoms. The appointment of Chris Patten as the new Governor-general of Hong Kong in 1992 worsened Sino-British relations further. The pro-democracy activism of the Governor was manifested in the moves to introduce political freedoms in a more democratic Legislative Council than what Beijing had envisaged in 1984. Moreover, the British proposal to introduce the right to abode for Hong Kong residents in the UK, as well as Patten's unilateral actions on constitutional reform in Hong Kong created the conditions for the escalation of diplomatic tensions between London and Beijing. In 1994 the Chinese government threatened to discriminate against Britain over trade matters. At that point, the European Commission and some EU member states intervened by warning China that it could not expect to isolate the UK. After that, London and Beijing began discussions to hammer

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<sup>166</sup> See: David Gosset, "China and Europe: Toward a Meaningful Relationship", in *Perspectives*, Vol. 3, No. 7, available at: [http://www.oycf.org/Perspectives/19\\_123102/ChinaEurope.htm](http://www.oycf.org/Perspectives/19_123102/ChinaEurope.htm).

out their differences and from 1995 onward relations between the two sides started to improve.<sup>167</sup>

However, it was France which experienced the sharpest decline in relations with Beijing during the early 1990s. Tensions over the harbouring of dissidents were compounded in 1992 when France decided to sell 60 Mirage 2000 fighter-interceptors to Taiwan (a deal worth \$3.8 billion). This followed the \$4.8 billion sale of 16 LaFayette frigates to the Taiwanese navy in 1991. Beijing reacted harshly. It condemned Mitterand's "short-sighted Socialist government" for "forgetting principles for the sake of interest" and "violating the principles which were highly respected by all French governments since that of Charles de Gaulle".<sup>168</sup> Following these statements, China announced the closure of the French Consulate General in Guangzhou and barred French companies from bidding for the contract to build the subway system in the same city. In March 1994 relations were further strained by the sale to Taiwan of \$2.6 billion more in advanced weaponry, including Exocet, Crotale and Mistral missiles, torpedos, anti-submarine sensors and electronic warfare equipment. Subsequently, the new Balladour government decided to invert this downward spiral trend publicly reaffirming China's "sole and inalienable sovereignty over Taiwan" and committed the French government to no further arms sales to the island. With these statements relations resumed, the Guangzhou Consulate reopened and a state visit by Prime Minister Balladour to China took place in the Spring 1994. In this context, in September 1994 Jiang Zemin spelled out the *Four Principles* in Paris with the aim to bolster Sino-French relations.

In contrast to the UK and France, Germany and Italy had succeeded in maintaining a less volatile political relationship with Beijing. Due to the absence of strategic interests in the region, both Rome and Berlin had resumed relations with Beijing in the months following Tiananmen. Gianni de Michelis, at that time Italy's Foreign Minister, was the first Western foreign minister to visit Beijing in 1989 after the Tiananmen events. In addition, the Italian government started to lobbying the other EC

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<sup>167</sup> See: Eberhard Sandschneider, "China's Diplomatic Relations with the States of Europe", in *The China Quarterly*, vol. 169, n. 1, March 2002, pp. 33-44; and Michael B. Yahuda, "Sino-British Negotiations: Perceptions, Organisation and Political Culture", in *International Affairs*, vol. 69, n. 2, April 1993, pp. 245-266.

<sup>168</sup> Patricia Wellons, "Sino-French Relations: Historical Alliance vs Economic Reality", in *The Pacific Review*, Vol. 7, No. 3, 1994, pp. 341-348.



members as early as the Autumn of 1989 in order to ease sanctions against Beijing.<sup>169</sup> However, it was the more pragmatic approach adopted by Germany that would have a significant impact upon the subsequent evolution of the EU's China policy, as well as on the behaviour of the other EU member states.

Since the early 1990s, Germany has consistently concentrated its energies on building good economic and political relations with Beijing. This pragmatism goes back to 1955, when despite the Hallstein doctrine that denied diplomatic recognition to all states that recognised East Germany, the Federal Republic established a trade office in China. This pragmatic economic policy soon paid good dividends. By 1966, West Germany was China's major European trading partner. In the 1980s, it was estimated that almost 50% of the foreign technology imported into China came from West Germany.<sup>170</sup> Sino-German commercial relations have largely benefited from Berlin's strategy to avoid raising confrontational issues with Beijing and to reaffirm the "one China" policy in many occasions.<sup>171</sup> For instance, in January 1993 Chancellor Kohl refused to approve the sale of 10 submarines and 10 frigates to Taiwan in order not to upset relations with the PRC. Thus, unlike the problems experienced by the UK over Hong Kong or the tensions underwent by France over Taiwan, Germany has consistently avoided raising contentious issues pertaining to China's sense of sovereignty and national pride.<sup>172</sup>

This German China policy model has been founded, according to Christoph Nesshöver, on three principles: (i) silent diplomacy – i.e., no confrontation with Beijing on human rights or other sensitive issues; (ii) change through trade – i.e., encouraging political liberalisation in China via economic development; and (iii) a strict "one China" policy – i.e., without conceding to the pro-Taiwanese lobby.<sup>173</sup> This strategy of

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<sup>169</sup> Personal consultation with Gianni de Michelis, Italian MP and former Italy's Foreign Minister at the margins of the international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute, Rome 11 March 2005.

<sup>170</sup> Kay Möller, "Diplomatic Relations and Mutual Strategic Perceptions: China and the European Union", in Richard L. Edmonds (ed.), *China and Europe since 1978: A European Perspective*, Cambridge, Cambridge University Press, 2002.

<sup>171</sup> The "one China" policy is the principle that there is one China and that mainland China, Tibet, Hong Kong, Macao, Xinjiang and Taiwan are all part of that China. The "one China" policy is also a requirement for any political entity to establish diplomatic relations with the People's Republic of China.

<sup>172</sup> Personal consultation with Dr. Heinrich Kreft, Senior Strategic Analyst, Policy Planning Staff, German Foreign Ministry, 6 March 2006.

<sup>173</sup> Christoph Nesshöver, "Bonn et Paris face à Pékin (1989-1997) : vers une stratégie commune ?" in *Politique Etrangère*, 1/1999, pp. 91-106 ; see also Reuben Wong R, *Towards a Common European Policy on China? Economic, Diplomatic and Human Rights trends since 1985*, paper presented at the

depoliticising economic relations with Beijing brought home tremendous commercial results: German exports to the PRC doubled between 1992 and 1994, from DM5.7 billion to DM10.2 billion. By the mid-1990s, Germany had become, by far, China's most important European trading partner.<sup>174</sup>

The success of Germany's China policy made an impact on other EU member states' policies. For instance, the British Secretary for Trade and Industry, Michael Heseltine, adopted the German approach when visited China in 1994 accompanied by 130 businessmen. During the visit, he "carefully avoided raising contentious issues with Beijing" and reiterated Britain's commitment to the "one China" policy. As a result, the visit ended with an important number of contracts being awarded to British companies and investors.<sup>175</sup> Also France tried to copy the German model of good political relations with Beijing. As discussed earlier, from a policy of leaning toward Taiwan, France shifted to a more unconditional support to Beijing.<sup>176</sup> The joint France-China *communiqué* issued after the state visit to China by Prime Minister Balladour in Spring 1994 committed Paris to abide by the "one China" policy and to refrain from selling new arms to Taiwan. With regard to Italy, Rome has consistently followed the German lead of maintaining good political relations with Beijing, in line with its role as a trading state.<sup>177</sup>

To sum up, by the mid-1990s due to the new weight acquired by Germany after the reunification, its lead in formulating a pragmatic approach to Beijing, and the awesome commercial results that ensued from it, the German China policy had succeeded in influencing the behaviour of the other EU member states, especially the large ones. In other words, it is argued here that the Germany's China policy was Europeanised in the sense that it became projected (sideways) on to the other large EU members. Moreover, a bottom-up national projection also took place, as the German approach to China largely influenced the adoption of the policy of constructive

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International Political Science Association Conference on: "The European Union and the World: Asia, Enlargement and Constitutional Change", Beijing, Chinese Academy of Social Sciences (CASS), 5-6 May 2005.

<sup>174</sup> Data from Christoph Nesshöver (1999), p. 101.

<sup>175</sup> Interview, Foreign & Commonwealth Office, London, 26 October 2004.

<sup>176</sup> Interview, French Ministry of Foreign Affairs, Paris, 7 July 2004.

<sup>177</sup> Personal consultation with Marta Dassu, Director of International Programs, Aspen Institute (Italy) and currently Foreign Policy Advisor to Italy's Foreign Minister Massimo D'Alema (Romano Prodi government: 2006-). See also: Marta Dassu, "Italian Policy towards China: the Trading State Approach", in Miguel Santos Neves and Brian Bridges (eds.), *Europe, China and the Two SARs*, Basingstoke, Macmillan, 2000.

engagement at the EU level (by the Commission), which we will examine in the next section.<sup>178</sup>

## **2.5 A turning point: The adoption of the policy of constructive engagement in 1995**

The development of the EU's New Asia Strategy advocating a more pro-active engagement with Asian countries in 1994 (spearheaded by Germany in 1993, as we will see in the next Chapter) coupled with the evolution of relations between EU member states and China in the first part of the 1990s, contributed to the formulation of the EU's new China policy. On 5 July 1995, the European Commission released its Communication *A Long-Term Policy for China-Europe Relations*. The document declared that "the time has come to redefine the EU's relationship with China, in the spirit of the new Asia strategy". With the aim to put the EU member states' relationships with the PRC into a "single integrated framework", the Commission declared that relations with China "are bound to be a cornerstone in Europe's external relations, both with Asia and globally".<sup>179</sup> Point of departure of the Commission's document is the rise of China, seen as an unprecedented event since the Second World War. While the analysis concentrates on China's economic upsurge and the potentialities of its market for European business, the paper lays down a strategy of constructive engagement for integrating China into the world community.

Interestingly, the EU borrowed the notion of constructive engagement from Asia. The term was indeed used by the Association of South-East Asian Nations (ASEAN) for describing its rather uneasy relationship with the Burmese junta. With the 1995 Commission's paper the EU entered the debate already underway in the US and Asia as to whether China should be contained or engaged. One side of this debate pointed to China's accumulation of military capacity, its emergent economic strength and its increasingly nationalistic and adversarial postures on international issues, and in consequence advocated a firm Western policy of restricting the projection of such power. To those arguing for such a policy of containment, lenient policies undertaken with the aim of securing strategic partnership with China would merely embolden the

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<sup>178</sup> This German "leaning" toward China was part of Bonn's broader strategy towards the Asian region, which will be examined in the next chapter. The EU's New Asia Strategy adopted in 1994 would provide the broader framework for the EU's China policy. For further details see Chapter 3.

<sup>179</sup> Commission of the European Communities *A Long-Term Policy for China-Europe Relations*, Brussels, COM (95), 279 final, 1995.

Chinese Communist Party (CCP) in its authoritarianism at home, encourage further nationalistic posturing abroad, and, by facilitating the growth of China's trade surplus, provide resources for additional arms development.

Other observers argued that China was still relatively weak militarily, spending less as a proportion of Gross Domestic Product (GDP) on defence than Western powers and still handicapped by extremely primitive military hardware. Moreover, some scholars argued that the potential of the Chinese market was overstated. For other commentators, the containment versus engagement debate had become futile, arguing that there could be no question of not engaging with China, but that there was equally no good reason for pandering to China and being more tolerant of its authoritarianism than that of other countries.<sup>180</sup>

The evolution of the EU's China policy during the 1990s appeared to indicate EU policy-makers' firm adherence to the arguments in favour of engagement. There was a perception in Europe that reforms were genuinely progressing in China and that reformers needed support from the international community. Indeed even key dissidents such as Wang Dan were in favour of the West engaging with China as the most likely way of triggering an eventual democratic transition. EU policy makers had come to perceive China as being a market with almost limitless potential for the expansion of economic opportunities.<sup>181</sup> As a consequence, European governments sought to maintain good political relations with Beijing and tended to exercise far less critical pressure on Beijing with regard to human rights and democratisation issues.

The belief in the necessity of maintaining good political relations with Beijing was largely driven by commercial considerations. EU member states had to cope with the persistent habit of the Chinese leadership to link politics with trade, i.e. to grant access to foreign investments and business on the basis of political considerations. With key investment contracts often decided personally by senior members of the Chinese government, it was assumed that EU governments had to maintain good political

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<sup>180</sup> The advocates of containment included: Richard Bernstein and Ross H. Munro, "The Coming Conflict with America", *Foreign Affairs*, Vol. 76, No. 2, March/April 1997, pp. 18-32; Advocates of constructive engagement included Robert S. Ross, "Beijing as a Conservative Power", *Foreign Affairs*, Vol. 76, No. 2, March/April 1997, pp. 33-44; Chas W. Freeman, "Sino-American Relations: Back to Basics", *Foreign Policy*, No. 104, Fall 1996, pp. 3-17. Among the advocates of a more normal policy mix there was Gerald Segal with his influential article: "Does China Matter?", *Foreign Affairs*, Vol. 78, No. 5, September/October 1999, pp. 24-36.

<sup>181</sup> Interview, *ibid*.

relations with the CCP regime. By the mid-1990s the idea emerged that the EU appeared to have benefited from China's economic opening to a lesser degree than the US or Japan.<sup>182</sup> The EU's share of China's imports fell from 20% in 1990 to 13% in 1995.<sup>183</sup> The EU accounted for only 5,5% of foreign investment in China between 1990-1995, not far behind the 5,1% from Japan and 6.7% from the US, but negligible alongside the 75% of China's FDI originating from the Chinese diaspora. Moreover, with key investment contracts often decided personally by senior members of the Chinese government, it was felt that the coercive measures on human rights issues adopted in the early 1990s after the Tiananmen events had directly contributed to Europe's relatively weak position within the Chinese market. Beijing openly targeted concrete commercial reprisals specifically at those EU states, such as Denmark and Sweden, which had insisted most strongly on a firm human rights policy.<sup>184</sup> Also France, which had reacted particularly strongly to the Tiananmen Square massacre, became concerned that its companies would be discriminated against by decisions taken at the highest political level. As a consequence, for fear of significant commercial losses, we saw earlier that Paris decided to reverse its critical position towards Beijing. Conversely, by avoiding raising contentious issues with Beijing, Germany had obtained great commercial advantages.

Strategic developments were similarly read by EU policy-makers as pointing towards the need for a more effective constructive engagement.<sup>185</sup> During the mid-1990s, tensions emerged within East Asia over a number of territorial claims in the South China Sea. Chinese manoeuvres in the Taiwan Strait and its missile tests, timed to influence the 1996 Taiwanese election campaign, had given the West one of its most serious strategic frights since the end of the Cold War. During the missile test crisis in March 1996, the EU Presidency in the CFSP framework stated that:

The EU deeply regrets the firing by the PRC of missiles, beginning in the morning of March the 8<sup>th</sup>, into test zones in Taiwan Strait...The EU, recalling the pledge always made by the PRC to stick to its fundamental policy on the Taiwan issue, which is seek a peaceful solution, calls on the PRC to refrain from activities which could have negative effect on the security of the entire region.<sup>186</sup>

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<sup>182</sup> Interview, *ibid.*

<sup>183</sup> Christopher M. Dent, *The European Union and East Asia: An Economic Relationship*, London, Routledge, 1999 p. 137.

<sup>184</sup> Interview, European Commission delegation in China, Beijing, 23 September 2004.

<sup>185</sup> Interview, European Commission delegation in China, Beijing, 23 September 2004.

<sup>186</sup> *Press statement on China's military exercises off the Taiwan coasts*, Italian Presidency of the EU, 8 March 1996; for more details see Chapter 7.

In the end, it was left to the US to face China, with Washington deploying two aircraft carriers in the area. Eventually, Beijing backed down to the US show of strength. However, concerns remained over the prospect of conflict in a channel, the South China Sea, which takes a quarter of the world's shipping.<sup>187</sup>

These events had arisen within the context of an increasingly strident Chinese nationalism.<sup>188</sup> Moreover, China continued to increase military spending, with overall Chinese defence capability rising 40% between 1989 and 1995, coupled with a significant programme of weapons modernisation.<sup>189</sup> The EU's new desire to engage with Asian countries reinforced the shift to a strategy of constructive engagement. The latter was, for instance, seen as a prerequisite to the development of the Asia-Europe Meeting (ASEM) in 1996, which was predicated on the desire to harness the support of other Asian states to engage with - and successfully manage - China's rise.<sup>190</sup> Moreover, the ASEM process was meant to reinforce the perceived importance of cooperative relations with Beijing, with the hope that China's growing assertiveness would not cause tensions in the region.<sup>191</sup>

In sum, for the advocates of a policy of constructive engagement there were both commercial and strategic reasons for the EU not to exert punitive pressure on China in relation to internal political developments and its growing regional assertiveness.<sup>192</sup> European Commission officials argued that with its policy of constructive engagement, the Union would be able to raise human rights issues in a more effective manner, in particular over very specific individual reforms.<sup>193</sup>

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<sup>187</sup> See: Frank Umbach, *Konflikt oder Kooperation in Asien-Pazifik? China Einbindung in regionale Sicherheitsstrukturen und die Auswirkungen auf Europa*, Oldenbourg, Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik, 2002; William T. Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security*, Cambridge, Cambridge University Press, 2001; and Trevor Taylor, *European Security and the Asia-Pacific Region*, London, RIIA, 1997.

<sup>188</sup> See: Christopher R. Hughes, *Chinese Nationalism in the Global Era*, London, Routledge, 2006.

<sup>189</sup> *The Military Balance 1997/98*, London, The International Institute for Strategic Studies, 1997.

<sup>190</sup> Interview, European Commission delegation in Beijing, 22 September 2004.

<sup>191</sup> We will discuss these issues in more details in Chapter 3.

<sup>192</sup> Interview, European Commission delegation in China, Beijing, 22 September 2004.

<sup>193</sup> Interview, *ibid.*; see also: Hervé Dejean de la Bâtie, *La politique chinoise de l'Union européenne: en progress, mais peut mieux faire*, mimeo, 13 February 2002, p. 32; see also Richard Youngs, *The European Union and the Promotion of Democracy*, Oxford, Oxford University Press, 2001, in particular chapter 6 on "The EU and China" (pp. 165-190); see also Peter Ferdinand, "Economic and Diplomatic Interactions between the European Union and China", in Richard L. Grant (ed.), *The European Union and China: A European Strategy for the Twenty-First Century*, London, RIIA, 1995.

The evolution of the US' China policy also contributed to the EU's firm adherence to the reasons of constructive engagement. The relatively hard-line US policy towards China began to shift during the mid-1990s. From advocating a policy of containment - and being judged to have benefited from this in the 1992 election campaign - President Clinton moved towards a more cooperative rapprochement with China. In 1996, the administration granted China normal trading relations, consisting of Most Favoured Nation (MFN) market access, and began to lower the hurdles it had set for China's WTO accession.<sup>194</sup> Although the business lobbies in the US won the debate over China's MFN status, a powerful array of human rights groups, labour unions, and the Taiwanese lobbies within both the Republican and Democratic parties succeeded in ensuring that the administration kept at least a degree of critical and more political focus on China.<sup>195</sup> For instance, when the US administration finally granted China permanent normal trading relations in 2000, Democrats linked this to the creation of a new Congressional Human Rights Commission on China and Republicans sought to extract further guarantees on security cooperation. While also a number of EU member states were berated by opposition parties and human rights groups in their respective countries, the domestic politicisation of China, and the consequent linkages between commercial and political issues, remained significantly less marked than in the US.<sup>196</sup>

More significantly, Western policy towards China came to be conditioned by the commercial competition between the EU and the US. The rivalry between Airbus and Boeing for new contracts in China was the most dramatic example of this increasingly intense competition.<sup>197</sup> As the Clinton administration opted for increasingly constructive engagement with China during his second mandate, EU member states perceived their scope to - eventually - pursue a significantly different approach to be consequently curtailed. Japan's calls for engagement exercised a similar effect. After suspending its aid programme in 1996 in response to China's missile tests, Japan launched a new policy of engagement in 1997, with generous commitments of aid and loans. Similar moves on the part of other Asian states, such as Singapore and South Korea, also helped condition the development of the EU's China policy.

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<sup>194</sup> See Alastair I. Johnston and Robert S. Ross (eds.), *Engaging China: The Management of an Emerging Power* London, Routledge, 1999.

<sup>195</sup> See Robert S. Ross (ed.), *After the Cold War: Domestic Factors and US-China Relations*, New York, M.E. Sharpe, 1998.

<sup>196</sup> Interview, European Commission delegation in China, Beijing, 22 September 2004.

<sup>197</sup> This will be examined in more details in Chapter 5.

By the mid 1990s, EU policy makers had also identified the prospect of China's internal disintegration as one of their main preoccupations. Some European observers propounded the idea that it was the lack of any progress towards a real democratisation process that was breeding resentment in the increasingly economically independent coastal provinces and that was, therefore, the greatest risk to stability.<sup>198</sup> This perception was derived, in particular, from the view that the biggest threat to the agreements reached with the Chinese leadership lay in internal fragmentation causing these to remain unimplemented at the local level. It was this that was perceived as being most prejudicial to EU commercial interests: agreements concluded by the central government to improve market access conditions for European companies were not being followed through at the local and provincial levels.

Finally, EU policy makers became increasingly concerned with the possible implications of an abrupt collapse of the CCP regime in an environment of growing nationalism, where frustrations with existing structures had not been accompanied by any significant positive adherence to liberal democratic values.<sup>199</sup> The perception was commonly held in the West that the rise of nationalism was actually the flip-side of the process of economic liberalisation, in so far as it was being driven by the CCP leadership's need to find a discourse capable of holding China together.<sup>200</sup> Therefore, the view was maintained that the EU needed to help China integrate into the international economic system such that the benefits flowing from this would serve to temper internal instability. It was this internal contradiction that would increasingly characterise the EU's China policy in the years to come: on the one hand, elements in the Commission and some EU member states, in particular the Nordic countries, would continue to exercise pressure on China with regard to the promotion of democracy and human rights.<sup>201</sup> On the other hand, policy makers from the large EU members, in particular France, Germany and Italy and elements within the European Commission would become increasingly aware of the dangers inherent in a sudden collapse of the CCP regime for both China and, more generally, East Asia's regional stability -

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<sup>198</sup> This view was put forward in particular by Sir Chris Patten, shortly before becoming EU Commissioner for External Relations. See: Chris Patten, *East and West*, Basingstoke, Macmillan, 1998.

<sup>199</sup> Interview, European Commission, DG Development, Human and Social Development Unit, Brussels, 18 December 2005.

<sup>200</sup> See: Christopher R. Hughes, *Chinese Nationalism in the Global Era*, London, Routledge, 2006; see also David Goodman and Gerald Segal (eds.), *China Rising: Nationalism and Interdependence*, London, Routledge, 1997.

<sup>201</sup> We will discuss this point further in Chapter 4.



something that would severely damage Europe's economic interests in the area.<sup>202</sup> We will discuss these issues in more detail in the following chapters.

## **Conclusion**

We discussed that prior to 1991 Sino-European relations were derivative of the Cold War and broader relations with the superpowers and that the end of bipolarity created new possibilities for the EU-PRC relationship to develop. At the beginning of the 1990s, the Chinese leadership had come to view the EU as a potential new pole in a future multi-polar world order, whereas EC/EU members were absorbed by the construction of a closer Union and tended to shy away from world order issues. It was the bilateral relations between the large EU member states and China that characterised the first part of the 1990s and that would have a significant impact upon the evolution of the EU's China policy. We have seen that the EU's China policy has been increasingly influenced by the German China policy model, which was based on the belief to maintain good political relations with Beijing in order to obtain commercial benefits.

The successful German China policy model became Europeanised horizontally (or sideways), in the sense that it succeeded in influencing the behaviour of other EU member states - especially the large ones. Moreover, there was also a bottom-up national projection upon the EU level, in the sense that Germany's China policy succeeded in influencing the policy of constructive engagement put forward by the European Commission from the mid-1990s.

The new EU's China policy followed the adoption, in 1994, of the EU's New Asia Strategy (NAS), which aimed at putting relations between EU member states and Asian countries into a single, integrated framework. In 1993, Germany became the first EU member state to elaborate a strategy towards Asia, and something similar to the case of the China policy happened, i.e. Germany's Asia policy was also Europeanised. In a further development of the EU's Asia strategy, in 1996 the Asia-Europe Meeting (ASEM) was established. The ASEM process was conceived in large part as a forum for joint East Asian and EU constructive engagement towards China. Within ASEM, the emphasis was on cooperation and informal confidence-building processes with critical

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<sup>202</sup> This perception emerged during interviews conducted by this author with officials from the large EU member states and the European Commission.

pressure in relation to democracy and human rights conspicuous by its absence. China was attracted to ASEM precisely because it saw in it the possibility of more equal region-to-region relations bereft of the unilateral Western power politics it so strongly sought to counter.

Since the mid-1990s, the NAS (1994), the EU's China policy (1995) and the ASEM process (1996) have become complementary and mutually reinforcing, providing the Union with additional tools and initiatives for engaging China and East Asia. It is by no chance, in fact, that sometimes the EU-China summits take place at the margins of the ASEM meetings, as in the case of the first EU-China summit held during the ASEM II in London in 1998. Due to the strategic significance of the NAS and ASEM for the EU's China policy, this study will examine both in the next chapter, before returning to a closer analysis of the economic dimension in EU-China relations in Chapter 4.

## Chapter 3

### The inter-regional level I

#### The economic dimension

## The EU's China policy in the context of the New Asia Strategy and the Asia-Europe Meeting in the 1990s

The European Union is entrusted with the task of developing a common foreign and security policy to enable it to protect its interests and values as well as playing a constructive role in world politics...to keep Europe in its major role on the world stage it is imperative to take account of the emergence of these new Asian powers...It is therefore essential that the Union develops the capacity to play its proper role in the region.

European Commission, 1994 <sup>203</sup>

The time has come to redefine the EU's relationship with China in the spirit of the new Asia strategy...relations with China are bound to be a cornerstone in Europe's external relations, both with Asia and globally.

European Commission, 1995 <sup>204</sup>

The development and maintenance of every culture require the existence of another different and competing *alter ego*, the construction of identity involves establishing opposites and 'others' whose actuality is always subject to the continuous interpretation and re-interpretation of their differences from 'us'. Each age and society re-creates its 'Others'.

Edward Said, 1995 <sup>205</sup>

The East Asian model is taking its place, as countries from Mexico and Chile to Iran and Turkey and the former Soviet republics now attempt to learn from its success, even as previous generations attempted to learn from Western success ... Asia must transmit to the rest of the world those Asian values that are of universal worth ... the transmission of this ideal means the export of the social system of Asia, East Asia in particular.

Kishore Mahbubani, 1992 <sup>206</sup>

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<sup>203</sup> Commission of the European Communities, *Towards a New Asia Strategy*, Brussels, COM(94) 314 final, 1994, p. 6.

<sup>204</sup> Commission of the European Communities, *A Long-Term Policy for China-Europe Relations*, Brussels, COM (95), 279 final, 1995.

<sup>205</sup> Edward Said, *Orientalism*, London, Penguin, 1978, p. 336.

<sup>206</sup> Kishore Mahbubani, "The West and the Rest", in *The National Interest*, Vol. 28, Summer 1992, p. 7.

## **Introduction**

This chapter examines the EU's New Asia Strategy (NAS) and the ASEM process, the two broader frameworks within which the EU has developed the policy of constructive engagement towards China. While the NAS adopted in 1994 concentrates on the whole continent, its further development – which, since 1996, has taken the form of the Asia-Europe Meeting (ASEM) – clearly indicates that the strategic focus of the EU is mainly East Asia with a rising China as its centre. In its 1995 Communication on China, the European Commission declared that “the time has come to redefine the EU's relationship with China in the spirit of the new Asia strategy...relations with China are bound to be a cornerstone in Europe's external relations, both with Asia and globally”.<sup>207</sup> Thus, since the mid-1990s, the NAS, the EU's China's policy and the ASEM process have become complementary and mutually reinforcing. In particular, the establishment of ASEM has provided the EU with a forum where to engage China in an inter-regional framework.

The first part of this chapter focuses on the main themes that have characterised the development of the NAS and the ASEM process. From a strategic perspective, the development of the ASEM process has fostered East Asian regionalism and acknowledged the existence of a tripolar international economic order. Both trends have been welcomed by Chinese leaders as additional factors having the potential to contribute, the first, to the emergence of an East Asian bloc independent of Washington and, the second, to the more general trend towards the multi-polarisation of the international system.

Alongside economic and strategic issues, the ASEM process has become an opportunity for a dialogue between cultures and civilisations. In particular, this chapter devotes a section to the examination of the discourse of the so-called “Asian values”. This is quite important since the ideas that have informed the discourse of the Asian values will be encountered when we will examine the EU-China political dialogue, especially the human rights dialogue. Interestingly, Chinese scholars and policy makers did not take an active part in the elaboration of the Asian values discourse. Instead, the South-East Asian elites – in particular, the Singaporean School – were most active in the articulation of this discourse. While recognising the differences among East Asian

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<sup>207</sup> *A Long-Term Policy for China-Europe Relations* (1995).

societies, the advocates of the Asian values discourse have propounded the idea that there are also significant commonalities. Central among these, is the value system of Confucianism, shared by most of the countries in the region. Advocates of Asian values in the 1990s argued that East Asian development and Asian values had to be seen as models which other non-Western societies should emulate in their efforts to catch up with the West and which even the West should adopt in order to renew itself.

The Asian values discourse came to a halt in 1997, when the Asian financial crisis broke up. The last part of this chapter will focus on the analysis of the EU's response to the Asian financial crisis. The crisis represented a major test for both East Asia and the EU. While it challenged East Asia's growing assertiveness - and put a halt to the spreading of the Asian values discourse - the crisis also gave the EU the opportunity to emerge as an effective player in the management of global economic relations. Moreover, the financial crisis unsettled economic power relations in East Asia, creating the conditions for China's emergence as the linchpin of regional economic growth. This view was sustained by the economic evidence: by 1999 it clearly appeared that China - along with Taiwan - had escaped the Asian financial crisis largely unscathed. In addition, China had resisted undervaluing its currency, acting responsibly for maintaining global economic stability. These elements would have an impact on the further development of the EU's Asia's strategy and, more specifically, on the EU's China policy. The fact that China escaped largely unscathed from the Asian financial crisis and firmly established itself as the engine of regional economic growth largely influenced the image of a growing and stable Chinese market with important consequences for the further evolution of the EU foreign policy towards China.

This chapter covers the period from 1993 (adoption of the German concept paper on Asia) until 1998 (ASEM II in London and first EU-China summit), with the intent to provide the reader with an analysis of the main themes that have characterised the development of the NAS and the ASEM process. Since the mid-1990s, the NAS and ASEM have provided the broader frameworks within which the EU has developed the policy of constructive engagement towards China. We will return to a closer examination of the latter in the next Chapter.

### 3.1 The making of the EU's New Asia Strategy

In 1993, Germany became the first EU member state to elaborate a strategy towards Asia. In the *Asien Konzept der Bundesregierung*, the German government outlined the new significance of the Asian markets for Europe. This became evident in 1992, when the Union trade with Asia overtook EU-US trade for the first time. In the German concept paper it was clearly stated that Germany - and Europe as a whole - -- had to directly face the challenge of an economically thriving Asia and “strengthen economic relations with the largest growth region in the world”.<sup>208</sup> The document also emphasised the emergence of China as the rising power in the region and, consequently, the need for the EU to engage Beijing in a more constructive way.

The view was held in Bonn that Germany's economic interests would increasingly depend on the ability by German companies to enter into the thriving Asian markets. Because of the sheer magnitude of Asia, it was felt that the Federal Republic had to necessarily work through the EU in order to increase its political and economic leverage *vis-à-vis* the region. The German document acknowledged Asia's increasing economic and political assertiveness. As a consequence, Bonn pointed out the need for Germany - and the EU - to engage Asian countries in a more constructive way and step up high-level visits to the region. While the United Kingdom (UK) and France had been traditionally known for their “leaning” towards Asia resulting from their past involvement in the region, this new German interest was something of a novelty. Following up on Germany, other EU members started to give Asia a higher priority. For instance, the French Minister for Industry, Gérard Longuet, while visiting Beijing and Hong Kong in 1994, launched a new French strategy called *Ten Initiatives for Asia*. Furthermore, France's Foreign Minister, Hervé de la Charette, announced in 1995 that Asia would receive special attention as the *nouvelle frontière* of French diplomacy. In the same period, also the UK, Italy, and the Netherlands begun to prioritise the development of economic relations with Asian countries.<sup>209</sup>

Concurrent with initiatives by individual EU member states, in 1994 the European Commission released its Communication on the *EU's New Asia Strategy*.<sup>210</sup>

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<sup>208</sup> Government of the Federal Republic of Germany, *Asien Konzept der Bundesregierung*, in *Europa Archiv* 6/1994, n. 189, pp. 142-157.

<sup>209</sup> Hanns Maull, Gerard Segal and Jusuf Wanandi (eds.), *Europe and the Asia Pacific*, London and New York, Routledge, 1998.

<sup>210</sup> European Commission, *Towards a New Asia Strategy*, Brussels, COM(94) 314 final, 1994.

The NAS' overall objectives were four: (i) to strengthen the Union's economic presence in Asia in order to maintain the Union's leading role in the world economy; (ii) to contribute to stability in Asia; (iii) to promote the economic development of the less prosperous countries and regions in Asia; (iv) and to contribute to the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms in Asia.<sup>211</sup> The purpose of the EU's policy in Asia is related to economic matters which, according to the Commission, need to be presented "in the framework of the political and security balance of power in the region".<sup>212</sup>

But, what does Asia mean for the EU? The 1994 Commission's paper explains that Asia should not be taken as a single region, given the different cultural traditions and different social, economic and political profiles of Asian countries. Consequently, in 1994 the EU's New Asia Strategy covered 26 countries grouped according to three geographic regions: the eight countries and economies of East Asia (China, Japan, North and South Korea, Mongolia, Taiwan, Hong Kong and Macao); the ten countries of South East Asia (Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Vietnam, and Burma/Myanmar); and the eight countries of South Asia (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, Maldives and Afghanistan). The rationale that the Commission gave for the EU's new political approach towards Asia was very clear:

The European Union is entrusted with the task of developing a common foreign and security policy to enable it to protect its interests and values as well as playing a constructive role in world politics...to keep Europe in its major role on the world stage it is imperative to take account of the emergence of these new Asian powers...It is therefore essential that the Union develops the capacity to play its proper role in the region.<sup>213</sup>

Thus, the 1994 Commission's Communication provided EU member states with an overall framework for their relations with Asia. While the NAS concentrated on the whole continent, the subsequent establishment of the Asia-Europe Meeting (ASEM) in 1996 clearly indicated that the priority of the EU was the development of relations with the economically thriving East Asian countries.

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<sup>211</sup> Ibid., pp. 2-3.

<sup>212</sup> Ibid., p. 2.

<sup>213</sup> Ibid., p. 6.

### 3.2 The Asia-Europe Meeting (ASEM)

Since the beginning, ASEM has become the most important inter-regional forum for discussion and cooperation between the EU and East Asia. The ASEM process began in Bangkok in 1996 where 25 countries took part: on the European side, the 15 EU member states (plus the Presidency of the European Commission). On the Asian side, ten countries: Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei, and Vietnam (ASEAN 7) plus China, Japan and South Korea.<sup>214</sup> The ASEM process had two overall objectives. Firstly, it aimed at bridging the missing link between the EU and East Asia. While North America and East Asia had already established an institutional mechanism – the Asia-Pacific Economic Cooperation (APEC) - for deepening inter-regional cooperation and North America and the EU had adopted a New Transatlantic Agenda, it was perceived that there was a glaring missing link as far as relationship between the EU and East Asia was concerned. Secondly, the ASEM process was perceived as instrumental for engaging China within the framework of multilateral institutions. Indeed, both European and East Asian policy makers acknowledged China's sheer economic growth and - as a result - its increasing assertiveness in the region.<sup>215</sup>

For instance, Chinese manoeuvres in the Taiwan Straits and its missile tests, timed to influence the 1996 Taiwanese election campaign, had given the West one of its most serious strategic frights since the end of the Cold War. In the end, it was left to the US to face China, with Washington deploying two aircraft carriers in the area. Eventually, Beijing backed down to the US show of strength. However, concerns remained over the prospect of conflict in a channel, the South China Sea, which takes a quarter of the world's shipping.<sup>216</sup> It was felt that the ASEM process would harness the support of other Asian states to engage with - and successfully manage - China's rise. Furthermore, it was hoped that ASEM would reinforce the perceived importance of

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<sup>214</sup> As a result of the enlargement of the EU in May 2004, the ASEM Summit in Hanoi on 8-9 October 2004 decided to enlarge ASEM to the ten new EU member states, as well as, three new ASEAN countries (Cambodia, Laos and Burma/Myanmar) that were not yet part of the process. As stated in the conclusions of the External Relations Council (GAERC) of 13 September 2004, the participation of Burma/Myanmar was accepted with the expectation that the participation of the Burmese government at the ASEM Summit would be lower than Head of State/Government level.

<sup>215</sup> Interview, European Commission delegation in Beijing, 22 September 2004.

<sup>216</sup> See: Frank Umbach, *Konflikt oder Kooperation in Asien-Pazifik? China Einbindung in regionale Sicherheitsstrukturen und die Auswirkungen auf Europa*, Oldenbourg, Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik, 2002; William T. Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security*, Cambridge: Cambridge University Press, 2001; and Trevor Taylor, *European Security and the Asia-Pacific Region*, London, RIIA, 1997.



cooperative relations with Beijing so that a growing Chinese nationalism would not be allowed to infect relations with the other countries in the region.<sup>217</sup>

ASEM clearly indicated Europe's increasing interest in strengthening links with the East Asian region. For their part, East Asian policy makers were also keen to institutionalise a closer economic and political dialogue with the EU. This resulted from a recognition that important changes had occurred in the East Asian region itself, helping to create the basis for a growing international assertiveness. In these circumstances, the rationale for building a new relationship between EU member states and East Asia reflected recognition of the arrival of East Asia as a major region in the global economy.<sup>218</sup>

In 1995, the Permanent Secretary of the Singaporean Ministry of Foreign Affairs, Kishore Mahbubani, expressed the desire of most of the East Asian elites to take political advantage of the rapidly growing economic attractiveness of their region with these words:

The twenty-first century will be unique because there will be three centres of world power (Europe, North America and East Asia) as opposed to two in the twentieth century (Europe and North America) and one in the immediate preceding centuries (Europe) ... In the twenty-first century East Asia will shed its passivity ... The region's sheer economic weight will give it a voice and a role.<sup>219</sup>

The idea for a Europe-Asia Meeting of political leaders was first expressed at the World Economic Forum (WEF) Europe/East Asia Economic Summit held in Singapore in October 1994.<sup>220</sup> The initiative was officially proposed by Mr Goh Chok Tong, Prime Minister of Singapore, to French Prime Minister Edouard Balladur during a speech given at the Institut Français des Relations Internationales (IFRI) on 19th October 1994.<sup>221</sup> However, during Goh's earlier visit to Germany and Britain in April 1994, the idea that Europe and Asia should be brought together in a more institutionalised form of cooperation had already been expressed. The proposal was

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<sup>217</sup> On Chinese nationalism see:

<sup>218</sup> Nicola Casarini, *Asia-Europe Relations within the Evolving Global Economy: The Interplay between Business and Politics*, Milan, ISPI, Working Paper n. 15, October 2001.

<sup>219</sup> Kishore Mahbubani, "The Pacific Way", *Foreign Affairs*, Vol. 74, n. 1, January-February 1995.

<sup>220</sup> World Economic Forum, *A Programme for Action*, WEF Europe/East Asia Economic Summit, Singapore 2-4 October 1994.

<sup>221</sup> Goh Chok Tong, "L'Asie et l'Europe: une nouvelle alliance pour le XXI<sup>e</sup> siècle", *Politique Étrangère*, December 1994, pp. 1099-1106.

subsequently endorsed by the Association of South East Asian Nations (ASEAN)<sup>222</sup> which, in the post-Cold War era, found itself in a position in which it was expected to play a significant role in the establishment of structures of cooperation that went far beyond the South-East Asian region.<sup>223</sup> For both sides, it was clear that the ASEM process was aimed at pursuing all actions necessary to ensure open markets and a non-discriminatory business environment conducive to an expansion of Euro-Asian trade and investments. Although political and cultural initiatives had also been incorporated in the ASEM framework, it was the promotion of greater economic exchanges between the two regions that represented one of ASEM's paramount objectives.

A number of factors prompted EU and East Asian countries to put forward the initiative of a closer linkage. Firstly, the post-world war II period, coinciding with the Cold War era, was preoccupied with the political-ideological struggle which somewhat overshadowed economic concerns. Even if economic matters were addressed, these were always subordinate to the wider ideological conflict. The post-Cold War period, however, saw a swing in the pendulum leading directly to all kinds of economic conflicts, best revealed by the trade dispute between the US and Japan, on the one hand, and the differences between the US and the EU over agricultural policies, leading to the paralysis of the Uruguay Round, on the other. Under these circumstances, where the possibility of economic conflict among partners had become more likely, it was vitally important to establish mechanisms to allow such differences to be settled amicably, with as little acrimony as possible. While the North American and East Asian economies had established the Asia-Pacific Economic Cooperation (APEC) process, there was no similar mechanism as far as Europe and Asia were concerned, and through ASEM it was hoped that Asian countries could address problems that might arise in connection with Europe.<sup>224</sup>

Moreover, some Asian countries - in particular Singapore and Malaysia - felt that, while it was easy in the mid-1990s to encourage Europeans to establish ties with Asian countries largely due to the dynamic economic situation in East Asia, the future

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<sup>222</sup> ASEAN countries at that time were: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Laos and Myanmar joined the grouping in July 1997 while Cambodia became the 10<sup>th</sup> member in April 1999.

<sup>223</sup> Hadi Soesastro and Jusuf Wanandi, *Towards an Asia-Europe Partnership: A Perspective from Asia*, Jakarta, Centre for Strategic and International Studies (CSIS), 1996.

<sup>224</sup> Victor P. Serradell "The Asia-Europe Meeting (ASEM): A Historical Turning Point in Relations Between the Two Regions", in *European Foreign Affairs Review*, Vol. 1, No. 2, November 1996, pp. 185-210.

remained difficult to predict. Since it was believed that Europe should be structurally close to Asia, the establishment of a basis whereby the ties would be of a binding nature became a priority and, even if the economic situation were to weaken, the Europeans would still benefit as they would have realised by then how significant and integral the East Asian economies had become for themselves and the world at large.

In addition, as both South-East Asian and EU members were, in their own ways, undertaking a “go-regional policy”, it was realised that there was much that could be gained through cooperation. Because the EU countries were not that familiar with the new markets in East Asia, just as many East Asian states were having great difficulties in coping with the changes in Central and Eastern Europe, it was felt that through ASEM the Europeans could facilitate Asian entry into Europe and that Asians could facilitate European entry into Asia. Therefore, through strategic alliances closer economic ties could be established between the two regions.

To sum up, the establishment of the Asia-Europe Meeting resulted from the realisation in a number of European capitals of the economic importance of East Asia and the weaknesses of EU involvement in the region. For both sides, the ASEM was the occasion to send a message to the United States. ASEM allowed Europe to avoid the risk of being isolated by too close a collaboration among the Pacific countries and it also gave to East Asia the opportunity to counterbalance the US presence by opening up to EU’s economic interests. Furthermore, ASEM had acknowledged the *de facto* diplomatic existence of the East Asian Economic Caucus (EAEC) proposed by Malaysian Prime Minister Mohammad Mahathir in 1990 and strongly opposed by the US because it was meant to exclude non-Asian powers.

Launched in 1990 as East Asian Economic Grouping (EAEG), it was envisaged as a Japanese-led counterweight to the perceived emergence of trade blocs in Western Europe and North America. Due to strong resistance from the United States, it remained a concept far from formal implementation. Therefore, it was noteworthy that East Asian countries had begun to act as a *de facto* group in the interregional ASEM framework. In the end, ASEM upgraded the international status of East Asia. Although it was not possible for East Asian countries to appear as a regional grouping vis-à-vis North America in APEC, the EU had recognised the East Asian grouping by acknowledging that these same states represent “Asia” in ASEM. Therefore, East Asia - as opposed to

an amorphous Asia-Pacific – came into existence because it had been acknowledged by another regional entity, the European Union. From an Asian, and especially from an ASEAN perspective, the goal was not only to have East Asia recognized as the third pole of the post-Cold War international economic order. ASEM was also seen as an opportunity to reassert a sense of equality between the two regions against an historical background tainted by colonial relationships and a more recent history of donor-recipient ties. China was attracted to ASEM precisely because it saw in it the possibility of more equal region-to-region relations bereft of the unilateral Western power politics it so strongly sought to counter. The principle of a “dialogue on an equal basis” was included in the Chairman’s Statement of the Bangkok meeting and subsequently reiterated on various occasions.<sup>225</sup> Finally, the idea of a tri-polar world economy underpinning the ASEM process was very attractive to the Chinese leadership and some EU policy makers – in particular the French political elite and some elements within the Commission – as it was seen as an additional factor contributing to the trend towards the multi-polarisation of the international system.

### **3.3 Behind ASEM: the emergence of a tri-polar economic order**

From an international relations perspective, the ASEM project was based on the underlying assumption that an economics-driven tri-polar international order was following the security-dominated bipolar system of the Cold War period. After the end of the Cold War, the prevailing image was that with the demise of the second (communist) world, the new world order would be structured around the leading powers of the first (capitalist) world, and that a new tri-polar system based on the three major regions of the world economy - the Triad - would substitute the Cold War bipolarism between the United States and the Soviet Union.

The concept of the Triad entailed the notion of the trilateral relationship between the US, Western Europe and Japan. The notion had become widely used since the publication of Kenichi Ohmae’s book on *Triad power*.<sup>226</sup> The book advised multinational companies to establish permanent footholds in all three key markets of the capitalist world economy. According to Ohmae, then a top executive with the international business consulting firm McKinsey, companies that wanted to survive in

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<sup>225</sup> *Chairman’s Statement of the Asia-Europe Meeting*, Bangkok, 2 March 1996, point (4).

<sup>226</sup> Kenichi Ohmae, *Triad Power: The Coming Shape of Global Competition*, New York, Macmillan, 1985.

an increasingly global market had to turn themselves into multiregional enterprises with local branches in the US, Western Europe and Japan. Ohmae's successful book led to the wide reception of the Triad image in the transnational business community. At the same time, the United Nations did their part to popularise the notion by publishing their 1991 World Investment Report on the Triad.<sup>227</sup> Ohmae's triadic business strategy and the UN's report reflected the well-established concept of trilateralism.

Trilateralism stands for cooperation among the three pillars of the capitalist world economy. Founded in March 1973, the Trilateral Commission provided a forum for politicians, business and intellectual leaders from North America, Western Europe, and Japan to facilitate the management of complex interdependence among the three core democratic centres of the world. The trilateral undertaking became, since the mid-1970s, the response to what was perceived as the decline of the post-world war II Atlantic-centred international economic order based on US hegemony. The Trilateral Commission's efforts were aimed at promoting a reconstructed capitalist world order based on a burden sharing between the United States and the emerging economic powers of Western Europe and Japan.<sup>228</sup>

At the beginning of the 1990s, some European scholars hoped for the formation of an effective European-Japanese-American trilateral, global concert system and emphasised that "the necessity of trilateral cooperation is still there, if not greater than even before".<sup>229</sup> There were, however, also those who feared that, due to the absence of the overarching security concern presented by the Soviet Union during the bipolar era, the international system would move from Cold War to trade war,<sup>230</sup> or would be characterised by a "struggle for supremacy" between the trilateral core powers US, Japan and Germany.<sup>231</sup> Lester Thurow even predicted "the coming battle among Japan, Europe and America".<sup>232</sup>

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<sup>227</sup> United Nations Centre on Transnational Corporations, *World Investment Report 1991: The Triad in Foreign Direct Investment*, New York, United Nations Publications, 1991.

<sup>228</sup> For more details see: Joseph S. Nye, Kurt Biedenkopf and Motoo Shiina, *Global Cooperation after the Cold War: A Reassessment of Trilateralism*, New York, Paris and Tokyo, The Trilateral Commission, 1991.

<sup>229</sup> Martin E. Winstein and Theodor Leuenberger (eds.), *Europe, Japan and America in the 1990s: Cooperation and Competition*, Berlin, Springer, 1992, p. 2.

<sup>230</sup> Fred Bergsten, "The Primacy of Economics", *Foreign Policy*, n. 82, Summer 1992.

<sup>231</sup> Jeffrey E. Garten, *A Cold Peace: America, Japan, Germany, and the Struggle for Supremacy*, New York, Times Books, 1992.

<sup>232</sup> Lester Thurow, *Head to Head: The Coming Battle Among Japan, Europe and America*, New York, Morrow, 1992.

By the mid-1990s, however, the perception of the US-EU-Japan triad as the basic configuration of the new world order had lost much of its appeal. In a context of expanding regionalism in North America and Europe and of the economic rise of East Asia, in particular in the four Tigers - South Korea, Taiwan, Hong Kong and Singapore - in South-East Asia and China, the old concept of the Triad had to give way to a new image based on the Triad regions: North America, the EU, and East Asia. This image would find evidence in the lasting high growth performance of East Asian economies, acknowledged by the World Bank in 1993 as *The East Asian Miracle*.<sup>233</sup> At the time the report of the World Bank argued that, by using comparative statistics extrapolating accumulated GDP figures and growth rates, East Asia would soon be on a par with North America and the EU in terms of economic weight and would, consequently, assert an increasingly prominent political role in the international system. In 1994, the director of the Geneva-based World Economic Forum, Klaus Schwab, and his deputy, Claude Smadja, pointed out that:

We are already, economically speaking, in a fully tripolar world, with the three centres of power - Western Europe, North America, and East Asia - in a position of strategic economic parity ... if present trends continue, East Asia should be poised to claim preeminence over its two counterparts before the turn of the century.<sup>234</sup>

This idea of a tri-polar economic world order based on the Triad regions was particularly attractive to the trans-national business community because it fit well in the familiar Triad concept, and to the East Asian elites as well, since it implied the recognition of East Asia as one of the three centres of the world economy. While the non-Western world was represented in the old Triad by Japan only, the new concept of a tri-polar world included East Asia as a region despite its political, economic and cultural heterogeneity. The idea of a tri-polar world economy was very attractive to the Chinese leadership and some EU leaders – in particular the French political elite – as it was seen as an additional factor contributing to the trend towards the multi-polarisation of the international system, a goal repeatedly expressed by Beijing and Paris.

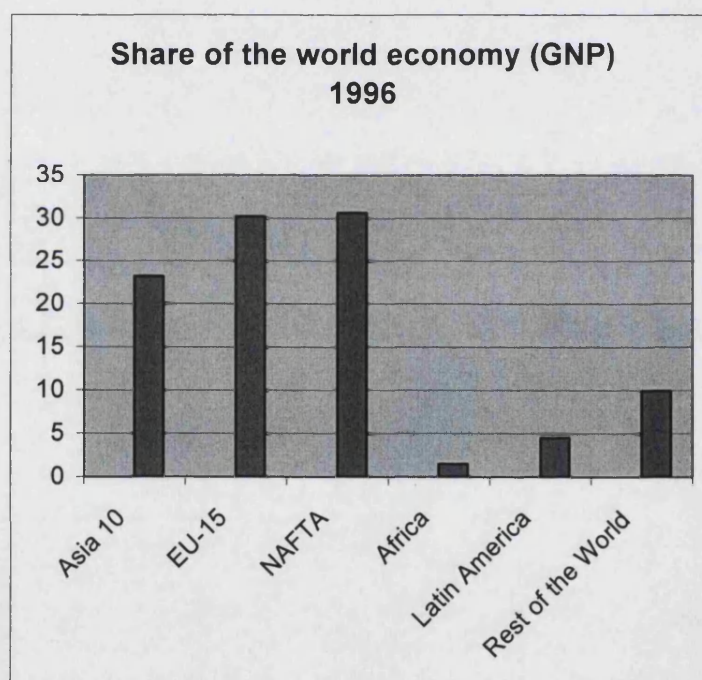
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<sup>233</sup> World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford, Oxford University Press, 1993.

<sup>234</sup> Klaus Schwab and Claude Smadja, "Power and Policy: The New Economic World Order", in Kenichi Ohmae (ed.), *The Evolving Global Economy. Making Sense of the New World Order*, Boston, Harvard Business Review, 1995.

By the mid 1990s, the image of the tri-polar international economic order had been sustained by the evidence of a world economy characterised by the concentration of the economic activity within North America (NAFTA – US, Canada and Mexico), the European Union (EU-15) and East Asia (Asia 10 - Asian ASEM countries: China, Japan, South Korea, Thailand, Malaysia, Singapore, Philippines, Indonesia, Brunei, and Vietnam). As the graph below shows, in 1996 the Triad's combined share of the total world GNP was around 85%, while Africa, Latin America and the rest of the world (including vast geographically separated regions such as Russia and Eastern Europe, the Middle East, South Asia, and Oceania), were left to divide the remaining 15%.

**Figure 1**



Source: Elaboration based on data from the working document presented at the ASEM Foreign Ministers' Meeting in Singapore on 20-21 February 1997.

Global production, trade and investment were concentrated within and among these three macro-regions, which provided 90% per cent of global FDI flows and accounted for three fourth of world trade (see table below).

**Table 1: The tripolarisation of world trade in 1996**  
(% of total world imports)

	<u>1980</u>	<u>1996</u>
<u>Intra-regional</u>		
Western Europe	28.0	31.0
North America	5.9	7.5
East Asia	6.1	11.2
<b>Total Triad</b>	<b>40.0</b>	<b>49.7</b>
<u>Inter-regional</u>		
W. Europe - N. America	7.7	7.2
E.Asia - N. America	7.1	11.1
W. Europe - E.Asia	4.6	7.5
<b>Total Triad</b>	<b>19.4</b>	<b>25.8</b>
<b>Total (intra and inter-regional)</b>	<b>59.4</b>	<b>75.5</b>

Source: World Bank, *World Development Report*, Washington, World Bank Publications, 1997/98 and International Monetary Fund, *World Economic Outlook*, Washington, International Monetary Fund, May 1997.

By the mid-1990s, East Asia had become a defining part of the post-Cold War international economic order. The basis for this economic dynamism were fairly evident: most of the East Asian economies experienced sustained real annual growth between 7% and 10% in the first part of the 1990s, a fact that contributed to the phenomenal expansion of the productive capabilities of the region (see table below).



**Table 2: GDP Growth Rates 1991-1995**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
China	8.0	13.6	13.4	11.8	11.0
South Korea	9.1	5.1	5.8	8.4	8.9
Indonesia	7.0	6.5	6.5	7.3	7.4
Malaysia	8.7	7.8	8.3	8.7	9.4
Singapore	6.7	6.0	10.1	10.1	7.8
Thailand	8.4	7.9	8.2	8.4	8.8
Japan	3.6	0.3	-0.2	0.5	0.6
European Union	1.1	1.0	-0.6	2.8	2.9
World	1.3	2.0	2.5	3.6	3.7

Source: International Monetary Fund, *World Economic Outlook*, Washington, International Monetary Fund, 1996.

Furthermore, this growth was accompanied by an equally significant expansion of the region's aggregate trade, investment and GDP per capita. With regard to the latter, some scholars argued that in the period 1965-1995 East Asia had significantly outpaced the rest of the developed world in terms of GDP per capita growth (see table below).

**Table 3: East Asia's annual per capita GDP growth (%), 1965-1995**

<b><u>Four Tigers</u></b>	<b>6.6</b>
Hong Kong	5.6
South Korea	7.2
Singapore	7.2
Taiwan	6.2
<b><u>China</u></b>	<b>5.6</b>
<b><u>Southeast Asia</u></b>	<b>3.9</b>
Indonesia	4.7
Malaysia	4.8
Philippines	1.2
Thailand	4.8
<b><u>OECD</u></b>	<b>2.1</b>

<u>Latin America</u>	0.9
<u>Sub-Saharan Africa</u>	0.2

Source: Steven Radelet and Jeffrey Sachs "Asia's Reemergence". *Foreign Affairs*, November/December 1997, pp. 44-59, p. 55.

East Asian economic rise prompted regional elites into forecasting an increasing assertiveness for the region. As Kishore Mahbubani argued:

It took Britain and the United States fifty-eight years and forty-seven years, respectively, to double their per capita output, but Japan did it in thirty-three years, Indonesia in seventeen, South Korea in eleven, and China in ten.<sup>235</sup>

In 1993 the World Bank, using data measured at purchasing power parity (i.e. stripping out the effects of the exchange rate), declared that the Chinese Economic Area had become the world's fourth growth pole, along with the United States, Japan, and Germany.<sup>236</sup> According to some estimates of that time, the Chinese economy would become the world's largest early in the twenty-first century.<sup>237</sup> This enthusiasm for East Asia's success produced two complementary discourses: economic orientalism in the West and its flip-side in the East: the Asian values. We will examine both in the next section.

### **3.4 The flip-side of East Asia's success: economic Orientalism**

In his well-known study on Western conceptions of the Orient, Edward Said pointed out that the idea of Orientalism is basically a created body of theory and practice in which, for many generations, there had been a considerable material investment. Continued investment made Orientalism, as a system of knowledge about the Orient, an accepted grid for filtering through the Orient into Western consciousness, just as that same investment multiplied - indeed, made truly productive - the statements proliferating out from Orientalism into the general culture.<sup>238</sup> Borrowing Gramsci's idea of cultural hegemony - the form of cultural leadership that depends on the fact that certain cultural

<sup>235</sup> Kishore Mahbubani, "The Pacific Way", *Foreign Affairs*, Vol. 74, January-February 1995, p. 103.

<sup>236</sup> World Bank, *Global Economic Prospects and the Developing Countries 1993*, Washington, The World Bank, 1993, pp. 66-67.

<sup>237</sup> World Bank, *China 2020. Development Challenges in the New Century*, Washington, The World Bank, 1997; see also IMD Executive Opinion Survey, *The Economist*, 6 May 1995, p. 5.

<sup>238</sup> Edward W. Said, *Orientalism*, London, Penguin, 1995, p. 6.

forms predominate over others, just as certain ideas are more influential than others - Said notes that "it is hegemony, or rather the result of cultural hegemony at work, that gives Orientalism its durability and strength".<sup>239</sup> Moreover, Said continues, "Orientalism is premised upon exteriority", that is, on the fact that the Orientalist (the scholar, the journalist, or the businessman), "makes the Orient speak, describes the Orient, renders its mysteries plain for and to the West...he is never concerned with the Orient except as the first cause of what he says".<sup>240</sup> The principal product of this exteriority is the representation: the Orient is transformed from a very far distant and often threatening Otherness into figures that are relatively familiar. The exteriority of the representation is characterised by the fact that "if the Orient could represent itself, it would; since it cannot, the representation does the job, for the West and, *faute de mieux*, for the Orient".<sup>241</sup>

Using Said's conceptual framework, we can now turn to the analysis of the so-called economic Orientalism and see how the East Asian economic miracle has been constructed. Before the Asian financial crisis hit the region in 1997/98, the rise of the East Asian economies had been celebrated by a generation of scholars and policy makers in the West.<sup>242</sup> Terms such as the "Asian economic miracle" or the "Pacific century" flourished all over and soon become *clichés*. By the mid-1990s, most of the intellectual production concerned with Asia had focused its attention on the emergence of the region on the international scene, the explanation of its economic success and the bright future lying ahead for the whole region.<sup>243</sup> Among all the concepts and images that flourished the most employed one is, incontestably, the concept of rise (*Pacific Rising, The Rise of the East, Asia Rising, Looking at the Sun*).<sup>244</sup> This editorial production had supplanted the abundant literary production of the mid-1980s and early 1990s devoted to the research and explanation of the Japanese economic supremacy. Moreover, as the economic success spread over the whole region, a vast production had

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<sup>239</sup> Ibid. p.7.

<sup>240</sup> Ibid. pp. 20-21.

<sup>241</sup> Ibid. p. 21.

<sup>242</sup> Richard Robison and David S.G: Goodman (eds.), *The New Rich in Asia: Mobile Phones, McDonald's and Middle-Class Revolution*, London, Routledge, 1996.

<sup>243</sup> Among the many catch-titles in French there were: "L'Asie un nouveau monde en puissance", *Croissance*, Hors-série, n. 3, 1997; David Camroux and Jean-Luc Domenach (eds.), *L'Asie retrouvée*, Paris, Seuil, 1997; François Godement, *La renaissance de l'Asie*, Paris, Odile Jacob, 1996.

<sup>244</sup> Simon Winchester, *Pacific Rising: The Emergence of a New World Culture*, New York, Prentice Hall Press, 1991; Robert Elegant, *Pacific Destiny: The Rise of the East*, London, Hamish Hamilton, 1990; Jim Rohwer, *Asia Rising: How History's Biggest Middle Class Will Change the World*, Singapore, Butterworth-Heinemann, 1995; James Fallows, *Looking at the Sun: The Rise of the New East Asian Economic and Political System*, New York, Vintage, 1995.

been published not only to celebrate the successful enterprises, the originality of East Asian management,<sup>245</sup> but also the economic policies implemented by the Newly Industrialised Countries (NICs).<sup>246</sup> This highly uncritical editorial trend was further supplemented by the publications of the international organisations: the World Bank, the United Nations Conference on Trade and Development (UNCTAD), the Asian Development Bank (ADB), as well as various research institutes and think tanks.<sup>247</sup> This literature often found its *raison d'être* in laying out long series of statistical figures, data, and tables. Its main goal was not only to demonstrate the economic development of East Asia but also - and more importantly - that this ascendant movement was reaching the interior provinces of China and was spreading all over the rest of developing Asia. This cultural hegemony of modern political economy had less to do with the Orient than it did with our world. In fact, like the old nineteenth century Orientalism, this enthusiastic literature responded more to the culture that produced it than to its putative object. As in the past, this modern Orientalism, its internal consistency and rigorous procedures were all designed for readers and consumers in the metropolitan West.<sup>248</sup> As Said argued:

The development and maintenance of every culture require the existence of another different and competing *alter ego*, the construction of identity involves establishing opposites and 'others' whose actuality is always subject to the continuous interpretation and re-interpretation of their differences from 'us'. Each age and society re-creates its 'Others'.<sup>249</sup>

Far from a static thing then, "identity of self or of 'other' is a much worked-over historical, social, intellectual, and political process that takes place as a contest involving individuals and institutions in all societies".<sup>250</sup>

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<sup>245</sup> Philippe Lasserre and Hellmut Schutte, *Stratégies pour l'Asie-Pacifique: se préparer au siècle du Pacifique*, Paris, Dunod, 1996.

<sup>246</sup> Anis Chowdhury and Iyanatul Islam, *The Newly Industrializing Economies of East Asia* (London, Routledge, 1993).

<sup>247</sup> Among the many works, see in particular: World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, New York, Oxford University Press, 1993; Peter A. Petri, *The Lessons of East Asia. Common Foundations of East Asian Success*, Washington, World Bank Publication, 1993; Asian Development Bank, *Escaping from the Poverty Trap. Lessons from Asia*, Manila, Asian Development Bank, 1994; Ross Garnaut and Peter Drysdale, *Asia Pacific Regionalism: Readings in International Economic Relations*, Pymble, Australia, Harper & Collins, 1994; Fred Bergsten and Marcus Noland (eds.), *Pacific Dynamism and the International Economic System*, Washington, Institute for International Economics, 1993.

<sup>248</sup> See Said, (1995), p. 332.

<sup>249</sup> Ibid. p. 336.

<sup>250</sup> Ibid. p. 336.

Thus, by 1997, by engaging in a mainly unconscious process of de-construction and re-construction of the East Asian economic rise most authors openly called upon an awakening of the West, of the necessity of an encompassing modernisation of its system of production and explicitly questioned the basic assumptions of the Western model.<sup>251</sup> The *leit-motiv* was then, a concern for an urgent and radical structural adjustment that the Western countries needed to make in order to be ready for entering into the new millennium. In other words, behind a well-supported economic analysis, lied a formidable discourse made to convince the Western readers that our economic and political future was at stake in Asia.<sup>252</sup> A very similar discourse has resurfaced in recent years, this time with regard to China's rise and its economic challenge to the West – which we will discuss further in the next Chapter.<sup>253</sup>

By the mid 1990s, the discourse of economic Orientalism had come to subsume that the East Asian economic development had already altered the balance of power between Asia and the West. As Paul Kennedy argued, “successful economic development generates self-confidence and assertiveness on the part of those who produce it and benefit from it”.<sup>254</sup> Wealth, like power, is assumed to be proof of virtue, a demonstration of moral and cultural superiority. As they became more successful economically, East Asian policy makers did not hesitate to emphasise the distinctiveness of their culture and to trumpet the superiority of their values and way of life compared to those of the West and other societies. A “cultural renaissance”, Ambassador Tommy Koh noted in 1993, “is sweeping across Asia”. It involved a growing self-confidence, which meant that Asians “no longer regard everything Western as necessarily the best”.<sup>255</sup> According to the proponents of these ideas, this renaissance would manifest itself in increasing emphasis on both the distinctive cultural identities of individual Asian countries and the commonalities of Asian cultures which distinguished them from Western culture.<sup>256</sup>

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<sup>251</sup> David Howell, *Easternisation: The Rise of Asian Power and Its Impact on the West and Our Own Society*, London, Demos, 1995.

<sup>252</sup> See: Frank Gibney, *The Pacific Century*, Tokyo, Kodansha International, 1990; Etienne Badimont, *Socrate ou Confucius: Essai sur le devenir de la Chine et de l'Occident*, Paris, Editions Labénaudie, 1996; Samuel P. Huntington, *The Clash of Civilizations and the Remaking of World Order*, London, Simon & Schuster, 1996.

<sup>253</sup> Around this theme an international workshop was organised by the Aspen Institute (Italy) in Rome, to which this author participated: *China's Challenge to Europe and the US*, Rome, 11 March 2005.

<sup>254</sup> Paul Kennedy, *The Rise and Fall of the Great Powers*, London, Unwin Hyman, 1988.

<sup>255</sup> Tommy Koh, *America's Role in Asia: Asian Views*, Washington, Asia Foundation, Center for Asian Pacific Affairs, 1993, Report n. 13, p. 1.

<sup>256</sup> Anwar Ibrahim, *The Asian Renaissance*, Kuala Lumpur, Times Books International, 1996.

Along with the above also came the articulation by East Asian elites of what may be appropriately termed an Asian Occidentalism, a complex of attitudes that attempted to portray the West in much the same uniform and negative way which Western Orientalism allegedly once portrayed the East. According to Said, Orientalism was characterised by the idea of European identity as a superior one in comparison with all the non-European peoples and cultures. There was in addition the hegemony of European ideas about the Orient, themselves reiterating European superiority over Oriental backwardness.<sup>257</sup> However, after having illustrated the formidable structure of the European cultural domination over the Orient, Said feared, specifically for formerly colonised peoples, “the dangers and temptations of employing this structure upon themselves or upon others”.<sup>258</sup> This became reality in the 1990s with the emergence of the so-called Asian values discourse.

### **3.5 The discourse of the Asian values**

As discussed earlier, the dominant discourse until 1997/98 was that East Asia would sustain its rapid economic development, would soon surpass the West in economic performance and, hence, would be increasingly powerful in world affairs compared to the West. As a result, economic growth would stimulate among Asian societies a sense of power and an affirmation of their ability to stand up to the West.<sup>259</sup> “The days when the United States sneezed and Asia caught cold are over”, declared a leading Japanese journalist in 1993, adding that Asians are “at the end of the era of awe and the beginning of the era of talking back”, in their relations with the West.<sup>260</sup> “Asia’s increasing prosperity”, Malaysia’s former Deputy Prime Minister asserted in 1994, “means that it is now in a position to offer serious alternatives to the dominant global political, social and economic arrangements”.<sup>261</sup> The exponents of the Asian values discourse were also intent on addressing a powerful message to Western policy makers, especially those in the US and in Europe who, in the post-Cold War era, had started to advocate the spread of Western style democracy and human rights as tools of foreign

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<sup>257</sup> Said, (1995), p. 7.

<sup>258</sup> Ibid. p. 25.

<sup>259</sup> Mahbubani, (1995), p. 101

<sup>260</sup> Yochi Funabashi, “The Asianization of Asia”, *Foreign Affairs*, Vol. 72, November/December 1993, p. 78. See also: Shintaro Ishihara, *The Japan that Can Say No. Why Japan Will Be First Among Equals*, New York, Simon & Schuster, 1991; Shintaro Ishihara and Mohammad Mahathir, *The Asia That Can Say No*, Tokyo, Kodansha, 1995.

<sup>261</sup> Anwar Ibrahim, *International Herald Tribune*, 31 January 1994, p. 6.

policy. What the advocates of Asian values meant with their assertions was that the West was rapidly losing its ability to make Asian societies conform to Western standards concerning human rights and other values.

East Asians elites would argue, indeed, that their economic success was largely a product of Asian culture, which was thought of being superior to that of the West, which was, in turn, perceived as culturally and socially decadent.<sup>262</sup> During the 1980s, when the Japanese economy, exports, trade balance, and foreign exchange reserves were booming, the Japanese, boasted of their new economic power, spoke contemptuously of the decline of the West, and attributed their success and Western failings to the superiority of their culture. In the same vein, in the early 1990s, South-East Asian leaders, in particular, trumpeted the rise of Asia in relation to the West and contrasted the virtues of Asian, basically Confucian, culture responsible for this success - order, discipline, family responsibility, hard work, collectivism, abstemiousness - as opposed to the self-indulgence, sloth, individualism, crime, inferior education and disrespect for authority responsible for the decline of the West. To compete with the East, the advocates of Asian values argued, the West “needs to question its fundamental assumptions about its social and political arrangements and, in the process, learn a thing or two from East Asian societies”.<sup>263</sup>

In the elaborations of the so-called Asian values - which include, among the others, the respect for authority in the family and in the social life, the attempt to avoid the conflict in social and political relations, the interest of the group above the individual – South-East Asian elites took the lead. Among them, Lee Kuan Yew, former Prime Minister of Singapore, Kishore Mahbubani, Permanent Secretary of the Ministry of Foreign Affairs, and others high ranking Singaporeans officials - the so-called Singaporean School - who, along with Mohammad Mahathir, Malaysia’s Prime Minister, through frequent interviews in the American and European press, explicitly and repetitively asserted the validity and importance of Asian values for East Asia’s economic growth. Lee Kuan Yew, for instance, pointed out that East Asian economic success was particularly the result of a cultural stress on the collectivity rather than the individual:

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<sup>262</sup> Kishore Mahbubani, "The Dangers of Decadence", *Foreign Affairs*, Vol.72, July/August 1994, pp. 10-14.

<sup>263</sup> *Ibid.*, p. 12.

The more communitarian values and practices of the East Asians - the Japanese, Koreans, Taiwanese, and the Singaporeans - have proved to be clear assets in the catching up process ... the values that East Asian culture upholds, such as the primacy of group interests over individual interests, support the total group effort necessary to develop rapidly.<sup>264</sup>

Moreover, the Malaysia's Prime Minister added:

The work ethic of the Japanese and Koreans, consisting of discipline, loyalty, and diligence", Malaysia's prime minister agreed, "has served as the motive force for their respective countries' economic and social development. This work ethic is born out of the philosophy that the group and the country are more important than the individual.<sup>265</sup>

While recognising the differences among Asian societies, the proponents of the Asian values discourse propounded the idea that there were also significant commonalities. Central among these, is the value system of Confucianism, shared by most of the countries in the region, with its emphasis on thrift, family, work, and discipline.<sup>266</sup> Equally important is the shared rejection of individualism and the prevalence of soft authoritarianism or very limited forms of democracy. Finally, proponents of Asian values argued that Asian development and Asian values had to be seen as models which other non-Western societies should emulate in their efforts to catch up with the West and which even the West should adopt in order to renew itself.<sup>267</sup> According to some commentators, "the Anglo-Saxon developmental model, so revered over the past four decades as the best means of modernising the economies of developing nations and of building a viable political system, is not working".<sup>268</sup> Kishore Mahbubani even asserted that:

The East Asian model is taking its place, as countries from Mexico and Chile to Iran and Turkey and the former Soviet republics now attempt to learn from its success, even as previous generations attempted to learn from Western success ... Asia must transmit to the rest of the world those Asian values that are of universal worth ... the transmission of this ideal means the export of the social system of Asia, East Asia in particular.<sup>269</sup>

It is interesting to note the parallelism with current discourses which tend to see contemporary China as a model that ought to be imitated by developing countries

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<sup>264</sup> Fared Zakaria, "Culture is Destiny: A Conversation with Lee Kuan Yew", *Foreign Affairs*, Vol. 73, n. 2, March/April 1994, pp. 113-114.

<sup>265</sup> Mohammad Mahathir, "The Malay Dilemma", quoted in Ogura Kazuo "A Call for a New Concept of Asia", *Japan Echo*, Vol. 20, Autumn 1993, p. 40.

<sup>266</sup> Fared Zakaria, "Culture is Destiny", p. 114.

<sup>267</sup> Li Xiangiu "A Post Cold-War Alternative from East Asia", *Straits Times*, 10 February 1992, p. 24.

<sup>268</sup> Yoichi Funabashi, "Globalize Asia", *New Perspectives Quarterly*, Vol. 9, Winter 1992, pp. 23-24.

<sup>269</sup> Kishore Mahbubani, "The West and the Rest", *National Interest*, Vol. 28, Summer 1992, p. 7.



worldwide.<sup>270</sup> Back in the mid 1990s, the mounting self-confidence of East Asian elites seemed to have given rise, in essence, to an emerging Asian universalism comparable to that which had been characteristic of the West. “Asian values are universal values. European values are European values”, declared Mohammad Mahathir, Malaysia’s Prime Minister, to the EU heads of state and government in 1996, at the opening of the first ASEM in Bangkok.<sup>271</sup>

To sum up, by the mid-1990s the Asian values discourse had become the ideology of a range of regimes intent on resisting the attempts by American and European policy makers to spread Western style democracy and human rights to Asia. What the advocates of Asian values meant with their discourse was that the West was rapidly losing its ability to make Asian societies conform to Western standards concerning human rights and other values. While Western liberals had generally proposed that Asia was rapidly being transformed into a world of markets, individualism and materialism as capitalism and internationalisation were taking root, there was a growing body of opinion among Western neo-liberals that influences could be flowing in the other direction, or at least that the Asian model may be an alternative to liberalism. Francis Fukuyama pointed out that, while rapid economic development would lead to democracy, “the contours of Asian democracy may be very different from those of contemporary Western democracy, which has experienced serious problems of its own in reconciling individual rights with the interests of the larger community”.<sup>272</sup>

In the view of both Western conservatives and the advocates of Asian values, Western industrialism was built in the nineteenth century upon values of strong government, moral propriety, hard work, and thrift similar to those, which characterise the Asian values discourse. Margaret Thatcher enthused about “the fundamentally vigorous values” of Asia. Asians, she noted “are very hard working, they are very keen on self-improvement, very family-minded...all of these are some of the fundamentally vigorous virtues, which are enabling Asian countries to achieve a rate of growth which

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<sup>270</sup> This is the argument put forward by Kishore Mahbubani in his latest book: *Beyond the Age of Innocence: Rebuilding Trust Between America and the World*, New York, Perseus Books Group, 2005 and in his recent article: “Understanding China”, in *Foreign Affairs*, Vol. 84, No. 5, September/October 2005, pp. 49-60.

<sup>271</sup> Statement by Mohammad Mahathir, Malaysia’s Prime Minister, at the Asia-Europe Meeting, Bangkok, 2 March 1996

<sup>272</sup> Francis Fukuyama “Confucianism and Democracy”, *Journal of Democracy*, Vol.6, n. 2, April 1995, p. 21.

is phenomenal”.<sup>273</sup> Moreover, the British Conservative David Howell, former chair of the House of Commons’ Foreign Affairs Committee, argued that “Easternisation is not just about adopting the business techniques of those now in the ascendant, the Asian dynamos, but about some of the values and attitudes which lie beneath their success both as economies and societies”.<sup>274</sup> In January 1996, Tony Blair, at that time leader of the Labour party, launched his vision of the stakeholder society in Singapore as a deliberate bid to tie a conception of the virtue of the principles of markets, self-help and technical competence to an endorsement of an Asian model of economic growth and social cohesion. However, the Asian financial crisis that erupted in 1997 dealt a powerful blow to these ideas.

### **3.6 The Asian financial crisis and the EU’s response**

The Asian financial crisis of 1997-98 represented a major test for both East Asia and the EU. It challenged East Asia’s growing assertiveness, putting a halt to the spreading of the Asian values discourse. It also became a major test for the EU and its ability to emerge as an effective global actor. But how did in practice the EU react to the Asian financial crisis?

At the outbreak of the crisis in 1997, a clear EU’s response was barely apparent. EU policy makers played down the importance for their region of the crisis since the conventional wisdom insisted that Asian economic fundamentals remained sound.<sup>275</sup> At the same time, US policy makers criticised the EU for being less than supportive of international efforts, led by the International Monetary Fund (IMF) and the Clinton administration, to halt the spread of the crisis. In this context, a first complete package of measures had already been articulated by the IMF. In fact, seeking to help East Asian elites to avoid defaulting on their debts to foreign creditors, the IMF had offered an immediate infusion of foreign exchange in late 1997. The governments of Thailand, Indonesia and South Korea had each agreed to an IMF structural adjustment program aimed to open up the targeted countries fully to international business and to earn the

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<sup>273</sup> *Australian*, 18-19 November 1995; see also the internal debate among the leaders of the British Conservative Party in *The Economist*, 6 June 1998.

<sup>274</sup> Quoted in Garry Rodan, “The Internationalization of Ideological Conflict: Asia’s New Significance”, *Pacific Review*, Vol. 9, n.3, Fall 1996, p. 339.

<sup>275</sup> Walden Bello, “The Asian Financial Crisis: Causes, Dynamics, Prospects”, *Journal of the Asia Pacific Economy*, Vol. 4, n. 1, 1999, pp. 33-55.

foreign exchange necessary to pay international debts.<sup>276</sup> In defending the IMF response to the crisis, its Managing Director at that time, Michel Camdessus, promoted a six-point plan to shape the new architecture, by proposing: (I) a more effective oversight of countries economic policies; (II) mutual regional surveillance, with neighbouring countries getting together to put pressure on one another to pursue sound policies; (III) financial sector reform, including better prudential regulation and supervision; (IV) more effective structures for orderly debt workouts including ways of associating the private sector with official efforts to help resolve sovereign debt problems; (V) further capital account liberalisation; (VI) and the strengthening of international financial institutions, with increased financial resources.<sup>277</sup>

As the crisis unfolded, the EU's response was one of full support for the measures imposed by the IMF. According to the EU Trade Commissioner, Sir Leon Brittan, the IMF's prescriptions "would be an opportunity to resist protectionism and promote further liberalisation."<sup>278</sup> In the middle of the crisis, the EU saw in the IMF's response a series of policies which would help safeguard EU members' economies from possible risks of contagion. The EU policy makers' assessment of the crisis was based on the perception that currency devaluations could provoke trade conflicts, that there could be a significant slowdown of Asian inward Foreign Direct Investments (FDIs) and that European banks could face enormous losses on their lending to the region.<sup>279</sup> The Commission also stressed the consequences of the Asian crisis for unemployment and slower growth in EU members' economies. Moreover, Brussels even acknowledged the potentially destabilising effects of the crisis on the convergence criteria of the European Monetary Union (EMU).<sup>280</sup>

The ASEM II summit in London, in April 1998, soon began to reflect the new circumstances. First of all, the initiative shifted from Asia to Europe, with the summit providing the EU with the opportunity to show that it could take decisive action to respond to the developing crisis in East Asia. In this context, the London meeting not only served to endorse fully the implementation of the IMF's reform packages to individual countries - vital for restoring confidence in Asian economies and financial

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<sup>276</sup> "Rebuilding Asia", *Far Eastern Economic Review*, February 12, 1998.

<sup>277</sup> Bello (1999), p. 42.

<sup>278</sup> *Financial Times*, 2 December 1997, p. 5.

<sup>279</sup> Casarini (2001), p. 44.

<sup>280</sup> "Global turmoil could upset run-up to EMU", *Financial Times*, 9 December 1997, p. 2.

markets - but also moved the debate over issues related to global economic governance and the role of the EU in it. Europe's commitment to draw the East Asian countries more explicitly into the orbit of neo-liberal orthodoxy propounded by the IMF was articulated by the President of the European Commission, Jacques Santer, ahead of the London ASEM summit, when he argued that:

Our economies share a common dependence on the global economy and on open access to world markets, and it will be essential for the London Summit to emphasize this interdependence. We should set clear directions for our future cooperation in strengthening the open and rules-based trading system embodied in the WTO. In parallel to this, we must stress in London the importance of global macroeconomic and financial stability.<sup>281</sup>

In this vein, the ASEM II in London discussed specific policy issues, such as the lowering of customs barriers, transparency in export dealings and in setting tariffs and terms of trade, financial liberalisation, which were part of the broader new architecture put forward by the IMF.<sup>282</sup> In the end, in the new circumstances created by the Asian crisis a new project began to take shape, quite different in character to that which had been proposed as strengthening of the third leg of the North America-EU-East Asia triangle. Instead of being defensive response to Asia's economic rise (with the corollary of its increasing assertiveness, as discussed earlier with regard to the Asian values discourse), the ASEM II in London in 1998 became the opportunity for advancing a key role for the EU in furthering global economic governance along the lines already articulated and promoted by the US government and the leading international organisations charged of the management of the global economy, such as the International Monetary Fund (IMF), the World Bank, and the World Trade Organisation (WTO). This EU's pro-active foreign economic policy served two purposes: firstly, it enhanced the role of the Union on matters related to global economic governance. Secondly, it laid the basis for a common approach with the United States, reducing as a consequence the tensions which had arisen in the earlier stages of the crisis, and making it possible that an Atlantic axis could once again establish hegemony in global affairs. It is noteworthy, in this context, that the Blair government in the United Kingdom played a leading role in orchestrating and presenting the emerging EU position at the ASEM II in London.<sup>283</sup>

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<sup>281</sup> Jacques Santer, "Asia and Europe: the Road from Bangkok to London and Beyond", *Inaugural ASEF Lecture*, Singapore, Asia-Europe Foundation (ASEF), 13 January 1998.

<sup>282</sup> *The Financial and Economic Situation in Asia: A Shared Interest in Restoring Stability*, Financial Statement of ASEM II, London, 3 April 1998.

<sup>283</sup> *Financial Times*, 9 February 1998, p. 5.

The EU's initiative put forward at the ASEM II in London advanced the so-called Washington consensus, which advocates macroeconomic policies aimed at low inflation and balanced budgets, rapid privatisation, maximum freedom for capital and an active role for states in setting the rules of the game. At the same time, Europe's strategy aimed at challenging US leadership of the process of global economic governance. EU policy makers sought to exploit the resentment of some Asian elites of US behaviour, in particular over intrusive demands with regard to human rights, labour and environmental standards and the perception among some Asian intellectuals and political leaders that the financial crisis was a product of a conspiracy by the US. The European approach was seen by East Asian elites as more pragmatic and conciliatory.<sup>284</sup> The EU could, therefore, present itself as a more reliable actor in advancing a regime of global economic governance.<sup>285</sup> At the same time, the initiatives taken in the middle of the Asian crisis allowed EU policy makers to exploit the situation to further the development of a common EU foreign economic policy and promote the EU as a global economic power.

This pro-active foreign policy agenda was dictated by the belief that Europe's economic security was increasingly affected by developments in Asia. As discussed earlier, since the early 1990s the overall objective of the EU's Asia strategy has been to take advantage of Asia's economic growth in order to maintain Europe's economic global competitiveness and its (relative) welfare position. Thus, the EU's response to the Asian financial crisis was part of this overall strategy to protect the Union's economic security. Strategically, the ASEM II in London also sealed the upgrading of the EU-China partnership. In this context, we need to analyse China's economic performance before, during and after the crisis.

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<sup>284</sup> Interview, European Commission delegation in Japan, Tokyo, 12 May 2005 and ASEM desk, DG I-RELEX, Brussels, 10 July 2004.

<sup>285</sup> In part, this had to do with a desire to project the EU's weight as the biggest shareholder in the IMF itself and as a major contributor to the adjustment packages. In this context, new ASEM policy initiatives included the appointment of a special envoy to strengthen Europe's political profile in dealing with the region; the establishment of a "Trust Fund" under the auspices of the World Bank that would focus on restructuring Asia's financial sector; the setting up of a network of "experts" to oversee the implementation of IMF-prescribed reforms; and the launching of an Investment-Promotion Action Plan (IPAP).

### 3.7 The emergence of China as the cornerstone of the EU's Asia policy

Since the early 1990s, China's rise had received the attention of the global capitalist elite. In 1994, the Trilateral Commission published its report *An Emerging China in a World of Interdependence*<sup>286</sup> and in the same year the EU adopted its New Asia Strategy. In 1995, the Commission's adopted its first China paper, where it spelled out a new approach towards Beijing. The new EU's China policy brought about a number of policy developments. In particular, the EU's general positions on commercial policy became significantly more favourable to Beijing. The EU removed China from its list of non-market economies, restricting the conditions under which anti-dumping duties could be imposed.<sup>287</sup> China's trade surplus with the EU increased fourfold between 1990 and 1997. Moreover, Beijing took an increasing share of the total benefits of the EU's GSP, by 1997 taking a hefty 30% of the total available preferences, up from the 15% it took at the beginning of the decade.<sup>288</sup> The European Commission aid commitments to China increased from 20 million Ecu for 1991-1994 to 70 million Ecu for 1995-1999.<sup>289</sup> At the bilateral level, while US aid to China remained negligible, Beijing rose up the rankings of EU member states' main aid recipients. Most significantly by 1997 China had become by some margin the largest recipient of German development assistance.<sup>290</sup> The first European Investment Bank (EIB) loan to China was agreed in December 1995 and EU governments supported a huge increase in World Bank loans to China, with the latter soon becoming the Bank's largest recipient.

In this context, the outcome of the Asian financial crisis of 1997-98 would further contribute to the image of a rising China. This view was sustained by the economic evidence: by 1999 it clearly appeared that China – along with Taiwan – had escaped the Asian financial crisis largely unscathed, as the table below shows:

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<sup>286</sup> Yoichi Funabashi, Michel Oksenberg and Heinrich Weiss, *An Emerging China in a World of Interdependence*, New York, Paris and Tokyo, The Trilateral Commission, The Triangle Papers 45, May 1994.

<sup>287</sup> Hervé Dejean de la Batie, *La politique chinoise de l'Union européenne: en progress, mais peut mieux faire*, Institut Français des Relations Internationales (IFRI), February 2002.

<sup>288</sup> Christopher Dent, *The European Union and East Asia: An Economic Relationship*, London, Routledge, 1999, p. 140.

<sup>289</sup> Franco Algeri, "The Coherence Dilemma of EU External Relations: The European Asia Policy", in Paul Cammack and Gareth A. Richards (eds.), *Asia-Europe Inter-Regionalism* (special edition of the *Journal of the Asia Pacific Economy*), vol. 4, n. 1, 1999, p. 90

<sup>290</sup> Organisation for Economic Cooperation and Development (OECD), *The Regional Distribution of Aid Flows*, Paris, OECD, 1998.

**Table 4: East Asian economies 1996-1999**

	GDP growth				Change in currency
	1996	1997	1998	1999	value against US\$ (June 1997-May 1999)
China	9.6%	8.8%	7.8%	8.2%	no change
Indonesia	8.0%	4.9%	-13.7%	-3.9%	-69%
Japan	3.8%	-0.7%	-2.1%	-0.7%	-8%
South Korea	7.1%	5.5%	-5.5%	3.7%	-26%
Malaysia	8.6%	7.8%	-7.0%	2.0%	-34%
Philippines	5.8%	5.2%	-0.5%	2.3%	-30%
Singapore	6.9%	8.0%	1.5%	2.0%	-17%
Taiwan	5.7%	6.8%	4.8%	4.5%	-15%
Thailand	5.6%	-1.3%	-7.0%	-0.5%	-30%

Source: International Monetary Fund, *World Economic Outlook*, 2000; and *Far Eastern Economic Review*, 27 May 1999, p. 64.

The changing economic power relations within the East Asian region would have a profound impact on the evolution of both the EU's Asia Strategy and EU foreign policy towards China. While the ASEM II became the opportunity for the EU to show that it could take decisive action to respond to the developing crisis in East Asia, as well as to promote its global economic agenda, the EU and China held their first Summit at the margins of the London's meeting. On the one hand, the ASEM II in London saw the South-East Asian elites being preached by EU policy makers about the virtue of neo-liberalism. On the other hand, Communist China had become the star of the summit. The latter was largely due to the Chinese government having resisted to undervalue its currency. This was perceived as an act of responsibility by Beijing for maintaining global economic stability.<sup>291</sup> In this vein, China would be increasingly seen by EU policy makers as a stable market for conducting business, something that will have profound consequences for the further elaboration of EU foreign policy towards China, as we will see in the next chapter.

<sup>291</sup> Interview, European Commission, DG RELEX, ASEM desk, 10 July 2004.

The crisis also had an impact on East Asia's strategic balance.<sup>292</sup> Indeed, defence spending and procurement programmes in the above mentioned countries (China and Taiwan) had not suffered to the same extent as elsewhere in the region. China's level of military spending continued to rise during the crisis. In 1998-99 China's official budget increased by 12,9% and in 1999-2000 by 11,5% <sup>293</sup> and Taiwan's military spending rose by more than 20% in real terms between 1992 and 1997 and continued to increase in the period 1997-2000.<sup>294</sup> We will discuss the significance of these developments in Chapters 6 and 7.

## Conclusion

This chapter has discussed the main themes that have characterised the development of the NAS and the ASEM process in the 1990s. Since the mid-1990s, the NAS and ASEM have provided the broader frameworks within which the EU has developed the policy of constructive engagement towards China. As the European Commission stated in 1995 "the time has come to redefine the EU's relationship with China in the spirit of the new Asia strategy".<sup>295</sup> ASEM, in particular, has become the most important inter-regional forum for discussion and cooperation between the EU and East Asia. In this context, Chinese leaders have come to support ASEM because they see it as an additional factor contributing to the emergence of an East Asian bloc independent of Washington and, more generally, to the trend towards the multi-polarisation of the international system.

This chapter has also examined the emergence of East Asia as the third pole of the Post-Cold War international economic order, as well as the growing enthusiasm for East Asia's success. The latter produced two complementary discourses: economic orientalism in the West and its flip-side in the East: the Asian values discourse. Thus, by 1997, by engaging in a mainly unconscious process of de-construction and re-construction of the East Asian economic rise most authors openly called upon an awakening of the West, of the necessity of an encompassing modernisation of its system

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<sup>292</sup> Interview with Otaka Junichiro, Deputy Director, European Policy Division, European Affairs Bureau, Japanese Ministry of Foreign Affairs, Tokyo, 12 May 2005.

<sup>293</sup> Tim Huxley and Susan Willett, *Arming East Asia*, Oxford, Oxford University Press for The International Institute for Strategic Studies (IISS), Adelphi Paper No. 329, 1999, p. 21.

<sup>294</sup> The significance of these developments will be analysed in more details in Chapter 7.

<sup>295</sup> Commission of the European Communities, *A Long-Term Policy for China-Europe Relations*, Brussels, , COM (95), 279 final, 1995.



of production and explicitly questioned the basic assumptions of the Western model. The *leit-motiv* was then, a concern for an urgent and radical structural adjustment that the Western countries needed to make in order to be ready for entering into the new millennium. In other words, behind a well-supported economic analysis, lied a formidable discourse made to convince the Western readers that our economic and political future was at stake in Asia. A very similar discourse has resurfaced in recent years, this time with regard to China's rise and its economic challenge to the West – which we will discuss further in the next Chapter.

In the same vein, advocates of the Asian values in the 1990s argued that East Asian development had to be seen as a model which other non-Western societies should emulate in their efforts to catch up with the West and which even the West should adopt in order to renew itself. As discussed above, the exponents of the Asian values discourse were mainly intent on addressing a powerful message to Western policy makers, especially those in the US and in Europe who, in the post-Cold War era, had started to advocate the spread of Western style democracy and human rights as tools of foreign policy. What the advocates of Asian values meant with their assertions was that the West was rapidly losing its ability to make Asian societies conform to Western standards concerning human rights and other values.

Finally, the last part of the chapter has examined the EU's response to the Asian financial crisis of 1997-98. The crisis challenged East Asia's growing assertiveness, putting a halt to the spreading of the Asian values discourse. It also became a major test for the EU and its ability to emerge as an effective global actor. More particularly, it presented an opportunity for EU policy makers to send a message to East Asian elites and advance the role of the EU in the shaping of global economic governance issues. This pro-active foreign policy agenda was dictated by the belief that Europe's economic security was increasingly affected by developments in Asia. As discussed earlier, since the early 1990s the overall objective of the EU's Asia strategy has been to take advantage of Asia's economic growth in order to maintain Europe's economic global competitiveness and its (relative) welfare position. We will discuss these issues further in the next Chapter.

The financial crisis also unsettled economic power relations in East Asia, creating the conditions for China's emergence as the linchpin of regional economic

growth. By 1999, it clearly appeared that China – along with Taiwan – had escaped the Asian financial crisis largely unscathed. In addition, China had resisted undervaluing its currency, acting responsibly for maintaining global economic stability. By the end of the 1990s China had become increasingly significant for Europe’s economic interests. This European enthusiasm for the Chinese market had been translated, at the political level, in the policy of constructive engagement that will be examined in more details in the next Chapter.

## Chapter 4

### **The EU's policy of constructive engagement towards China: the trade-off between economic security and human rights**

There is no alternative to engagement with China. Indeed, the only way in which solutions will be found is if we recognise that the issue surrounding China's development is global issues which impact directly on our own vital interests. By engaging with China, we are not only in a position to point China towards a path of sustainable growth but we will also protecting the welfare of Europe into the next Millennium and beyond.

Sir Leon Brittan, Vice-President of the European Commission, 2 February 1998<sup>296</sup>

We in Europe are full of admiration for China's spectacular economic growth. China's economic development is truly impressive by any measure. If current annual growth rates persist, China will soon be one of the world's largest economies. Barely three years after China joined the World Trade Organisation, the country has risen to be the third largest global trader. This is really impressive... The EU is now China's largest trading partner. And China is our second largest.

José Manuel Barroso, President of the European Commission, 15 July 2005<sup>297</sup>

[As part of the EU-China political dialogue]...the EU-China human rights dialogue is undoubtedly the most complex and multifaceted dialogue on human rights which we have with any country.

Chris Patten, former EU Commissioner for External Relations, 5 July 2001<sup>298</sup>

#### **Introduction**

As discussed in previous Chapters, the evolution of relations between the large EU member states and China in the first part of the 1990s (Chapter 2) coupled with the development of the EU's New Asia Strategy and the ASEM process advocating a more pro-active engagement with East Asian countries (Chapter 3) contributed to the

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<sup>296</sup> Sir Leon Brittan, *Engaging China*, Speech by the Vice-President of the European Commission, London, EU-China Academic Network Annual Conference, 2 February 1998.

<sup>297</sup> José Manuel Barroso, *The EU and China: painting a brighter future together*, Speech by the President of the European Commission, Beijing, Chinese Academy of Social Sciences, 15 July 2005; <http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/444&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>298</sup> Chris Patten, "China's Candidature for Hosting the Olympic Games in 2008", Commission Statements in urgency debates, by External Relations Commissioner in the European Parliament, Plenary Session, Strasbourg, SPEECH/01/33 – 5 July 2001.

formulation of the new EU foreign policy towards China. Moreover, as discussed in Chapter 2, by the mid-1990s, due to the new weight acquired by Germany after the reunification, its lead in formulating a pragmatic approach to Beijing, and the awesome commercial results that ensued from it, German China policy had succeeded in influencing the behaviour of the other EU member states, especially the large ones. This Europeanisation of the German China policy did not only take place sideways (i.e., influence on the behaviour of the other EU members) - but also bottom-up (influence up to the European Commission, i.e. EU level). The Commission adopted its first China policy paper in 1995, calling for a constructive engagement towards China (following the lead of the US). However, contrary to the US, which had maintained a critical attitude towards Beijing, in particular on human rights violations, political liberalisation and the Taiwan issue, the Commission's paper appeared to be influenced by the more pragmatic approach characteristic of Germany's China policy.

Since the mid-1990s, the EU's policy of constructive engagement has come to define Europe's China policy, characterised by the promotion of the fullest possible Chinese involvement in the international arena, whether on economic, social, political, security or environmental issues. The focus has been on helping China support its transformation process to become a good citizen of international society, with the underlying belief that this approach would lead, over time, to greater political liberalisation and promotion of human rights.

Concurrent with the above idealistic approach, the EU member states' (especially the large ones) policies towards Beijing has been driven by commercial considerations. While China's economic weaknesses have been fully acknowledged, EU governments have come to perceive China as being a market with almost limitless potential for the expansion of economic opportunities. Moreover, both the European Commission and some EU member states – especially the large ones – have come to believe that Europe's economic security and its (relative) welfare position would increasingly be linked to China's long-term and stable development. In other words, EU policy makers have come to the conclusion that, in a situation of sluggish economic growth in Europe, gaining commercial advantages from the most dynamic market would be of great importance for maintaining the Union's overall global competitiveness. In the words of Sir Leon Brittan: "By engaging with China, we are not

only in a position to point China towards a path of sustainable growth but we will also protect the welfare of Europe".<sup>299</sup>

At the same time, Chinese policy makers have also established the link between the protection of China's economic security and the bolstering of relations with the EU, in particular with regard to the possibility of acquiring advanced Western technology. This new securitisation discourse largely explains why, since the beginning of the 1990s, both the EU and China have attached great importance to the development of economic and commercial relations. This discourse follows recognition that the end of the Cold War and the globalisation process have led to the emergence of new, broader notions of security, among which "economic security" is one of the most important.

Within the discipline of international relations, the term economic security has evolved from the more traditional concept of national security.<sup>300</sup> The notion of economic security – along with that of ecological/environmental security – gained popularity in the IR research agenda following the end of the Cold War, though different scholars have always attached different meaning to it.<sup>301</sup> This chapter, thus, starts with an examination of European and Chinese discourses on economic security to gain a better understanding of the growing Sino-European ties in the post-Cold War era. Furthermore, the notion of economic security is used for critically analysing the EU's policy of constructive engagement, its commercial benefits for both European and Chinese companies, and its political consequences.

In order to orient the reader, the first part of the chapter analyses the arguments employed by EU policy makers for making the link between the Union's economic security and China's sustainable development. In the following section, we examine

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<sup>299</sup> Sir Leon Brittan, *Engaging China*, Speech by the Vice-President of the European Commission, London, EU-China Academic Network Annual Conference, 2 February 1998.

<sup>300</sup> See: David A. Baldwin, "The Concept of Security" in *Review of International Studies*, Vol. 23, No. 1, January 1997, pp. 5-26; Barry Buzan, *People, States and Fear: The National Security Problem in International Relations*, Hemel Hempstead, Harvester Wheatsheaf, 1991; Arnold Wolfers, "'National Security' as an Ambiguous Symbol", in *Political Science Quarterly*, December 1952, pp. 481-502.

<sup>301</sup> James Sperling and Emil Kirchner, "Economic Security and the Problem of Economic Cooperation in the post-Cold War Europe", in *Review of International Studies*, Vol. 24, 1998, pp. 221-237. Like the more traditional concept of security, economic security as such defies clear definition. In the Penguin Dictionary of International Relations, it is noted that: "economic security concerns are implicit in mercantilism...If the control of the supply of goods and services falls into hostile hands or if the price for the supply of the same is set by a hostile actor with monopoly control then the economic security of the recipient is potentially under threat". Graham Evans and Jeffrey Newnham, *The Penguin Dictionary of International Relations*, London, Penguin Books, 1998, pp. 490-491.

Chinese scholars and policy makers interpretations of the notion of economic security in the post-Cold War era and discuss how and why Chinese leaders and scholars have made the link between China's modernisation and the development of relations with European countries. The third part of the chapter assesses the growing EU-China commercial relations and critically examines the fierce competition among EU members for China's market shares which has characterised the last decade. In the following section the analysis focuses on the political consequences of this contemporary commercial "scramble" for the Chinese market. We will discuss how EU foreign policy towards China has been increasingly characterised by a glaring lack of critical pressure, in particular with regard to human rights violations in China and on the Taiwan issue. However, the Nordic countries and the European Commission have continued to promote and support projects aimed at Chinese civil society, human rights issue, and democratisation. In the conclusion, the chapter critically evaluates the EU's policy of constructive engagement towards Beijing and assesses the level of convergence achieved by EU members. The findings of this chapter provide the basis for the subsequent analysis of the security-strategic dimension of the EU's China policy carried out in the following Chapters.

#### **4.1 The new significance of the Chinese market for Europe's economic security in the post-Cold War era**

On 5 July 1995, the European Commission released its Communication *A Long-Term Policy for China-Europe Relations*, which laid down the EU's new approach towards Beijing. The document declared that "the time has come to redefine the EU's relationship with China, in the spirit of the new Asia strategy". With the aim to put the EU member states' relationships with the PRC into a "single integrated framework", the Commission declared that relations with China "are bound to be a cornerstone in Europe's external relations, both with Asia and globally". Point of departure of the Commission's document is the rise of China, seen as an unprecedented event since the Second World War. While the analysis concentrates on China's economic upsurge and the potentialities of its market for European business, the paper lays down a strategy of constructive engagement for integrating China into the world community, in particular its participation to inter-governmental organisations and the conditions under which

China would be re-admitted to the World Trade Organisation (WTO).<sup>302</sup> The Commission stresses that China's reform and opening-up process, its size, growth rate, and great potential for further development, would mean enormous opportunities for EU businesses. Consequently, in order for European industry to be globally competitive, "it must be present in the world's most dynamic market".<sup>303</sup>

This idea of the need to maintain the EU's global competitiveness would find support in the emergence of a new conception of European security in the post Cold War period. In its 1993 White Paper on *Growth, Competitiveness, Employment - the Challenges and Ways Forward into the 21<sup>st</sup> Century*, the European Commission states that in this globalised world, the EU's economic security must be protected.<sup>304</sup> In the same year (1993), Germany had proposed a similar argument. The Kohl government became the first EU member state to put forward a more pro-active strategy towards China and, more generally, Asia. The German document - *Asien Konzept der Bundesregierung* - outlined the new significance of the Asian markets for Europe. This became evident in 1992, when the Union trade with Asia overtook EU-US trade for the first time. The German concept paper stated that Germany - and Europe as a whole - had to "strengthen economic relations with the largest growth region in the world" in order to maintain Germany - and the Union's - leading role in the world economy.<sup>305</sup> The document also emphasised the emergence of China as the rising power in the region and, consequently, the need for the EU to engage Beijing in a more constructive way.

Similar moves by the other large EU member states (in particular, France, the UK and Italy) helped formulate the link between the protection of EU's economic security and the exploitation of business opportunities in the Asian region and, in particular, China. As discussed in Chapter 3, in a further attempt to catch up with Germany, the French Minister for Industry, Gérard Longuet, while visiting Beijing and Hong Kong in 1994, launched a new French strategy called *Ten Initiatives for Asia*. In Summer 1994, the European Commission adopted the EU's New Asia Strategy (NAS)

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<sup>302</sup> Commission of the European Communities, *A Long-Term Policy for China-Europe Relations*, Brussels, COM (95), 279 final, 1995, p. 1. The Commission document was following similar moves by the US and, later, Japan.

<sup>303</sup> Ibid., p.2.

<sup>304</sup> European Commission, White Paper on *Growth, Competitiveness, Employment - the Challenges and Ways Forward into the 21<sup>st</sup> Century*, COM(93) 700 final, 1993.

<sup>305</sup> *Asien Konzept der Bundesregierung*, in *Europa Archiv* 6/1994, n. 189, pp. 142-157.

and a few months later France's Foreign Minister, Hervé de la Charette, announced that Asia would receive special attention as the *nouvelle frontière* of French diplomacy. In the same period, also the UK, Italy, and the Netherlands began to prioritise the development of economic relations with Asian countries.

While Germany took the lead in the elaboration of the EU's Asia's - and China's - policy, it was left to the European Commission to put forward a definition of economic security for the whole Union. According to the Commission, Europe's economic security can be defined as "the long term ability to protect the relative welfare position by ensuring access to resources and production capability, securing market outlets and maintaining macroeconomic stability". More specifically, according to the Commission the EU needs to protect its (relative) welfare position by: (i) ensuring access to resources and production capability (i.e. access to raw materials, oil, technology); (ii) by securing market outlets (i.e. access to export markets for goods and services and the ability to extend economic activity like investment beyond national boundaries; (iii) maintaining a stable international macroeconomic environment. For the European Commission, economic security is closely interlinked with environmental security, which is defined as the need to guarantee the maintenance of shared ecosystems.<sup>306</sup>

Following up on the Commission's definition, the 1995 and subsequent Commission's papers on China have pointed out that Europe's economic security is directly affected by developments in China, in particular by Beijing's "steady, sustained and environmentally sustainable economic growth". In other words, the Commission asserts that, if this kind of growth is maintained, it is "in the mutual interests of both China and the EU".<sup>307</sup> Thus, for the Commission it is fundamental to take advantage of the opportunities provided by China's economic growth in order to protect the EU's (relative) welfare position.

How does, in practice, China's economic development affect the EU's economic security? For instance, the EU is very sensitive to world oil and food markets. Since

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<sup>306</sup> Interviews, European Commission, DG RELEX, 9-10 July 2004. The definition has been put forward by Unit I-2 (Policy Planning) of the Directorate General I, External Relations (DG RELEX) in charge of Commercial Policy and Relations with North America, the Far East, Australia and New Zealand. Some material has been published as a book chapter; see: Katja Afheldt, in collaboration with S. Weyant (environment) and M. Gago de la Mata (external relations), *Economic Security: The EU's Stake in a Sustainable Development in China*, in Werner Draguhn and Robert Ash (eds.), *China's Economic Security*, London, Curzon, 1999, pp.172-229.

<sup>307</sup> *A Long-Term Policy for China-Europe Relations* (1995).



China, due to its large population and economic needs, depends on more and more imports, world markets have to make the corresponding adjustments. According to the Commission, if China could maintain a steady economic growth and a stable expansion of its imports, the possibilities for gradual adjustments could be facilitated. From an European perspective, disruptive shocks from sudden oil surges, or strongly fluctuating Chinese imports, should be avoided. Otherwise, the world markets and, consequently, the Union's economy, would be adversely influenced.

Furthermore, China is one of the major outlets for European goods and investments. At this time of greater economic interdependence, the outside market is becoming more important for the EU than ever before. EU exports make up one-fourth of world trade and many million jobs depends on exports directly, and even more indirectly.<sup>308</sup> In addition, with the progress of globalisation in production, more and more European businesses are benefiting from the size of the Chinese market and its increasing appetite for imports (e.g. capital goods). In the last years, a growing number of European companies have been relocating activities to China in order to profit from its cost advantage. As a result, they have been improving their overall competitiveness vis-à-vis international competitors.<sup>309</sup>

European FDI flows into China account for some 10% of all FDI. Foreign direct investment flows into China have soared from a very modest level in the early 1990s to reach US\$ 52,700 million in 2002. This is almost twice the level of FDI inflows into Central and Eastern Europe and fifteen times more than the FDI inflows into India.<sup>310</sup> The largest investors into China are the overseas Chinese community in Hong Kong and Taiwan. Early European FDI into China was primarily motivated by the low costs and went into exporting industries. Currently, an increasing share of FDI is motivated by the desire to produce for the growing Chinese market. The absolute volumes of China-bound FDI flows have multiplied in recent years. For instance, British companies' FDI in China amounted to only US\$ 72 million in 1985 but rose to US\$ 896 million in 2002. In the same period German FDI flows rose from US\$ 24 million to US\$ 928 million, while French enterprises committed US\$ 32 million in 1985 but US\$ 576 million in 2002 to activities in China.

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<sup>308</sup> For more details, see: European Commission, Commission Staff Working Document – *European Competitiveness Report 2004*, Brussels, SEC (2004) 1397, November 2004.

<sup>309</sup> Ibid, in particular Chapter 5: "The Challenge to the EU of a Rising Chinese Economy", pp. 299-354.

<sup>310</sup> Data from the Delegation of the European Commission in Beijing.

**Table 5: EU FDI flows to China (1994-2002) in US\$ million**

	1994	2002
Germany	259	928
United Kingdom	689	896
France	192	576
Netherlands	111	572
Italy	206	177
Belgium	32	124
Sweden	24	100
Spain	10	92
EU 12	1,415	
EU 15		3,710
World	33,767	52,743

Source: National Bureau of Statistics, Chinese Ministry of Commerce (<http://www.stats.gov.cn/english/index.htm>).

In the 2004 *European Competitiveness Report*, the European Commission argues that success in the Chinese market does not only generate growth, but economies of scale which are even more important for large enterprises to protect their strategic position against their American and Japanese competitors. Since it is generally assumed that an increase in European exports, as well as the success of European companies abroad would be translated in the creation of more jobs within the EU, it follows that securing market outlets and fair competition for European industries in China has become a major economic interest for the EU. Thus, only under a steady economic growth could China create constant demand for European goods, services, and investment in the long run.<sup>311</sup>

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<sup>311</sup> *European Competitiveness Report 2004*; see, in particular, Chapter 5: "The Challenge to the EU of a Rising Chinese Economy", pp. 299-354.

Steady economic growth is also the pre-condition for China's sticking to its transformation process - the transition to a market economy and integration into the world economic system - which is absolutely essential to enable European companies to compete on equal - or fair - footing in the Chinese market. Moreover, the European Commission emphasizes that China's increasing presence on world markets affects global prices and thus shapes the global competitive environment in which European industries operate. In sum, any change in China's economy has, increasingly, a bearing on global markets.

China's domestic economic factors are closely connected to (and interrelated with) political factors. Since China plays an increasingly important role in the maintenance (or disruption) of regional and global stability, instabilities within China and/or in the region will have a direct detrimental effect on the region's economic performance and therefore on EU's exports and FDI in the entire East Asian region. According to the Commission, domestic stability within China does not only depend on internal political developments (role of the CCP, political liberalisation, ethnic conflicts) but also on the social costs of the reform of the ailing State-Owned Enterprises (SOEs), unemployment, inflation, the growing gap between rich and poor and between the coastal areas and the interior, migration due to inequalities in regional development or to environmental degradation. All of them are potential causes of social unrest and, as a consequence, potentially damaging to the economic climate and to EU's economic interests.<sup>312</sup>

Consequently, the Commission and the EU member states hope that China's foreign policy will continue to be guided by a pragmatic approach usually referred to as peaceful rise (or, in the later version, harmonious development). However, the Taiwanese issue remains a key problem, as China's anti-secession law passed in March 2005 demonstrates. As a matter of fact, any tension arising in the Taiwan Straits has the potential to disrupt regional stability and impact on EU's interests in the area. The EU has tended to avoid the Taiwan question. However, the arms embargo issue has proved that miscalculations by the part of the EU could upset East Asia's strategic balance in a way that could run counter the stated goal by the EU to be committed to - and supportive of - the maintenance of regional stability (in order to protect the Union's

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<sup>312</sup> Afheldt (1999).

interests in the area).<sup>313</sup> The impact of developments in China – and in Cross-Strait relations - on the EU is thus not restricted to direct EU-China relations but has a much wider nature. Consequently, the EU has a significant interest in both a steady and sustained development of the Chinese economy (combined with its integration into the world's economic and regulatory systems) and the maintenance of regional stability. In this sense, the EU believes that its interests in East Asia would also be greatly damaged by decreasing growth rates in China, since an economic downturn could lead to increasing tensions both within China and in the region. Moreover, diminishing attractiveness of the Chinese market along with an eventual closing of the country could lead to China's neighbours defiance and containment policies of the West, in particular the US. In contrast, EU officials suggest that a firm engagement of China in multilateral (i.e. WTO), inter-regional (APEC, ASEM) and regional bodies - ASEAN Free Trade Area (AFTA) and ASEAN Regional Forum (ARF) - an opening up of the country and an engagement policy from the West would allow sustaining growth rates and the creation of a good climate for regional and international cooperation. Hence, the insistence of the European Commission and its member states on a firm policy of engagement towards Beijing.<sup>314</sup>

The link made by EU policy makers between the protection of the Union's (relative) welfare position and China's long-term development finds its counterpart in Beijing's view of the significance of Europe for China's economic security. Since the beginning of the 1990s, enhancing relations with European countries has been seen by Chinese leaders as part of the country's strategic goal of boosting China's comprehensive strength. For Chinese leaders, fostering relations with the EU is very important for both commercial and security-strategic reasons - in particular, for obtaining advance Western technology needed for China's modernisation.<sup>315</sup> We will discuss in the next section Chinese scholars and policy makers' considerations of Europe's role for China's modernisation process.

#### **4.2 Europe's significance for China's economic security**

Since the end of the Cold War, the term economic security has become popular in Chinese policy speeches and news media analyses. The Chinese term for economic

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<sup>313</sup> We will discuss these issues in more detail in Chapters 6 and 7.

<sup>314</sup> All the interviewees agreed on this point.

<sup>315</sup> For further details, see Chapter 5.

security is *Jingji anquan*. Most Chinese IR scholars have focused on the external dimension of China's economic security and the term *Guojia jingji anquan* (national economic security) has become the standard notion. At the beginning of the 1990s Chinese scholars and policy makers alike began to elaborate a new understanding of the political, military and security implications that the end of the Cold War and the gathering process of globalisation and economic interdependence would have on China. In the aftermath of 1989 Tiananmen events and with the demise of the Soviet Union as a fresh reminder, Chinese leaders insisted that domestic stability should be pursued at the expense of democratising China's political system. Moreover, the first Gulf War in 1991 was seen by Chinese scholars and policy makers as the demonstration that respect and status in international relations were still rooted in military power, which was based, in turn, on economic strength.

The main reading at that time was that with the end of the Cold War, the economy had become a major factor in determining the growth and decline, as well as the rise and fall of nations. This Chinese interpretation seemed to vindicate the view, popularised by the book by Paul Kennedy, that only economically sound countries were able, in the long-term, to wage war and assert their influence on the global stage.<sup>316</sup> According to this view, the post-Cold War period saw a shift of the main battlefield of international competition from the military to the economic one. As a result, for Chinese scholars the essence of competition would increasingly be a contest for overall national strength based on the economy, as well as the development of science and technology. Chinese leaders saw in the dissolution of the Soviet Union an example of how economic problems could bring a superpower to a collapse. In addition, the first Gulf War reinforced the view of the importance of science and technology for contemporary warfare.<sup>317</sup>

In 1992, Zhao Yang, a Chinese scholar at the Institute of Industrial Economic Research of the Chinese Academy of Social Sciences (CASS), defined the threats to national economy security as to include the terms of international exchanges in trade and investment, science and technology, and the environment. Zhao considered disputes between China and its major trading partners to amount to a soft warfare waged against

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<sup>316</sup> Paul Kennedy, *The Rise and Fall of the Great Powers*, New York, Vintage, 1989.

<sup>317</sup> Interview, Beijing, 27 September 2004. See also: Daojiong Zha, "Chinese Considerations of 'Economic Security'", in *Journal of Chinese Political Science*, Vol. 5, No. 1, Spring 1999, pp. 69-87.

Beijing.<sup>318</sup> In 1994, other Chinese scholars defined economic security as the “country’s global economic competitiveness; its capacity to resist disruptions to, threats to, and invasion to its economy; and the domestic and international environments enabling a country’s economy to survive and grow continuously”.<sup>319</sup>

The identification of China’s global economic competitiveness as one key indicator of the country’s economic security seems to derive, as in the case of the EU, from an uncritical acceptance of the globalist *mantra* of competitiveness propounded by the Geneva-based World Economic Forum (WEF) in its Global Competitiveness Report.<sup>320</sup> Behind acceptance of the WEF’s competitiveness research framework lies the argument of urging implementation of reform measures within China, as well as raising awareness about the dangers that China, as an economic entity, faces in a globalised world that is perceived to be a zero-sum search for economic supremacy.<sup>321</sup>

At the political-strategic level, with the end of the Cold War and the possibility of a US-dominated global political economic order looming large, Chinese emphasis had shifted to finding the ways and means for creating a multi-polar world order in the post-Cold War era. The Chinese leadership’s notion of a multi-polar world order would increasingly tend to view China as one of the poles striving to be on a par – and competing - with the US.<sup>322</sup> As a result, the logic goes that in order to deter American unilateral attitudes in world affairs that could harm China’s rise, Chinese leaders must equip their country to become strong economically in order to stand guard against US efforts to frustrate Beijing’s upsurge.

These Chinese perceptions would find evidence in the growing number of works published by some leading American think tanks (in particular, the RAND) on how to

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<sup>318</sup> Zhao Ying, *Xinde Guojia Anquan Guan: Zhanzhen zhiwai de duikang yu xuanze* (A New Perspective on National Security: No-War Confrontations and Choices for China), Kunming, Yunnan Renmin Chubanshe, 1992.

<sup>319</sup> Zhao Ying, Xu Heping and Xing Guoren, *Zhongguo Jingji Mianlin de Weixian: Guojia Jingji Anquan Lun* (Dangers Facing China’s Economy: Considerations of China’s Economic Security), Kunming, Yunnan Renmin Chubanshe, 1994; see also Liu Jianping, *Guojia Jingji Anquan Wenti Yanjiu Shuyao* (Summary of Research on National Economic Security), in *Renmin Ribao*, 30 January 1999, p. 6, as quoted in Zha (1999), p. 72.

<sup>320</sup> See: <http://www.weforum.org/site/homepublic.nsf/Content/Global+Competitiveness+Programme>.

<sup>321</sup> Personal communication with Claude Smadja, Deputy-Director, World Economic Forum, Davos, 2 February 2000; interview, Beijing, 26 September 2004.

<sup>322</sup> For a more comprehensive discussion of Chinese views of multi-polarity see Chapter 5. See also, Christopher Hughes, “Nationalism and Multilateralism in Chinese Foreign Policy: Implications for Southeast Asia”, *The Pacific Review*, Vol. 18, no. 1, March 2005, pp. 119-135.

prevent the emergence of peer competitors to the US in the post-Cold War era.<sup>323</sup> In order to become stronger and thus be able to counter the perceived US containment policies, China needs to improve economic ties and acquire advanced technology from other leading nations of the world. In this context, enhancing economic and scientific relations with the EU is seen by the Chinese leadership as a highly strategic long-term objective. In the 2003 *China's EU Policy Paper*, Beijing even put forward the strategic goal that the “EU become China's largest trading and investment partner”.<sup>324</sup>

China's determination to strengthen economic ties and technology transfers with the EU is closely linked with Beijing's re-definition of its national core interests. Since 1978, Chinese leaders have identified modernisation and economic development as one of the new national core interests and central goals (the others being opposing hegemony and achieving unification with Taiwan). Deng Xiaoping declared, in 1994, that China's future and fate, as well as its prosperity (or decline), comprehensive national power and international status are directly linked to economic development.<sup>325</sup> The latter is also seen as the “firm, unshakeable and overriding” goal of the Chinese Communist Party of China (CCP). In a situation where the Maoist ideology has lost its appeal and *raison d'être*, delivering economic development and rising standard of living – along with achieving unification with Taiwan - has become the basis for the legitimisation of the ruling CCP.<sup>326</sup>

According to the Chinese leadership, in order to carry out the modernisation process and economic development, both reforms and a open-door policy are needed. With regard to the reform process, for the CCP this means the transformation from a system of planned economy to a market-oriented one, while the open-door policy is based on a firm adherence to the development of economic and technological exchanges and cooperation with foreign countries. The overall objective being the maintenance of

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<sup>323</sup> See in particular Thomas S. Szayna et al., *The Emergence of Peer Competitors: A Framework for Analysis*, Santa Monica: CA, RAND, 2001.

<sup>324</sup> Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, 2003, available at: <http://www.china-un.ch/eng/ljzg/zgwjzc/t85896.htm>). We will discuss it further in the next Chapter.

<sup>325</sup> See: Deng Xiaoping, *Selected Works. Volume II*, Beijing, The People's Printing House, 1994, pp. 162-63 and p. 194.

<sup>326</sup> For more details see: Christopher Hughes, *Chinese Nationalism in the Global Era*, London, Routledge, 2006.

sustained economic growth over the next decades in order to “build a well-off society in a well-rounded way” by the middle of the 21<sup>st</sup> century.<sup>327</sup>

With annual average growth rates close to 10% since the open-door policy begun, China has become one of the world’s major markets and the third largest exporter of goods. According to data released on 20 December 2005 by China’s National Bureau of Statistics (NBS), China’s output for 2004 was 15,987 trillion of yuan (US\$ 1,971 trillion) - 16,8% more of the other estimates - putting China firmly in the sixth place of the world economy (ahead of Italy). In a further estimate of China’s output on 25 January 2006, the NBS has corrected upwards (9,9%) the GDP for 2005. As a result, China has also outperformed France and the UK, becoming the fourth largest economy in 2005 with a GDP of US\$ 2,262 trillion (see table below):

**Table 6 - GDP of the first seven economies in the world (2005)**

(in US\$ trillion)

United States	12,473
Japan	4,606
Germany	2,803
China	2,262
United Kingdom	2,188
France	2,112
Italy	1,706

Elaboration data from the Economist Intelligence Unit (2006) World Bank (2005) and China’s National Bureau of Statistics (2006).<sup>328</sup>

<sup>327</sup> *Report of the 13<sup>th</sup> National Congress of the Chinese Communist Party*, Beijing, 25 October-1 November 1987, available at: <http://www.chinatoday.com/org/cpc/>; see also the conclusions of the Fifth Plenary Session of the 16th Central Committee of the Chinese Communist Party, Beijing, 8-11 October 2005.

<sup>328</sup> The data have been recently published in *Aspenia*, n. 32, 2006, p. 10.



If China's output is measured at purchasing power parity (PPP), a measure that strips out the effects of the exchange rate, China is already the third biggest economy in the world, contributing 13,4% of world GDP (see table below):

**Table 7 - Changes in the world economy**

	GDP growth		% of world GDP (at PPP)			
	(average year-on-year change)		1986	1996	2006	2016
	1986-96	1996-06				
United States	2,9	3,4	22,5	21,6	20,7	20,0
Euro-zone	n.a.	2,0	n.a.	17,6	15,1	13,1
Japan	3,2	0,9	8,8	8,7	6,9	5,3
China	10,0	8,3	5,0	9,4	13,4	19,9
India	5,9	5,9	4,0	5,1	6,0	7,1
Rest of Asia	7,8	6,6	13,1	20,1	25,1	31,9

Elaboration data from: International Monetary Fund (2005), World Bank (2004), OECD (2005).<sup>329</sup>

Owing to China's gradual opening to the international economy, exports from China have grown by more than 10% per year since the second half of the 1990s. China is currently the third largest exporter of merchandise goods in the world. In 2004, exports accounted for 31% of China's GDP.<sup>330</sup> Since admission in 2001, WTO membership has given China much better access to Western markets and propelled it into the ranks of the world's top exporters. Beijing is currently the world's biggest exporter of bicycles, toys, microwaves, TVs and many other consumer electronic goods. It produces more than half of the world's shoes and looks set to capture a similar share of the world's market for clothes in the coming years.<sup>331</sup> Moreover, China's industrial

<sup>329</sup> International Monetary Fund, *World Economic Outlook*, Washington, September 2005; World Bank, *World Development Report 2005: A Better Investment Climate for Everyone*, Washington, September 2004, Organisation for Economic Cooperation and Development (OECD), *Economic Survey of China*, Paris, October 2005 (<http://www.oecd.org/dataoecd/10/25/35294862.pdf>).

<sup>330</sup> Data from China's Ministry of Commerce: <http://english.mofcom.gov.cn/>.

<sup>331</sup> See Razeen Sally, *China's Trade Policies in Wider Asian Perspective*, paper prepared for the LSE/CCER conference, Beijing, 22-23 August 2005, available at:

policy has selectively attracted FDI in technology intensive industries in order to benefit from foreign technology and organisational know how. At the same time, Chinese authorities have actively promoted domestic companies – national champions - which are regarded as having the potential to compete in world markets. These have contributed to the rapid upgrading of China's industrial structures.

Since 2004, the EU-25 is currently China's biggest trading partner and one of its most important foreign investors. Import competition from China used to focus on labour-intensive goods and low-skill industries. At present, China's active industrial policy is turning the country into a low-cost competitor in high-skill industries. In the production of information technology goods – telecommunication equipment and computers – foreign invested enterprises account for 60-70% of output. These two industries are among the top three exporters into the EU and have increased their exports at annual rates of some 20-30%. The overall share of high-skill industries in China's manufacturing exports to the EU-15 has already risen above 20%, which is twice as high as the share of high-skill industries in the exports of the ten new EU member states to the EU-15. The rapid growth of skill-intensive imports from China represents a challenge to the EU, for which China traditionally was a supplier of low-skill goods. We will discuss in the following section the significance of EU-China commercial ties, as well as the political implications of EU member states' growing trade deficits with China.

#### **4.3 EU-China commercial relations**

As discussed earlier, the EU has made the link between the protection of its (relative) welfare position and China's development. By the same token, Chinese policy makers have also established the link between the protection of China's economic security and the bolstering of relations with the EU, in particular with regard to the possibility of acquiring advanced technology that would otherwise be more difficult to obtain from the US or Japan. Therefore, enhancing bilateral trade links has always occupied an

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[http://www.lse.ac.uk/collections/internationalTradePolicyUnit/Razeen\\_articles/CHINATradepolicy%20with%20charts%20and%20tables1%20-%202005.doc](http://www.lse.ac.uk/collections/internationalTradePolicyUnit/Razeen_articles/CHINATradepolicy%20with%20charts%20and%20tables1%20-%202005.doc); see also Katinka Barysch with Charles Grant and Mark Leonard, *Embracing the dragon: The EU's Partnership with China*, London, Centre for European Reform (CER), May 2005.

important place in EU-China relations. Both sides regard it as the “basis for continuous development of Sino-European relations”.<sup>332</sup>

As a result, between 2000 and 2004, EU-China trade almost doubled, with exports rising from €25.8 billion to €48 billion and imports growing from €74.4 billion to €126.7 billion. Since 2004 (after EU’s enlargement), China has become the Union’s second biggest trading partner (after the US) and, according to China customs, the EU-25 has become China’s biggest trading partner – ahead of the US as well as Japan. Since 1978, when China started to open up its economy, EU-China trade has increased more than 40-fold to reach around €175 billion in 2004. China trade imbalances are increasingly creating problems with the EU (not to mention the US where the trade deficit with China has become part of the domestic political debate). The Union’s trade deficit with China increased from €48.6 billion in 2000 to €78.7 billion in 2004 (see table below).

**Figure 2: EU25 trade with China**

(in million of euros)

	2000	2001	2002	2003	2004	Average growth 2000-2004 (%)
<b>Imports</b>	74.4	81.6	89.6	105.4	126.7	+14.3
<b>Exports</b>	25.8	30.6	34.9	41.2	48.0	+16.9
<b>Balance</b>	-48.6	-51.0	-54.7	-64.2	-78.7	

Source: Eurostat ([http://europa.eu.int/comm/external\\_relations/china/intro/index.htm](http://europa.eu.int/comm/external_relations/china/intro/index.htm))

This is the EU’s largest bilateral trade deficit and it almost doubled over the last four years. The Union and China are – so far – quite complementary in the global division of labour. China exports to the EU mainly labour-intensive goods, or mechanical and electrical products with low technology content, while the EU exports to China largely capital-intensive goods, such as steel and chemical products or technology-intensive goods. As discussed earlier, however, in the last years China’s

<sup>332</sup> *A Maturing Partnership - Shared Interests and Challenges in EU-China Relations* (2003).

active industrial policy is turning the country into a low-cost competitor in high-skill industries. Consequently, China has started to seriously challenge EU industries that are considered sensitive, in particular the chemical, engineering and the textile sectors. The latter, in particular, has become a contentious issue across Europe reinforcing the perceived need of protectionist measures against China.

With regard to the textile sector, since January 2005, with the Multi-Fibre Agreement (MFA) coming into effect, EU tariffs and quotas on Chinese textile had to be removed, only to be partly reintroduced in July 2005 following protectionist protests across Europe. The question of cheap Chinese products invading the EU's market has become a political issue in some EU member states, in particular in France and Italy. This question is also linked to the Market Economy Status (MES) issue. When China joined the WTO in 2001, the existing members, including the EU, insisted that Beijing remained classified as a non-market economy for a period of 15 years. Such classification makes it easier for other countries to impose anti-dumping measures on Chinese exports.

Chinese leaders argue that their country has already made tremendous efforts on the way to become a market economy and that many countries have already upgraded China to MES. Moreover, Chinese officials argue that the Union has upgraded Russia to MES, without Moscow being a member of the WTO or its economy being more liberal than the Chinese one.<sup>333</sup> For China, MES has become a question of political prestige, since the upgrade would signify to be regarded as an equal economic partner of the EU. In addition, the MES status will make it more difficult for the EU to impose anti-dumping duties on Beijing.<sup>334</sup> At a time when most EU members experience large trade deficits with Beijing and China is challenging the relative competitiveness of the new EU member states, the MES status has become a sensitive issue, which explains, in part, the EU's refusal to grant it to Beijing.<sup>335</sup> In the next section we will examine the economic strategies that the Commission and the large EU member states have adopted over the years to conquer the Chinese market and try to reduce Europe's trade deficits.

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<sup>333</sup> Interview, Yang Hua, Deputy-Director, Division of European Affairs, Ministry of Foreign Affairs, Beijing, 21 September 2004.

<sup>334</sup> Interview, *ibid.*

<sup>335</sup> For more details see the *European Competitiveness Report 2004*, in particular Chapter 5: "The Challenge to the EU of a Rising Chinese Economy".

#### 4.3.1 EU member states' competition for China's market shares

Since the 1985 Trade and Cooperation Agreement (TCA), EU member states have entrusted the Commissioner for External Trade to conduct economic negotiations with China at the EU level in order to collectively exercise a greater bargaining power. By throwing their support behind the Trade Commissioner, EU members have succeeded in maximising their economic leverage as a trading superpower vis-à-vis China. In particular, the negotiations for China's entry into the WTO in 2001 have consolidated the European Commission's role as the central actor in EU-China economic relations. However, EU governments – in particular the large ones - have continued to pursue economic strategies toward China aimed at championing their national industries. After examining the economic strategies adopted by the large EU member states for acquiring China's market shares, we will discuss the political consequences of this contemporary European scramble for the Chinese market.

As discussed in Chapter 2, France and Germany have taken the lead in championing the interests of their national companies vis-à-vis China. The French government, for instance, has traditionally adopted a strategy of pushing politically supported large-scale *grand contracts*.<sup>336</sup> Since the establishment of full diplomatic relations with Beijing in 1964, French leaders have been active in pressing for government-to-government deals. In 1996, President Chirac announced the ambitious goal of tripling the 2% French share of China's trade to 6% within ten years, confirming the French determination to match the German presence in the China market. The state visit to China by Chirac in May 1997 was remarkable. The French President was accompanied by a large number of French corporate leaders and the state visit resulted in the Chinese government buying 30 new Airbuses worth \$1.5 billion, together with other contracts on power stations and car production. The same practice still continues today, as demonstrated by the state visit to France in December 2005 by Wen Jiabao, China's Prime Minister. The visit resulted in China buying 150 Airbus A320 (worth €9 billion) and a telecommunication satellite from Alcatel (€140 million). Moreover, the Chinese leader signed an agreement with Eurocopter for the joint-development of

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<sup>336</sup> Markus Taube, "Economic Relations between the PRC and the States of Europe", in *The China Quarterly*, N. 169, March 2002, pp. 78-107.

helicopters (€300 million), and a financial protocol for the construction of high-speed rail systems (€150 million).<sup>337</sup>

Notwithstanding the significance of these *grand contracts*, the overall value of France-China trade remains modest. In 2003, France's share of China's market (exports) was 1,5%, distant from Germany's 4,4%, but ahead of Italy (1,4%), while the market share for imports was 4,1%.<sup>338</sup> The resulting trade deficit (-€8,7 billion) is France's largest. More importantly, this trade deficit has started to become a contentious issue in French domestic politics, especially in 2005 over Chinese textiles.<sup>339</sup>

With regard to Germany, its strategy of maintaining good political relations with Beijing has brought huge benefits to German companies. Following the French example of the *grand contracts*, Berlin has lent its support, for instance, for the sale to China of the German-built trans-rapid magnetic levitation train, a project that met with stiff competition from Japanese and French rivals. The strong commitment of Chancellor Gerhard Schröder was instrumental in awarding the contract to Berlin. The practice still continues today. In November 2005, during the state visit to Germany by Hu Jintao, the Chinese President, eight deals (worth €2 billion) were signed. The largest deal is an agreement with German electronics giant Siemens to produce 60 trans-rapid trains.

Since 2002, China has been Germany's second biggest export market outside Europe after the US, even ahead of Japan. Conversely, Germany is, by far, China's largest EU trading partner and ranks sixth amongst China's trading partners overall. Since 1998, German exports to China have been growing between 20% and 28%. Germany's consistently maintains a trade deficit with China which has ranged between €5 billion and €9 billion for years. However, the proportion of the trade deficit to the total of bilateral trade is relatively small: in 2004 the deficit was €7.5 billion on total trade volume of €49.5 billion. To note that this trade deficit has never become a matter of political significance. With regard to FDI, since 1999 Germany has been China's largest European investor. By the end of 2003, German companies had invested a total of US\$ 9.8 billion in China. In addition to the chemical industry (BASF and Bayer), the

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<sup>337</sup> *Le Monde*, Tuesday 6 December 2005; see also "La Chine: le nouvel eldorado d'EADS", in *Air & Cosmos*, n. 2009, 9 December 2005, pp. 10-11. We will examine the security-strategic implications of these deals in Chapter 5.

<sup>338</sup> Data from: [http://www.diplomatie.gouv.fr/fr/pays-zones-geo\\_833/chine\\_567/index.html](http://www.diplomatie.gouv.fr/fr/pays-zones-geo_833/chine_567/index.html).

<sup>339</sup> For a current discussion of the impact of the "China" issue on French domestic politics, see: Erik Izraelewicz, *Quand la Chine change le monde*, Paris, Grasset, 2005.

investments have been mainly made in the automobile sector (Volkswagen, BMW) and mechanical engineering.<sup>340</sup>

Also the UK has adopted a commercial strategy of political support to British companies. During the state visit to the UK in November 2005, Hu Jintao, the Chinese President, approved the entry into the Chinese market of the Lloyd's of London. Moreover, a deal for the sale of the Rolls-Royce Trent 700 engines to Air China to power the new fleet of 20 Airbus A330-200 (worth US\$ 800 million) and a protocol extending co-operation on a US\$500 million contract to produce Airbus A320 family wing boxes in China were signed.<sup>341</sup> The UK consistently runs one of the largest trade deficits in the EU with China. In 2004 the trade deficit was €17 billion on total bilateral trade of €24 billion. Although the UK government and the business community would certainly like to correct this imbalance, this has never acquired a political dimension. The stance of the UK government is generally anti-protectionist, and the strategy of London in correcting the trade deficit is indicated by the support given to British companies.

Unlike France, Germany and the United Kingdom, Italy and Spain have relied less on politically-supported large-scale *grand contracts*. Italian Small and Medium Enterprises (SMEs), in particular, have entered the Chinese market without direct support from Rome. The Italian government has, in fact, helped its companies indirectly, by concentrating on the overall promotion of the “made in Italy” brand. In 2003, with a total export value of €4.7 billion and a market share of 1,4%, Italy ranked third among Chinese EU suppliers, after Germany and France. Conversely, with a total import value of €5.5 billion and a market share of 1,5%, Italy ranked fifth among the Chinese EU clients (after Germany, the Netherlands, Britain and France).<sup>342</sup> Although Italy's trade deficit is smaller than the other large EU member states, the fear of an invasion of large quantities of Chinese products has become part of the domestic political debate. The emergence of a “China question” in Italy is explained, in large part, by the fact that in a wide range of low-tech productions (such as textiles, shoes,

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<sup>340</sup> [http://www.auswaertiges-amt.de/www/en/laenderinfos/laender/laender\\_ausgabe.html?land\\_id=32](http://www.auswaertiges-amt.de/www/en/laenderinfos/laender/laender_ausgabe.html?land_id=32).

<sup>341</sup> See: <http://www.number-10.gov.uk/output/Page8508.asp>

<sup>342</sup> Data from: <http://www.italianembassy.org.cn/fechpa1.htm>.

etc.), Italy and China compete against each other, with the difference that Italy does not enjoy China's comparative low labour costs.<sup>343</sup>

Finally, Spain runs a deficit with China as well, but its total bilateral trade was a mere €8.5 billion in 2004. However, Madrid is giving more and more priority to the establishment of good economic and political relations with Beijing, as demonstrated by the recent state visit to Spain (November 2005) by Hu Jintao. The Chinese President and Jose Luis Rodriguez Zapatero, the Spanish Prime Minister, announced the establishment of a comprehensive strategic partnership between the two countries. In particular, Spain seems to be very interested in the opening up of China's tourist industry. As one of the world's most popular tourist destinations, Spain plans to receive 150,000 to 200,000 Chinese tourists in the next three to five years, with the hope to acquire a large share of the promising Chinese tourist market.<sup>344</sup>

In conclusion, despite a Common Commercial Policy (CCP) and repeated calls by the Commission for increased policy coordination, EU member states' have continued to compete against each other for China's market shares in order to redress the growing bilateral trade deficits and maintain the global competitiveness of their companies (see table below).

**Table 8: EU members' share of China's market in 2003 (%)**

	Exports	Imports
Germany	4,4	5,3
France	1,5	4,1
United Kingdom	1,3	4,2
Italy	1,4	1,5

Source: elaboration data from National Bureaus of Statistics (Germany, France, Italy and the UK), 2004-2005.

<sup>343</sup> For more details on the Italian political debate around the "China question", see the latest book by the former Italian Minister for the Economy: Giulio Tremonti, *Rischi Fatali. L'Europa vecchia, la Cina, il mercatismo suicida: come reagire*, Milano, Arnoldo Mondadori Editore, 2005.

<sup>344</sup> For further details see: <http://www.casaasia.es/> and <http://www.realinstitutoelcano.org/analisis/848.asp>.



This European scramble for the Chinese market has been skilfully exploited by the Chinese leadership in order to obtain political concessions, usually in the form of silence over sensitive issues pertaining to China's domestic affairs (human rights violations, political liberalisation, Tibet, Xinjiang, etc) or national pride (Taiwan). By giving priority to commercial considerations and by avoiding to raise contentious issues with Beijing, the large EU members have been greatly responsible for the Union's overall diminution of critical pressure. This attitude has repeatedly met with criticism from the European Parliament (EP), the smaller EU members (especially the Nordic countries) and NGOs. The EU's approach has also been criticised by the US on the grounds that the large EU members' uncritical attitude towards Beijing tends to undermine the West's efforts to bring about political change in China.

This uncritical attitude towards Beijing is, partly, the result of the influence exercised by the German China policy model on the other large EU members. More precisely, as discussed in Chapter 2, since the mid-1990s Germany's foreign policy towards China – founded on discreet diplomacy, change through trade and non-confrontation on human rights - appears to have been Europeanised, in the sense that it has become the strategy adopted by the majority of the EU member states, especially the large ones. Moreover, this Europeanisation of the German China policy seems to have been projected (bottom-up process) upon the EU level, influencing the European Commission's China policy.<sup>345</sup> We will examine in the following section the political implications of this uncritical approach towards Beijing, in particular with regard to human rights violations and the Taiwan issue.

#### **4.4 Human rights and the Taiwan issue in EU-China relations**

As discussed earlier, since the mid 1990s EU member states have consistently sought to maintain good political relations with Beijing in order to obtain politically-motivated commercial advantages. As a result, they have been largely responsible for the EU's overall diminution of critical pressure. On the Taiwanese issue, for instance, we discussed in Chapter 2 how Sino-French relations became strained in the first part of the

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<sup>345</sup> Interviews, European Commission, DG RELEX, China desk.

1990s over France's sale of weapons to Taiwan. Faced by commercial reprisals from Beijing, in 1994 the new French government (led by Edouard Balladour) decided to invert this downward spiral trend publicly reaffirming China's "sole and inalienable sovereignty over Taiwan" and committed the French government to no further arms sales to Taipei. With these statements relations improved and French companies could return bidding for important contracts in the mainland. This shift in policy in Beijing's favour was remarkable during the state visit by Hu Jintao, the Chinese President, to Paris in January 2004. On that occasion, President Jacques Chirac stepped up his criticism of Taiwan's planned referendum on 20 March 2004 (which would ask voters whether Taiwan should increase its defences, if China refused to redeploy hundreds of missiles pointed at Taiwan), describing it as a threat to stability in East Asia. In Chirac's words:

Le Gouvernement français confirme sa position constante sur l'unicité de la Chine. Il s'oppose à quelque initiative unilatérale que ce soit, y compris un référendum qui viserait à modifier le statu quo, accroîtrait les tensions dans le détroit et conduirait à l'indépendance de Taiwan. Il considère que les relations entre les deux rives du détroit doivent reposer sur un dialogue constructif afin de trouver un règlement pacifique à la question de Taiwan et d'assurer la stabilité et la prospérité dans la région.<sup>346</sup>

Following Chirac's statement, especially his remark that "all initiatives that can be interpreted as aggressive by one side or the other are dangerous for everyone and thus irresponsible", Taiwan's Foreign Ministry spokesman Richard Shih said that Taipei would go ahead with the vote, and blamed China for pressurising European governments on the issue. Germany, on the contrary, has had a less fleeting attitude on the issue. Bonn/Berlin has consistently reaffirmed the "one China" policy in many occasions. In January 1993, for instance, Chancellor Kohl refused to approve the sale of 10 submarines and 10 frigates to Taiwan in order not to upset relations with the PRC. From 1997 to 2005, during the Schröder's governments, Germany has severely reduced ties with Taiwan, demonstrating its firm support to the one China policy.<sup>347</sup>

With regard to human rights, the shift towards a more uncritical policy by the large EU members was manifest most visibly in the decision of the EU to cease supporting a motion against China in the United Nations Commission on Human Rights (UNCHR). In 1997, EU unity on this issue collapsed. A number of states, led by France,

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<sup>346</sup> Joint Franco-Chinese Declaration, Paris, 27 January 2004. See also <http://news.bbc.co.uk/2/hi/asia-pacific/3432675.stm>.

<sup>347</sup> Interview, German Ministry of Foreign Affairs, Berlin, 7 March 2006.

with support from Germany, Italy, and Spain, argued that the exercise had become a farce, the resolution had never been passed and only once had made it onto the agenda. The belief was that the resolution not only had had no concrete impact on human rights conditions in China, but that it was also souring relations with Beijing in a way that frustrated efforts to acquire influence over political developments within the PRC. In 1997, Denmark, the UK, and the Netherlands co-sponsored the resolution on China in a national capacity, Copenhagen tabling the resolution. Eventually ten states supported the resolution, five voted against (Germany, France, Italy, Spain, and Greece). After this, it was agreed that, henceforth, the EU would cease its practice of supporting a resolution each year.

After the French-led defection in 1997, a new EU approach to human rights in China was unveiled by the General Affairs Council (GAC), and codified in the 1998 Commission's paper *Building a Comprehensive Partnership with China*.<sup>348</sup> At the GAC meeting on 14 March 1998, EU member states agreed that at the upcoming 1998 UNCHR session, the EU would "neither propose, nor endorse" any resolution criticising China. This position not to co-sponsor the UNCHR resolution with the US has been reached at the GAC each year since 1998. In return for this conciliatory approach, China agreed to re-engage in a dialogue on human rights, a *quid pro quo* imposed most stringently by the more principled Nordic states. Sweden, Finland and Denmark – along with the Netherlands and Ireland - have, in fact, consistently put the issue of human rights at the top of their agenda, since their public opinions and parliaments pay great attention to the problem.

#### **4.5 The EU-China Human Rights Dialogue**

Since 1998 the EU-China human rights dialogue has been held twice a year. It constitutes the only platform to engage China on sensitive issues and for the channelling of EU concerns directly to the Chinese authorities. The Commission supports the process through its human rights related co-operation programmes (on village governance, legal co-operation, promotion of women's rights, network on Human Rights Covenants etc.). The Commission's role was further bolstered by the pro-active stance on human rights adopted by the former External Relations Commissioner, Chris Patten. Known for his strong views on human rights in China since his days as the last

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<sup>348</sup> European Commission, *Building a Comprehensive Partnership with China* (1998).

British Governor-general of Hong Kong, Patten listed constructive engagement, multilateral cooperation, as well as the promotion of human rights, good governance and the rule of law, as three basic objectives of the EU in its relations with East Asia.<sup>349</sup>

According to the former External Commissioner, the EU-China dialogue on human rights is “the most complex and multifaceted dialogue on human rights” which the EU has with any country.<sup>350</sup> Although the EU has succeeded in establishing such a dialogue with China, it suffers from conflicting interests and coordination problems between the General Affairs Council, the EU member states, the Commission and the European Parliament (EP). Consultations are held under the CFSP framework and the resulting positions are coordinated by the Commission. Moreover, some individual EU members – in particular, the Nordic countries - regularly raise human rights concerns in their discussions with Beijing.

The EU-China human rights dialogue has been held for almost ten years now, guided by benchmarks set out by the Council. The human rights situation and the impact of the dialogue upon it was evaluated by the Council in October 2004. In the resulting Council Conclusions it was stated that:

The overall assessment of developments showed a mixed picture of progress in some areas and continuing concerns in others. On the one hand, the Council acknowledged that China has made considerable progress over the last decade in its social-economic development and welcomed steps towards strengthening the rule of law, while urging China to ensure effective implementation of such measures. On the other hand, the Council expressed concern that, despite these developments, violations of human rights continued to occur, such as freedom of expression, freedom of religion, freedom of assembly and association, lack of progress in respect for the rights of persons belonging to minorities, continued widespread application of the death penalty, and the persistence of torture.<sup>351</sup>

The EU continues to express its concerns through its *Annual Report on Human Rights*. In its 2005 edition, the EU states that

Although China amended its constitution in March 2004 to include a reference to human rights and although there have been positive developments on social questions including migrant workers and

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<sup>349</sup> Chris Patten, “What does Europe’s Common Foreign and Security Policy mean for Asia?”, Speech by the Commissioner for External Relations at the Japan Institute for International Affairs, Tokyo, 5 July 2000.

<sup>350</sup> Chris Patten, “China’s Candidature for Hosting the Olympic Games in 2008”, Commission Statements in urgency debates, by External Relations Commissioner in the European Parliament, Plenary Session, Strasbourg, SPEECH/01/33 – 5 July 2001.

<sup>351</sup> See: [http://www.hrichina.org/fs/downloadables/pdf/downloadable-resources/EUChinaWeb.pdf?revision\\_id=10337](http://www.hrichina.org/fs/downloadables/pdf/downloadable-resources/EUChinaWeb.pdf?revision_id=10337).

HIV/AIDS and on the ongoing reform of the judicial and legal system, the EU remains concerned about continuing violations of human rights in China.<sup>352</sup>

In practice, however, the leading actor within the EU in promoting human rights in China has been the European Parliament. Since 1987, the EP has continued to make public criticisms of China's human rights record, especially on Tibet, arbitrary detention, capital punishment, religious and political freedoms.<sup>353</sup> Moreover, the EP has leveraged on the political prestige and international publicity that it can confer on foreign personalities embodying the struggle for the advancement of human rights. In this context, the EP infuriated Beijing when, in 1996, it awarded the Sakharov Prize for Freedom of Thought to Wei Jingsheng, at that time China's most celebrated dissident. Beijing also voiced its criticisms in October 2001 when the EP invited the Dalai Lama to address a joint session in Strasbourg.

Notwithstanding the efforts by the EP, the Commission and the Nordic states in the promotion of democracy and human rights in China, the large EU member states (Germany, France, Italy, Spain and, to a lesser extent, the UK) have tended to shy away from open criticising Beijing for fear of commercial losses. It appears that EU policy makers – especially from the large EU members - have concluded that gaining immediate commercial advantages would be politically more fruitful than raising contentious issues with Beijing. This approach is the result of a number of considerations.

First of all, EU member states must cope with the persistent habit by the Chinese leadership to link politics with trade, i.e. to grant access to foreign investments and business on the basis of political considerations. With key investment contracts often decided personally by senior members of the Chinese government, it is assumed that only by maintaining good political relations with Beijing, commercial benefits would be gained. This is based on the perception that the coercive measures adopted in the 1990s on human rights issues had directly contributed to the Union's relatively weak position within the Chinese market in the past. As a matter of fact, in the late 1990s, Beijing had openly targeted concrete commercial reprisals specifically at those EU states, such as Denmark and Sweden, which had insisted most strongly on a firm human rights policy.

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<sup>352</sup> EU Annual Report on Human Rights – 2005, in particular pp. 34-39. The Report is available at: <http://ue.eu.int/uedocs/cmsUpload/HRen05.pdf>

<sup>353</sup> With regard to the European Parliament stance on the Taiwan issue, see Chapter 6.

Secondly, there continues to be a glaring lack of political unity among EU member states and an ingrained habit of undermining each other in search of commercial advantages. This is skilfully exploited by the Chinese leadership in order to obtain political concessions which usually take the form of silence over sensitive issues. In sum, the weakness of policy coordination mechanisms among EU member states has contributed to the shift towards the less critical attitude towards China. The EU's China policy on human rights appear to provide one of the clearest cases of diplomatic pressure at the EU level being undermined by EU member states' propensity - and ability - to undercut each other in search of commercial advantage.

Thirdly, in a situation of sluggish economic growth and high unemployment in the large EU core member states (Germany, France, Italy) there appears to have been limited scope for strategic manoeuvring by EU policy makers but concentrate on the protection of their countries' relative welfare position. In other words, in the last decade domestic considerations in the large EU members have overshadowed concerns for the situation of human rights in distant China.<sup>354</sup>

To sum up, the EU has been unable to link the promotion of human rights and democratisation in China with a broader definition of Europe's security. It seems that a general economic weakness in the last decade, the lack of coordination and the absence of principled political leaders in the most powerful European governments are largely responsible for an overall uncritical attitude towards Beijing.

Thus, while the European Commission and the smaller EU members (in particular, the Nordic countries) have continued to bring up issues of human rights and political liberalisation in their discussions with Beijing, the large EU members – Germany, France, Italy, Spain and, to a lesser extent, the UK - have tended to avoid raising contentious issues with China in order to obtain (politically-motivated) commercial advantages. Given that London, Paris and Berlin are probably the only EU members with a real political clout in international affairs, their largely uncritical attitude towards China has contributed to undermining Europe's international image.<sup>355</sup>

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<sup>354</sup> This point challenges the idea of the EU as a civilian-normative power. This assumption has been the topic of recent debates among EU foreign policy scholars. See for instance Karen E. Smith, "Beyond the Civilian Power EU debate" in *Politique Européenne* 17 (2005), pp. 63-82.

<sup>355</sup> See Chapters 6 and 7.

The uncritical stance towards Beijing adopted by the large EU member states has also met with a certain amount of criticism from the US. The case of China is revealing, in fact, profound differences in the conception of security between the two shores of the Atlantic.<sup>356</sup> Since the end of the Cold War, Washington has repeatedly advocated the link between the promotion of democracy and human rights with a broader notion of US national security, in stark contrast to the EU core member states which - with the aim to protect the Union's (relative) welfare position in a situation of sluggish economic growth and high unemployment - have preferred to maintain good political relations with Beijing and shy away from open criticism of the CCP regime.

The different attitude between the US and the EU emerged clearly during the negotiations for China's entry into the WTO. For instance, the EU appeared to have been more flexible than the US over the preconditions for China's accession to the GATT/WTO. While neither the EU nor the US attached overtly political conditions to China's bid for WTO membership, unlike the US the European Commission – with the support of the large EU member states – granted Beijing a transitional membership status, which allowed China the benefits of membership but with a number of important exemptions in the short-term.<sup>357</sup>

In the US, the divide between European and American positions over China's is seen as being of considerable significance, with analysts routinely lamenting how the EU's China policy provides the most worrying demonstration of the fact that US pressure for political reform is undermined by some powerful EU governments. The differences between the US and the EU are evident in the different emphasis given to China's transformation process. While some US aid has tended to overtly fund politicised initiatives like the Radio Free Asia and Voice of America stations, Europe's priority has mainly been to respond to the Chinese government's own priorities in the field of governance, with the hope of securing a former foundation for subsequently expanding the scope of political aid. Through grassroots capacity-building and awareness-raising initiatives, such as the European Commission-managed village

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<sup>356</sup> As we will see in Chapters 5 and 6.

<sup>357</sup> Marcus Elgin, "China's Entry into the WTO, with a Little Help from the EU", *International Affairs*, Vol. 73, No. 3, 1997, pp. 494-495.

governance project, the EU's approach is principally aimed at establishing the democracy-related human capital requisite to prompting eventual political change.<sup>358</sup>

This approach is based on the belief that by engaging Beijing in a constructive way and by concentrating on supporting China's transformation process, over time the Union would be able to acquire more leverage over political developments in China.<sup>359</sup> It is this belief that sustains – and qualifies – the policy of constructive engagement. To translate this approach into concrete action, in the last decade the EU and its member states – in particular the Nordic countries - have channelled a considerable amount of resources and energies into projects aimed at supporting China's transformation process. We will now analyse the Nordic countries' development policies with China, which stand out among EU member states both in terms of financial commitment and number of projects. Moreover, we will also look at a more sophisticated form of cooperation, namely the UK's support - through top British financial people – to China's banking and financial sector reform. Finally, we will examine the growing cooperation projects and sectoral dialogues that, over the years, the European Commission has launched with the aim to support China's integration in the international community and promote the country's transition to an open society.

#### **4.6 The Nordic countries' development cooperation with China**

The EU Nordic countries – Denmark, Finland and Sweden – are Europe's biggest contributors (in percentage) to China's development. The three countries have focused their development cooperation with China on three broad areas: (i) human rights, legal development and democratisation; (ii) environmentally sustainable development; and (iii) increased gender equality and social security. While there are commonalities in their approach to Beijing, there are also some differences in focus and priorities that we will now examine.

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<sup>358</sup> Interview, Giovanni Cremonini, First Secretary (Political), European Commission delegation, in China, Beijing, 22 September 2004.

<sup>359</sup> This idea was confirmed to me by Giovanni Cremonini, First Secretary of the Political Section, European Commission delegation in Beijing as well as by the representatives of the political section of the four largest EU members (Great Britain, France, Germany, Italy) interviewed in Beijing in 2004: Ian Seckington, First Secretary (Political), British Embassy in Beijing; Emmanuel Lenain, First Secretary (Political), French Embassy in Beijing; Manfred Huterer, Political Department Press Counsellor, German Embassy in Beijing; Antonio Enrico Bartoli, First Secretary (Political), Italian Embassy in Beijing.



With regard to Denmark, development cooperation in China is set out in the guidelines *Partnership 2000*, the new strategy for Denmark's development policy approved by the Folketing (the Danish Parliament) in October 1999. *Partnership 2000* retains the fundamental objectives and principles contained in *A Developing World: Strategy for Danish Development Policy towards the Year 2000*, adopted by the Folketing in 1994. Since the mid-1990s Danish development cooperation with China has prioritised poverty reduction and sustainable development. The latter, in particular, has been bolstered by the establishment of the Partnership Facility Programme (PFP) in 2005. The PFP is an integral part of the package of Danish environmental assistance to China. The objective of the Partnership Facility Programme is to contribute to improve the environment in China by strengthening local companies working in the energy and environmental sectors by means of transfer of know how and products from private Danish companies. The focus of the Programme is on cleaner technology and production, waste and emission treatment, waste management, renewable energy production and distribution, energy management, environmental audit and management systems, including IT systems.<sup>360</sup> The amount of money devoted to all development cooperation projects in China for the period 2002-2006 is 40 million DKK (Danish Krone) – around €5.4 million.<sup>361</sup>

As to Finland, development cooperation with China is currently based on the government resolution on development policy adopted in February 2004. The main goal of Finland's development policy in China is to contribute to the eradication of extreme poverty. The cross-cutting themes in the implementation of the Finnish strategy are: (i) promotion of the rights and the status of women and girls, and promotion of gender and social equality; (ii) promotion of the rights of groups that are easily marginalised, particularly those of children, the disabled, indigenous peoples and ethnic minorities, and promotion of equal participation opportunities for them; and (iii) consideration of environmental issues.<sup>362</sup> The budget for the above projects for the period 2004-2007 amounts to €5 million.

Finally, also Sweden has a well-developed cooperation strategy with China outlined in the *Country Strategy for Development Cooperation with the People's*

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<sup>360</sup> For more details see:

<http://www.um.dk/en/menu/DevelopmentPolicy/BusinessCooperation/PartnershipFacilityProgramme/>

<sup>361</sup> Ibid.

<sup>362</sup> See: <http://formin.finland.fi/public/default.aspx?nodeid=15318&contentlan=2&culture=en-US>

*Republic of China (2001-2005)*.<sup>363</sup> In 2006 the Swedish Government approved a new co-operation strategy for development cooperation with China for the period 2006-2010 with the aim to accelerate China's reform process and its insertion in international society. The Swedish International Development Agency (SIDA) has identified environmental issues, gender equality, human rights and democracy as prioritised areas for the development cooperation between Sweden and China. Since 2006 the volume of development cooperation amounts to approximately 65 million SEK (Sweden Kronor) – corresponding to around €7 million - annually, excluding concessionary credits, grants through NGOs and humanitarian assistance.<sup>364</sup> Among the EU25, this is the second largest budget for development cooperation with China (after Germany).

Overall, the Nordic countries have been the EU member states that have contributed the most to development cooperation with China, both in terms of financial commitments (the only EU members to have reached the UN's goal of devoting at least 1% of their GDP to development aid) and number of projects. In the last years, other forms of cooperation alongside the traditional ones have emerged. For instance, after the decision to join the WTO, Beijing has sought the help of the international financial community to support the country's integration into the world financial markets. China is emerging as a financial and banking power and thus international cooperation is instrumental for preparing the country's for the full opening of China's domestic banking system to foreign investors in 2007. In this context, it is noteworthy the role played by the UK and its financial community, which we will discuss in the following section.

#### **4.7 The emergence of China as a financial and banking power and the role of the UK and its financial community**

With the decision to join the WTO, China has definitively chosed the road toward integration into the world financial markets. With the aim to be ready for the full opening of China's domestic banking system to foreign investors in 2007, the government in Beijing has stepped up initiatives and cooperation with other countries aimed at overhauling China's financial system. In this context, the UK has played a

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<sup>363</sup> The Government of Sweden, *Country Strategy for Development Cooperation with the People's Republic of China (1 January 2001-31 December 2005)*, approved on 25 January 2001.

<sup>364</sup> For more details see: [http://www.swedenabroad.se/pages/general\\_20939.asp](http://www.swedenabroad.se/pages/general_20939.asp)

pivotal role in supporting China's banking and financial system reform, both at the governmental level and at the people-to-people level. With regard to the former, London and Beijing have set up in 2003 the China-UK Financial Dialogue Ministerial consultations. The financial dialogue provides a framework for the two sides to continue to enhance and prioritise exchanges and cooperation in the financial field, in particular exchanges and consultations on macro-economic policy and industrial restructuring, public financial management, job-creation, competition and regulatory policy, and environmental management and protection. With regard to the people-to-people level, London has actively encouraged the participation of prominent members of the British financial and banking elite to the process of supporting China's banking and financial sector reform.

In March 2003, with the aim to improve banking regulation and supervision – so as to maintain a safe and sound banking system – the State Council (i.e. the Chinese government) established the China Banking Regulatory Commission (CBRC). The State Council made this decision based on the assessment of the current circumstances of China's financial sector. With the creation of the CBRC, the Chinese government aims to deepen financial reforms, strengthen financial supervision and improve the financial system in order to better position China's financial sector in response to the challenges posed by WTO entry.<sup>365</sup>

The CBRC is an independent banking supervisory authority which has started functioning on 28 April 2003 as a government agency under the State Council responsible for the regulation and supervision of banks, asset management companies, trust and investment companies, as well as other deposit-taking financial institutions.<sup>366</sup> Liu Mingkang, former head of the Bank of China (a state commercial bank) has been appointed as the first Chairman of the CBRC. His strategy aims to reduce the build-up of bad debts sharply by overhauling management systems and imposing strict corporate governance standards. This is close to a revolution for a banking system burdened with

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<sup>365</sup> Liping He and Xiaohang Fan, "Foreign Banks in post-WTO China: An Intermediate Assessment", *China & World Economy*, Vol. 12, No. 5, September-October 2004, pp. 3-16.

<sup>366</sup> The CBRC was set up pursuant to the Decision on the Exercise of Regulatory and Supervisory Functions by the China Banking Regulatory Commission in Place of the People's Bank of China adopted at the Second Session of the Standing Committee of the Tenth National's People's Congress on 26 April 2003. For more details, see: China Banking Regulatory Commission, *The 1st Conference of the Council of International Advisors*, Beijing, China, 21-22 November 2003, copy of which was provided to this author by Sir Howard Davies.

bad debts and the legacy of communist central planning. Furthermore, the CBRC has set up a Council of international advisors who have the task to offer guidance to China's banking regulator (a ministry-level government organ in China) on how Beijing should reform a financial system bogged down in bad debts and sealed off from international capital flows. The Council of international advisors includes some of the biggest names in world finance: Sir Edward George, former Governor of the Bank of England, Gerry Corrigan, former President of the New York Federal Reserve, Sir Andrew Crockett, former General Manager of the Bank for International Settlements, David Carse, former Deputy Chief Executive of the Hong Kong Monetary Authority; and Sir Howard Davies, former Chairman of the UK's Financial Services Authority and currently Director of the LSE.

The establishment of this Council to the CBRC represents a new level of openness and transparency for the Chinese government which has never before assembled a group of foreigners to help a ministry-level agency in its work.<sup>367</sup> The Council of international advisors is mainly composed of people from the UK (4 out of 5 advisors) with only one from the US (i.e. Gerry Corrigan). According to Sir Howard Davies, himself a member of the Council of international advisors, the Chinese government decided in the late 1990s to follow banking regulations adopted in the UK for technical and political reasons.<sup>368</sup> With regard to the former, the UK has a well-developed set of financial and banking regulations and the Financial Services Authority has been taken as an example. This is meant to send a message to global markets that the Chinese government is actively working to upgrade the financial and banking system. With regard to the more political considerations, according to Davies, the Chinese government "aimed at achieved a balance and did not want to be too influenced by the US".<sup>369</sup> The US system is appropriate for a federal system, while China does not want a system with strong local autonomies for fear of corruption. There are also a number of other reasons for leaning more towards the UK, according to Sir Davies: increasingly, Chinese companies come to London to raise money, since it is easier for them that in the US. Moreover, the historical ties between Hong Kong and London have

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<sup>367</sup> For further details on the history of China's banking reform see: Wai Chung Lo, "A Retrospect on China's Banking Reform", *The Chinese Economy*, Vol. 34, No. 1, January-February 2001, pp. 15-28.

<sup>368</sup> Personal consultation with Sir Howard Davies, Director of the LSE and former Chairman of the Financial Services Authority, London, 14 September 2005.

<sup>369</sup> Ibid.

indeed played a role since the two share the same regulatory environment.<sup>370</sup> Thus, it appears that the Chinese government has decided to lean more toward the UK system, giving London a unique position for supporting – as well as taking advantage of the opportunities offered by – the emergence of China as a financial and banking power. While this is a rather sophisticated form of development cooperation, it is yet another area where European expertise – in this case coming mainly from the UK – is supporting China's integration in the world economy. We will now examine the European Commission's development cooperation with China which lies at the heart of the EU's policy of constructive engagement.

#### **4.8 At the heart of constructive engagement: the European Commission support for China's integration in the international community and transition to an open society**

Since the mid-1990s, the policy of constructive engagement has aimed at promoting the fullest possible Chinese involvement in the international arena, whether on economic, social, political, environmental, or security-strategic issues. The focus has been on helping China support its transformation process to become a good citizen of international society, with the underlying belief that this approach would lead, over time, to greater political liberalisation and promotion of human rights.

The Commission cooperation programme with China constitutes an important mechanism for underpinning the overall, broader EU-China relationship through providing support for China's transition process, the sustainability of its economic and social reforms, and its further integration into international society and world economy. While poverty alleviation is still an important issue in China – and is a cross-cutting objective of a number of Commission programmes - the cooperation strategy intends to transcend the more traditional approach to development assistance and constitutes, according to European Commission officials, a response to China's needs, taking into consideration the Commission's comparative advantages among donors, and making the most of Brussels' limited resources.<sup>371</sup> The current strategy for cooperation with China is defined in the China Country Strategy Paper (CSP) 2002 – 2006, a multi-

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<sup>370</sup> Ibid.

<sup>371</sup> Interview, European Commission, Brussels, 18 December 2005.

annual planning and strategy document adopted in February 2002.<sup>372</sup> Building on the 1998 and 2001 Commission's papers on China and in the framework of the Regulation for developing countries in Asia and Latin America (ALA)<sup>373</sup>, the CSP 2002 – 2006 translates into action the EU's objectives towards China. With an indicative budget of €250 million, the China CSP provides the general framework for guiding, monitoring and reviewing EU assistance to Beijing. The Commission has identified three major goals in its efforts to assist China's transformation process: firstly, support for the social and economic reform process, focusing primarily on China's integration in the WTO, on providing expertise on information and communications technology, on social security (pensions, health, unemployment, insurance) and on the development of human resources such as the exchange and training of managers and the participation of Chinese students in the Erasmus Mundus programme. Secondly, the EU provides Beijing with expertise on environment and sustainable development. Thirdly, the Commission supports a number of projects in China aimed at providing support for the transition to an open society based on the rule of law and respect of human rights, through the promotion of good governance and democracy and human rights-related policies.

Furthermore, the EC aims to strengthen cooperation with China through the launch and further deepening of sectoral dialogues and agreements. Sectoral activities currently cover some 20 different areas. It does not deal with exchanges that take place in the areas of human rights and migration, which are of a somewhat different nature and more directly related to the EU-China political dialogue. Exchanges between the EU and China take place under different denominations depending on the specific context of the sector. They are referred to as "dialogues", "regular exchanges", or simply as "cooperation", and they take place at various hierarchical levels, from working level to ministerial level. A variety of participants may be involved, including officials, politicians, business organisations, and private companies. Proceedings are organised in a flexible way and take the form of working groups, conferences, annual formal meetings or simply informal exchanges. Officials from all the Directorates

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<sup>372</sup> European Commission, "Country Strategy Paper 2002-2006" on China, available at: [http://europa.eu.int/comm/external\\_relations/china/csp/02\\_06en.pdf](http://europa.eu.int/comm/external_relations/china/csp/02_06en.pdf)

<sup>373</sup> The ALA Regulation has been adopted as a Council Regulation (EEC) 443/92 (25 February 1992) on financial and technical assistance to, and economic co-operation with, the developing countries in Asia and Latin America. Guidelines for programmes are submitted by the Commission for opinion to a committee of EU member states representatives (the ALA Committee).

General in the European Commission are involved in regular exchanges with their respective counterparts in China.<sup>374</sup>

According to the European Commission, the sectoral dialogues serve the following purposes: (i) sectoral dialogues are instrumental for developing a solid foundation for the EU-China relationship which is now characterised by increasingly close policy coordination in many important areas; (ii) the dialogues constitute an effective tool for further widening and deepening EU relations with China, for exploring new areas of common interest, for exchanging know-how, and, especially in the area of economic reform and EU models and practices; (iii) sectoral dialogues also tend to pave the way for business and other operators by eliminating potential regulatory obstacles, and through raising awareness and facilitating contacts. Regular exchanges between specialists, officials and the business community serve to boost mutual understanding, and provide the substance for further developing the EU-China strategic partnership.<sup>375</sup>

Most of the dialogues have been initiated since 2003, at the time of the establishment of the EU-China strategic partnership. The area covered are currently the following: competition policy, consumer product safety, customs cooperation, education and culture, energy (including nuclear energy), environment, space cooperation, Galileo global satellite navigation services, information society, intellectual property rights (IPR), maritime transport, regulatory and industrial policy, food safety, science and technology, trade policy dialogue, textile trade dialogue, macro-economic and financial sector reforms, employment and social affairs. Moreover, the following dialogues/exchanges/agreements are envisaged: agricultural dialogue, civil aviation, transport. These exchanges reflect the massive growth in activity that has recently been characterising the Sino-European relationship. Sectoral dialogues and other agreements are meant to play an increasingly important role in building the EU-China strategic partnership, with significant economic benefits for both sides.

In addition to the bilateral EU-China cooperation programmes, the EU entertains several regional assistance programmes within the ASEM framework that are

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<sup>374</sup> Interview, European Commission, Brussels, 18 December 2005.

<sup>375</sup> Ibid.; for more details on the sectoral dialogues see the website of the European Commission: [http://ec.europa.eu/comm/external\\_relations/china/intro/](http://ec.europa.eu/comm/external_relations/china/intro/).

also open to China. In this context, it is notable China's participation to the EU Human Rights and Democracy Programme, while other projects are supported through the Community's non-governmental organisation (NGO) co-financing programme.<sup>376</sup> All these initiatives are aimed at supporting China's integration in the international community and transition to an open society. The European Commission has argued that this policy of engagement is based:

On the well-founded belief that human rights tend to be better understood and better protected in societies open to the free flow of trade, investment, people, and ideas...This is a major reason why the EU will continue to support the active participation of China in the international community in all fields of policy.<sup>377</sup>

In other words, the EU thinks that through an active engagement and cooperation in all fields, it would be possible to further the protection of human rights. As discussed earlier, the EU has come to the conclusion that in a situation of growing interdependence, the developments in China not only have a far-reaching impact on itself, but also have global and regional implications. In particular since China - being different from the cases of Japan and the Soviet Union - is "increasingly strong in both the military-political and the economic spheres".<sup>378</sup>

According to the Commission, China plays an increasingly important role in maintaining regional stability. Political developments in China that could affect East Asia's security environment would have a direct detrimental effect on China's - and East Asia's - economic growth. Consequently, EU exports and FDI in the region could be affected, thus impacting directly upon EU's economic interests and security. For these reasons, the EU thinks that it is in its interests (and of the international community as a whole) to engage China across all dimensions, i.e. on economic, social, political, security, and even military issues.<sup>379</sup> Thus, for the EU there seems to be no other viable option than to engage fully with Beijing.

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<sup>376</sup> Interview, European Commission delegation in China, Beijing, 22 September 2004.

<sup>377</sup> Commission of the European Communities, *A Long-Term Policy for China-Europe Relations*, Brussels, COM (95), 279 final, 1995, Section B.2.

<sup>378</sup> *Ibid.*, Section B.2.

<sup>379</sup> The Commission believes it to be appropriate for the EU to include the People's Liberation Army (PLA) among the potential dialogue partners. *Ibid.*, Section B.1. We will discuss these issues further in Chapters 5 and 6.



## **Conclusion**

This chapter has provided the reader with an examination of the new discourse on economic security which has taken place in both the EU and China since the beginning of the 1990s. The advocates of this discourse have propounded the idea that, on the one hand, Europe's protection of its (relative) welfare position is increasingly linked to China's development and the capacity for European companies to acquire growing shares of the Chinese market. On the other hand, Chinese policy makers have expressed the idea that China's economic security and modernisation process would increasingly depend on fostering relations with European countries, in particular for obtaining advance technology that would be more difficult to acquire from the US or Japan. As a result of this two-way linkage, EU-China commercial ties have grown impressively in the last years.

This chapter has also examined in detail the policy of constructive engagement. Since the mid-1990s, the policy of constructive engagement has aimed at promoting the fullest possible Chinese involvement in the international arena, whether on economic, social, political, environmental, or security-strategic issues. The focus has been on helping China support its transformation process to become a good citizen of international society, with the underlying belief that this approach would lead, over time, to greater political liberalisation and promotion of human rights.

This approach is based on the belief that by engaging Beijing in a constructive way and by concentrating on supporting China's transformation process, over time the Union would be able to acquire more leverage over political developments in China. It is this belief that sustains – and qualifies – the policy of constructive engagement. To translate this approach into concrete action, in the last decade the EU and its member states – in particular the Nordic countries - have channelled a considerable amount of resources and energies into projects aimed at supporting China's transformation process. We examined the Nordic countries' development policies with China, which stand out among EU member states both in terms of financial commitment and number of projects. Moreover, we also looked at a more sophisticated form of cooperation, namely the UK's support - through top British financial people – to China's banking and financial sector reform. Finally, we examined the growing cooperation projects and sectoral dialogues that, over the years, the European Commission has launched with the

aim to support China's integration in the international community and promote the country's transition to an open society.

The policy of constructive engagement has come to characterise the EU foreign policy towards China since the mid-1990s. Since 2003, a new discourse in EU-China relations has emerged: "strategic partnership". The latter must be seen as the extension in the security-strategic dimension of the policy of constructive engagement. We will examine this issue in more detail in the next Chapter.

## Chapter 5

### Strategic partnership I: Galileo and advanced technology transfers

China-EU relations now are better than any time in history. There is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other... To strengthen and enhance China-EU relations is an important component of China's foreign policy. China is committed to a long-term, stable and full partnership with the EU.

Chinese Ministry of Foreign Relations, *China's EU Policy Paper*, October 2003<sup>380</sup>

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.

Tony Blair, Prime Minister of the United Kingdom, 6 September 2005<sup>381</sup>

Never before has the European Union and China embarked on a cooperation project of the same magnitude as in Galileo. This project goes well beyond industrial or standardization issues. It entails a strong strategic component which will have far-reaching consequences on future Sino-European political relations.

François Lamoureux, Director General, DG TREN, European Commission, 16 May 2003<sup>382</sup>

#### Introduction

As discussed in the previous Chapter, the growing Sino-European economic ties have found their rationale in a new discourse on economic security emerged in Europe and China since the beginning of the 1990s. On the one hand, the advocates of this discourse have propounded the idea that Europe's global competitiveness and protection of its (relative) welfare position is increasingly linked to China's (sustainable) development. In other words, EU policy makers have come to believe that maintaining Europe's leading role in the world economy would increasingly depend on the capacity for

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<sup>380</sup> Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, October 2003.

<sup>381</sup> Speech by Tony Blair at the 8<sup>th</sup> EU-China Summit, Beijing, 6 September 2005; [http://www.chinadaily.com.cn/english/doc/2005-09/06/content\\_475386.htm](http://www.chinadaily.com.cn/english/doc/2005-09/06/content_475386.htm)

<sup>382</sup> Speech of François Lamoureux (Director General, Directorate-General for Energy and Transport, European Commission) at the Opening of EU-China negotiations on satellite navigation, 16 May 2003.

European companies to acquire China's market shares. On the other hand, Chinese policy makers have expressed the idea that China's economic security and modernisation process would increasingly depend on fostering relations with European countries, in particular for obtaining advanced technology that would be more difficult to acquire from the US or Japan. China's access to modern technology is crucial for sustaining the country's economic growth, which is one of the three main historical tasks established by Deng Xiaoping as the litmus test for the legitimacy of the post-Mao CCP leadership (the other being opposing hegemony and return Taiwan to mainland China).<sup>383</sup>

As a result of this two-way linkage, EU-China commercial ties have grown impressively in the last years. Since 2004 (after the EU's enlargement), China has become the Union's second biggest trading partner (after the US) and, according to China customs, the EU-25 has become China's biggest trading partner – ahead of the US, as well as, Japan. These growing economic ties have created the basis, in recent years, for the upgrading of the relationship to include a significant security-strategic dimension. In the words of an EC official, the political dimension in EU-China relations stands today “on its own feet”.<sup>384</sup>

Since October 2003, the EU and China have acknowledged each other as strategic partners. Central to this strategic partnership is the idea that relations between the EU and the PRC have gained momentum and acquired a new strategic significance. More significantly, the declaration of strategic partnership on 30 October 2003 was accompanied by two substantial moves: the signature of the agreement allowing China to participate in the Galileo global navigation satellite system and the promise by EU policy makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo imposed on China in the aftermath of the Tiananmen Square crackdown on students.<sup>385</sup> Unofficial consultations on the lifting had begun in the previous months. The proposal, however, was first officially included in the Presidency conclusions of the European Council of Brussels in December 2003.<sup>386</sup>

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<sup>383</sup> See: Christopher R. Hughes, *Chinese Nationalism in the Global Era*, Milton Park, Routledge, 2006, p. 7.

<sup>384</sup> Interview with Henriette Geiger, China Desk, DG XII (External Relations), European Commission, Brussels, 9 July 2004.

<sup>385</sup> Interview, French Ministry of Foreign Affairs, Paris, 7 July 2004.

<sup>386</sup> For more details on the arms embargo debate see Chapter 6.

Thus, since Fall 2003 Sino-European relations have entered a new phase, which has increasingly attracted the attention – and the concerns – of the US and other Asian partners of the EU, in particular Japan.<sup>387</sup> The main political question revolves around the fact that China's participation in the Galileo project (with the related issue of advanced technology transfers) and the proposed lifting of the EU arms embargo on China have the potential to tilt East Asia's strategic balance in Beijing's favour, thus impacting directly on American strategic interests in the region. What worries more the US is the fact that these initiatives do not take into adequate consideration the role of Washington as the ultimate guarantor of East Asian regional security.<sup>388</sup> In other words, for the Bush administration the EU is intervening in East Asia's strategic balance without a clear political strategy.

This chapter begins with an examination of European and Chinese policy makers' discourses on strategic partnership. It is argued here that beyond the rhetoric, three substantial – and interrelated - issues are giving meaning and content to the strategic partnership: (i) China's participation in the Galileo satellite network; (ii) European advanced technology transfers to China; and (iii) the proposed lifting of the EU arms embargo on China. After analysing the discourse on strategic partnership, this chapter will examine Galileo and the related issue of European advanced technology transfers to China. In the next chapter, we will discuss the arms embargo issue and its potential consequences – if lifted - for East Asia's strategic balance.

### **5.1 The discourse on strategic partnership**

In the last years, the predominant discourse among EU policy makers involved in the elaboration of the EU foreign policy towards China has revolved around the concept of

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<sup>387</sup> Interview with Jun Hasebe, Second Secretary, Embassy of Japan in the UK, 29 April 2005; and interview with Otaka Junichiro, Deputy Director, European Policy Division, European Affairs Bureau, Japanese Ministry of Foreign Affairs, Tokyo, 12 May 2005.

<sup>388</sup> Personal consultation with Derek J. Mitchell, Senior Fellow, Asia, International Security Program, Center for Strategic and International Studies (Washington) and John J. Tkacik Jr., Research Fellow, Asian Studies Center, The Heritage Foundation (Washington) at the margins of the international conference on *China's Challenge to Europe and the US* organised by the Aspen Institute (Italy) in Rome on 11 March 2005; personal consultation with David Shambaugh, Professor of Political Science and International Affairs, Director of the China Policy Program at the George Washington University, and Senior Fellow at The Brookings Institution, consulted at the margins of the international conference on..... Also see Chapters 6 and 7.

strategic partnership.<sup>389</sup> In September 2003, the Commission released its last policy paper on China *A Maturing Partnership: Shared Interests and Challenges in EU-China Relations*, which called for a strategic partnership with Beijing, stating that:

It is in the clear interest of the EU and China to work as strategic partners on the international scene....Through a further reinforcement of their cooperation, the EU and China will be better able to shore up their joint security and other interests in Asia and elsewhere.<sup>390</sup>

In October 2003 the Chinese Ministry of Foreign Affairs released its answer to the Commission's document. In the *China's EU policy paper* it is pointed out that "China is committed to a long-term, stable and full partnership". The Chinese document clearly states that Beijing wants closer political ties with the EU, indicating that China will continue to deepen its relations with individual EU governments. The document also stresses that the "one China" principle is a cornerstone of EU-China relations and that Beijing "appreciates the EU's non-confrontational attitude to human rights in China".<sup>391</sup> Moreover, the Chinese document indicates that Beijing welcomes cooperation in the military sphere, leading to a strategic security consultation mechanism.<sup>392</sup>

China's interest in cultivating a partnership with the EU and, individually, with the large EU members (UK, France, Germany, Italy and Spain) is part of China's attempt to cope with the constraints of American power in the post-Cold War era and to hasten the advent of an international system in which the US would no longer be so dominant. Chinese policy makers and scholars repeatedly stress that Beijing's partnerships with other great powers are both a reflection of the transition to multipolarity and an arrangement that will accelerate the process.<sup>393</sup> According to Avery Goldstein, the purpose of establishing strategic partnerships "has been to enhance [China's] attractiveness to the other great powers while retaining flexibility by not

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<sup>389</sup> Interviews in Europe and China. See also: Fraser Cameron, Axel Berkofsky, Stanley Crossick, *EU-China relations – towards a strategic partnership*, European Policy Centre, Working Paper n. 19, July 2005.

<sup>390</sup> European Commission, *A Maturing Partnership - Shared Interests and Challenges in EU-China Relations*, Brussels, COM (2003) 533 final, 10 September 2003.

<sup>391</sup> For more details on the EU-China Human Rights Dialogue see Chapter 4.

<sup>392</sup> *China's EU Policy Paper* (2003), available at: <http://www.fmprc.gov.cn/eng/topics/ceupp/t27708.htm>.

<sup>393</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 23 September 2004.

decisively aligning with any particular state or group of states”.<sup>394</sup> Thus, since the mid-1990s, strategic partnerships allow Beijing to address its own concerns about the US primacy without alienating the economically indispensable US. In this context, establishing a strategic partnership with the EU and its large members is seen in Beijing as a move that enhances China’s international status, as well as foster the emergence of a multi-polar world order (but being flexible enough to change direction if circumstances change).<sup>395</sup>

In this vein, Chinese leaders have repeatedly stated that the strategic partnership with the EU should serve to promote “global multilateralism”, the “democratisation of international relations” and what is being referred to as “global multipolarisation”. In Beijing’s view, China and the EU are both on a “peaceful rise”, i.e., on the way to become “global balancing forces” pursuing similar international political strategies. Thus, Chinese leaders hope to enlist the EU as one of the emerging poles that, at least in principle, could work with Beijing on fostering a multilateral environment and limit some of the perceived American unilateral attitudes in world affairs.<sup>396</sup> The discourse on multipolarity is shared by some EU policy makers, in particular the French political elite and, to a lesser extent, elements within the European Commission in Brussels. This has raised some worries in the US, especially the idea that the establishment of the EU-China strategic partnership may contain some elements that seek to limit the US global influence.

According to Christopher Hughes, China’s discourse on multipolarity cannot be seen as power balancing in the classic sense, but rather as an “essentially domestic discourse that is designed primarily to soothe nationalist pressures, rather than as a foreign policy prescription”.<sup>397</sup> Thus, in the case of China multipolarity is taking the form of the establishment of strategic partnerships with other great powers within a broader multilateral system based on the United Nations and international law. For French policy makers as well, the notion of multipolarity is not employed for balancing against the US in the classic sense, but rather for meaning an international system in

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<sup>394</sup> Avery Goldstein, “The Diplomatic Face of China’s Grand Strategy: A Rising Power’s Emerging Choice”, in *The China Quarterly*, No. 168, December 2001, pp. 835-864, p. 846.

<sup>395</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 23 September 2004.

<sup>396</sup> Personal consultation with Chen Wenbing, Second Secretary, Deptment of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, 26 September 2004.

<sup>397</sup> Christopher R. Hughes, “Nationalism and multilateralism in Chinese foreign policy: implications for Southeast Asia”, in *The Pacific Review*, Vol. 18, No. 1, March 2005, pp. 119-135, p. 124.

which “each large geographic region, each big power and collectivity of states, can assume together their responsibilities, with the UN being the grand symbol”.<sup>398</sup> In other words, “a benign multipolar international system whose *modus operandi* is multilateralism”.<sup>399</sup>

While stressing multilateralism as a common ground for the development of the strategic partnership, EU policy makers have remained vague with regard to the concrete objectives and purpose of the strategic partnership with China. In a recent speech in Shanghai, Javier Solana, the EU High Representative for the Common Foreign and Security Policy stated that the strategic partnership is based on the fact the Europe and China discuss and seek to cooperate on “global strategic issues such as the proliferation of weapons of mass destruction and international terrorism...global security of energy supply, regional crises and the environment”.<sup>400</sup> Moreover, the strategic partnership is based on common discussions and engagement to defuse crisis that could impact on the EU or China, such as North Korea and Iran. Moreover, Solana declared that:

China and the EU have the same broad agenda in seeking to address current global challenges...they are natural partners in many ways...they both prize international stability and order...and they are both strong supporters of multilateralism and international law as the best means to achieve this. Consultation with each other, and other partners, is the rule for us, not the exception. We know that this brings us strength... We are also consulting more on our regional policies and programmes. To my mind, this is what strategic partnership is all about.<sup>401</sup>

In the same vein, José Manuel Barroso, the President of the European Commission, in a recent speech in Beijing declared that:

The EU and China have many common multilateral priorities, such as non-proliferation and the reform of the UN system, and international cooperation is already a basic part of our relationship. We must go further and strengthen our global partnership to promote international cooperation, global security and governance and forge new alliances to counter the darker side of globalisation, which includes

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<sup>398</sup> Dominique de Villepin during the joint press conference of the French, Russian and German foreign ministers, Paris, 5 March 2003, [www.diplomatie.gouv.fr](http://www.diplomatie.gouv.fr)

<sup>399</sup> Michael Brenner and Guillaume Parmentier, *Reconcilable Differences: US-French Relations in the New Era*, Washington: DC, Brookings Institution, 2002, p. 118.

<sup>400</sup> Javier Solana, *Driving Forward the China-EU Strategic Partnership*, Speech by the EU High Representative for the Common Foreign and Security Policy at the China-Europe International Business School, Shanghai, 6 September 2005, available at <http://www.delchn.cec.eu.int/en/whatsnew/pren060905.htm>

<sup>401</sup> Javier Solana, “Driving Forward the China-EU Strategic Partnership, Speech by the EU High Representative for the Common Foreign and Security Policy at the China-Europe International Business School, Shanghai, 6 September 2005, available at: <http://www.delchn.cec.eu.int/en/whatsnew/pren060905.htm>



international crime, terrorism, illegal immigration and epidemics...The development of a strategic, mutually beneficial and enduring relationship with China is one of the EU's top foreign policy priorities for this century. In achieving this goal we must convince the international community that the EU-China partnership is not a threat, but an opportunity to create a more stable and balanced international order.<sup>402</sup>

It appears that EU policy makers have preferred to remain high in rhetoric about the meaning and content of the strategic partnership.

The Chinese leadership, however, has been less vague. For Beijing, the EU-China strategic partnership should be comprehensive, including co-operation in the field of traditional security (terrorism, the joint fight against illegal immigration, and the proliferation of weapons of mass destruction), as well as non-traditional security issues (such as energy security, environmental and health security).<sup>403</sup> In a speech in May 2004 in Brussels, Wen Jiabao stated that:

China-EU relationship has withstood the test of time and evolving international situation, and has embarked on a course of mature, sound, and steady expansion. It is a shared view of the two sides to work for a comprehensive strategic partnership. By 'comprehensive', it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups. By 'strategic', it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system and is not subjected to the impacts of individual events that occur from time to time. By 'partnership', it means that the cooperation should be equal-footed, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavour to expand converging interests and seek common ground on the major issues while shelving differences on the minor ones.<sup>404</sup>

Chinese leaders have expressed on various occasions that cooperation in science and technology, the joint development of the Galileo satellite navigation system and the lifting of the EU arms embargo on China are important elements of the strategic partnership.<sup>405</sup> In the China's EU policy paper it is stated that:

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<sup>402</sup> José Manuel Barroso, *The EU and China: painting a brighter future together*, Speech by the President of the European Commission at the Chinese Academy of Social Sciences, Beijing, 15 July 2005 (SPEECH/05/444), available at: <http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/444&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>403</sup> See: *China's position paper on the New Security Concept*, available at: <http://www.chinaembassy.org/tr/eng/xwdt/t161685.htm>.

<sup>404</sup> Wen Jiabao, *Vigorously Promoting Comprehensive Strategic Partnership Between China and the European Union*, China-EU Investment and Trade Forum, Brussels, 6 May 2004; <http://www.chinamission.be/eng/zt/t101949.htm>

<sup>405</sup> Interview with Wang Yi, First Secretary, Political Affairs, Chinese Embassy in France, Paris, 3 December 2005. See also: "Wen Jiabao Holds Talks with the President of the European Commission", Brussels, 6 May 2004 (<http://www.fmprc.gov.cn/eng/zxxx/t97483.htm>); and EU-China Joint Press Statement, Brussels, 6 May 2004 (<http://www.delchn.cec.eu.int/en/whatsnew/pren060504.htm>).

It is essential to promote China-EU scientific and technological cooperation on the basis of the principles of mutual benefit and reciprocity, sharing of results and protection of intellectual property rights. Joint development and cooperation on generic technologies and major technical equipment should be stepped up and Chinese institutions are encouraged to participate in the EU Framework Programme for Research and Technological Development. China will, on the premise of equality and mutual benefit and a balance between interests and obligations, participate in the Galileo Programme and enhance cooperation in international "big science" projects. Full play should be given to the role of the Scientific and Technologic Cooperation Steering Committee and efforts should be made to ensure a successful China-Europe Science & Technology and Innovation Policy Forum. Cooperation between scientific and technological intermediary agencies of the two sides as well as the interflow and training of scientific and technological human resources should be encouraged. Support should be given to Chinese and EU enterprises in their involvement in scientific and technological cooperation.<sup>406</sup>

The China's EU Policy Paper also mentions cooperation on military matters and, in particular, Beijing's request of an early lifting of the EU arms embargo:

China and the EU will maintain high-level military-to-military exchanges, develop and improve, step by step, a strategic security consultation mechanism, exchange more missions of military experts, and expand exchanges in respect of military officers' training and defense studies...The EU should lift its ban on arms sales to China at an early date so as to remove barriers to greater bilateral cooperation on defense industry and technologies.<sup>407</sup>

The Chinese leadership has clearly expressed its interest in the furthering of ties with the EU on security and military matters. The EU, however, has maintained a rather low profile on military and security cooperation with the PRC, due to the likely opposition that too much proclaimed a cooperation on these matters would find across Europe's national parliaments, within the European Parliament and among public opinions.<sup>408</sup>

Beneath the surface of the official declarations, it is argued here that China's participation in the Galileo project, the related issue of advanced technology transfers and the proposed lifting of the arms embargo have come to represent the three most important security-strategic issues in Sino-European relations.<sup>409</sup> The scholarly literature has tended to largely (if not completely) neglect these issues. Their relevance lies in the fact that they have gone far beyond the bilateral dynamics of EU-China relations to assume a global significance. The Bush administration, in particular, has voiced its concerns to: (i) China's participation in the Galileo project; (ii) advanced technology transfers; (iii) and the proposed lifting of the EU arms embargo, on the

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<sup>406</sup> *China's EU Policy Paper*, (2003) Title III.

<sup>407</sup> *China's EU Policy Paper*, (2003) Title V.

<sup>408</sup> On this point most of the European interviewees agreed.

<sup>409</sup> This is also emerged during the interviews with EU officials in Europe and China.

grounds that they have the potential to boost China's military modernisation and tilt the strategic balance across the Taiwan Strait in Beijing's favour. US policy makers argue that with these policies – even if only proposed as in the case of the lifting of the arms ban - the Europeans are acting without a clear political strategy towards East Asia. Washington is concerned that the Europeans are not consulting with the US on their policies towards China and East Asia in general, a part of the world whose security is guaranteed by Washington.<sup>410</sup>

In order to better understand the above criticism by the US and assess the impact of the security-strategic elements of the EU's China policy on East Asia's strategic balance we will now examine the question of China's participation in the joint development of the Galileo satellite network, with the related issue of European high-technology transfers to Beijing. In the next Chapter, we will examine the arms embargo issue. The three issues are interrelated and give meaning and content to the security-strategic dimension of the EU's China policy. It is hoped that by presenting the issues in such an order, the reader will gain a better understanding of the EU foreign policy towards China of the last years. This chapter will also examine the interplay between the EU level and the national level and evaluate to what extent there has been convergence among EU members on these issues. In addition, this chapter intends to provide evidence to the claim in Chapter 1 that France is the EU member state which has supported more strongly the development of a security-strategic linkage with the People's Republic of China. It is argued in this chapter that both France's space policy and its determination to have China play an important role in the development of Galileo has been Europeanised, in the sense that it has influenced the other European space powers: Germany, Italy, and Spain. The UK, in contrast, has kept a low profile on the Galileo issue and China's participation in it.

The British government has found itself in a somehow delicate situation, given the strong American opposition to Galileo. The participation of London to the European global navigation satellite system has largely depended on the fact that Galileo has been presented as a civilian project, funded by the European Commission (DG TREN), the

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<sup>410</sup> Personal consultations with David Shambaugh, Director of the China Policy Program at the George Washington University and Senior Fellow at The Brookings Institution (Washington); Ellen Bork, Acting Executive Director at the Project for the New American Century (PNAC - Washington); Derek J. Mitchell, Senior Fellow, Asia, International Security Program, Center for Strategic and International Studies (CSIS - Washington); and John J. Tkacik Jr., Research Fellow, Asian Studies Center, The Heritage Foundation (Washington).

European Space Agency (ESA) and various European departments of transportation or of research - and not as a strategic venture with a security dimension undertaken by defence departments.<sup>411</sup> In this context, this chapter will also discuss the different conceptions of space between the EU and the US, as well as the different attitudes towards China with regard to space cooperation and, more generally, security-strategic issues.

## **5.2 The Galileo satellite network and China**

Galileo is a Global Navigation Satellite System (GNSS), alternative to the dominant US Global Positioning System (GPS) that will offer both civilian and potential military applications once it becomes operational in 2008.<sup>412</sup> Galileo is designed to encircle the globe with 30 satellites in medium earth orbit, comprising 27 operational satellites and three reserves, plus two control centres on the ground. It will provide users, ranging from aircraft and shipping to cars and trekkers, with a navigational fix accurate to within just one metre – which is more accurate than the fix that can be obtained using the public signal made available by the American GPS system. The European Union and the European Space Agency (ESA) kicked off the Galileo project in March 2002. The satellite system is developed by diverse European actors such as national space and/or aerospace agencies, the Paris-based European Space Agency and the EU.

On 30 October 2003, an agreement was reached for China's cooperation and commitment to finance 200 million euros (out of an estimated total cost of 3.2-3.4 billion euros) of Galileo.<sup>413</sup> Formal negotiations with China commenced on 28 March 2003. Two rounds of talks were held and both sides finalised a draft agreement on 18 September 2003. On 27 October 2003, the Council authorised the EU Presidency (Italian) to sign the Cooperation Agreement on Galileo between the European Community and the PRC. The signature took place, significantly, during the sixth EU-China summit held in Beijing on 30 October 2003. According to the official wording:

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<sup>411</sup> Interview, Foreign & Commonwealth Office, 13 April 2006.

<sup>412</sup> For more details on the technical, military and political aspects of Galileo see: Gustav Lindström and Giovanni Gasparini, *The Galileo Satellite System and Its Security Implications*, European Union Institute for Security Studies, Occasional Paper n. 44, April 2003.

<sup>413</sup> "EU China Summit concludes agreements on industrial policy, Galileo and Tourism", available at: [http://europa.eu.int/comm/external\\_relations/china/summit/jp\\_1103.htm](http://europa.eu.int/comm/external_relations/china/summit/jp_1103.htm).

The agreement provides for co-operative activities on satellite navigation in a wide range of sectors, notably science and technology, industrial manufacturing, service and market development, as well as standardisation, frequency and certification.<sup>414</sup>

On 19 September 2003, a joint Sino-European satellite navigation cooperation centre had been opened in Beijing. The China-Europe Global Navigation Satellite System Technical Training and Co-operation Centre (CENC) is meant to serve as a focal point for all activities on Galileo, as well as promote industrial cooperation with special attention given to development of applications. The CENC is jointly run by the Chinese Ministry of Science and Technology, the Chinese Remote Sensing Centre, the European Commission and the European Space Agency. According to the EU-China agreement, the main focus of Chinese participation will be on developing applications, as well as research and development, manufacturing and technical aspects of the Galileo project. In the words of François Lamoureux, at that time Director General of the Directorate-General for Energy and Transport (DG TREN):

Never before has the European Union and China embarked on a cooperation project of the same magnitude as in Galileo. This project goes well beyond industrial or standardization issues. It entails a strong strategic component which will have far-reaching consequences on future Sino-European political relations.<sup>415</sup>

Moreover, as Commissioner Loyola de Palacio stressed: “the EU-China agreement will...secure a promising future for Galileo and European business interests”.<sup>416</sup> European industries are, indeed, eager to collaborate with Chinese companies in space-based technologies and, more generally, aerospace. It is expected that in the context of the EU 7<sup>th</sup> *Framework Programme for Research* European and Chinese companies will join forces for developing the application market for Galileo. In sum, Galileo will facilitate European businesses’ entry into the promising Chinese aerospace sector while it will allow Chinese companies to acquire know-how and advanced space technology. In other words, with Galileo the EU upgrades the policy of constructive engagement – based on the idea that the EU needs to sustain China’s development and its insertion in international society – by adding a security-strategic dimension to it. We will discuss later the potential consequences of this security-strategic linkage for East Asia’s strategic balance and transatlantic relations.

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<sup>414</sup> See: <http://www.cenc.org.cn/en/news/news2003102801.htm&18154326=3582134128>.

<sup>415</sup> Speech of François Lamoureux, Director General, Directorate-General for Energy and Transport, (DG TREN), European Commission, at the Opening of EU-China negotiations on satellite navigation, 16 May 2003.

<sup>416</sup> See: <http://www.cenc.org.cn/en/news/news2003102801.htm&18154326=3582134128>.

### 5.2.1 The commercial side of Galileo

The EU estimates that by 2020, Galileo will bring Europe tens of billions of euros in revenues and tens of thousands of job opportunities. Chinese experts expect revenues worth 260 billion yuan (23.6 billion euros) in Galileo systems applications by 2020.<sup>417</sup> The Galileo satellite system is implemented through the Galileo Joint Undertaking (GJU), which is a joint venture financed from the EU budget (through the European Commission) and the Paris-based European Space Agency (ESA). EU governments have pledged to cover as much as one third of the total cost of Galileo, while the rest will be offset by the private sector. In particular, a consortium of European companies is responsible for the development of the satellite network, including: the Franco-German-Spanish EADS; the British Inmarsat Ventures (satellite communications provider); French Thales (defence company); Italian Finmeccanica (defence company); French Alcatel (communications company); Spanish Hispasat (satellite group).

As the first non-EU partner for the project, China has agreed to invest 200 million euros. In the first phase, Beijing has pledged to spend 70 million euros of which five million euros for the entrance fee. The EU-designated Chinese industrial partner for the Galileo project is the National Remote Sensing Centre of China (NRSCC). The NRSCC, a coordination body under the Ministry of Science and Technology, is mandated to choose domestic research institutes and companies to undertake relevant research and development. The NRSCC has authorised China Galileo Industries (a Chinese state-holding company) to develop Galileo's satellite and remote sensing technologies and application systems. The Chinese state company is owned by China Aerospace Science and Technology Corporation, China Electronics Technology Group Corporation, China Sat-com and the China Academy of Space Technology. According to Chinese policy makers, cooperation between China and the EU in the development of Galileo "will be helpful to China's independent research on its own satellite-navigation systems".<sup>418</sup>

In March 2005, the Galileo Joint Undertaking and Beijing agreed on the first phase of the implementation. According to the agreement, China Galileo Industries will

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<sup>417</sup> [http://english.people.com.cn/200503/10/eng20050310\\_176228.html](http://english.people.com.cn/200503/10/eng20050310_176228.html)

<sup>418</sup> Interview, Chinese Ministry of Foreign Affairs, 22 September 2004.

help promote co-operation with the EU in commercializing the civilian use of the Galileo system in China, build an intelligent transport system based on accurate navigation information provided by Galileo, as well as upgrade communication and navigation for China's fishing vessels.<sup>419</sup> In other words, China Galileo Industries' task is to mobilize domestic companies specializing in space, electronics and satellite technology in order to develop the civilian use of the Galileo satellite navigation system in China. It is important to note that Chinese leaders have stated on more than one occasion that the Galileo satellite network will provide data mainly for civilian uses in accordance with the joint EU-China agreement signed in October 2003. However, this position is often qualified in private discussions, since satellite navigation is inherently a dual-use technology.<sup>420</sup>

Cooperation between the EU and China over Galileo is also meant to boost European companies' sales in China. Since the late 1990s, Europe's aerospace companies have sold telecommunication satellites and other space technologies to Beijing. Furthermore, some European commercial remote sensing companies (like their American counterparts) have been selling spatial imagery to China for years. According to analysts, until now no observation satellite system has been exported from the EU to Beijing, with the exception of some low-resolution micro-satellites. However, the export of remote sensing satellite systems with limited resolution should be expected in the near future.<sup>421</sup> More importantly, both the final content and the mechanism of the EU-China cooperation over Galileo and other space applications remain to be largely determined.<sup>422</sup> In the words of a CASS official and former diplomat, EU-China cooperation over Galileo will go through "re-adjustments", following the political trend of EU-China relations.<sup>423</sup> For the Europeans, the more compelling political and strategic problem with regard to China's participation in Galileo has been to guarantee the American ally that all the necessary security barriers are in place and that such cooperation will not endanger NATO or American strategic interests in the Asia-Pacific.<sup>424</sup>

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<sup>419</sup> See <http://www.galileoju.com/page.cfm?voce=s2&idvoce=66&plugIn=1>.

<sup>420</sup> Interviews, Chinese Ministry of Foreign Affairs and Chinese Academy of Social Sciences (CASS), Beijing, 7-8 May 2005.

<sup>421</sup> Interview, French Defence Ministry, Paris, 12 November 2005.

<sup>422</sup> Interview, European Commission, Brussels, 18 December 2005.

<sup>423</sup> Personal consultation with Prof. Yang Yang, Bureau of International Cooperation, Chinese Academy of Social Sciences (CASS) at the margins of the international conference *The International Politics of EU-China Relations*, held at the British Academy in London on 20-21 April 2006.

<sup>424</sup> Interview, European Commission, Brussels, 18 December 2005.

### **5.2.2 The political side of Galileo**

The central political question – with security and military implications – is presented under a technical wording: access to the encrypted signals. Most of the countries that have showed an interest in cooperating with Galileo, such as India, Brazil and Israel, will not be allowed to pull down encrypted signals from the satellites that form the central element of the programme. These countries will only be allowed to access unencrypted signals that would be satisfactory for civilian applications. China, on the other hand, has not been officially denied access to the encrypted signals since Beijing is taking part to the development of the applications of the satellite network.<sup>425</sup> EU officials stress, however, that a “security firewall” will be put in place to assure that China will not have access to secret Western traffic. According to interviews conducted by this author with officials at the European Commission and in the large EU member states, since Galileo is part of the development of a security-strategic linkage with China it will be, eventually, the evolution of EU-China political relations that will determine the final content and mechanism of China’s participation in Galileo.

Another contentious issue is related to the receivers able to decrypt Galileo signals, which are subject to export licensing in the supplier EU member states. In the EU-China agreement over Galileo there is specific language establishing the legitimate end-use China may make of encrypted signals received from the satellite network. However, some of the technologies needed by China to be able to read Galileo’s encrypted features need special export licensing and given its military applications, the technologies under discussion fall under the provisions of the arms embargo. Moreover, the technologies directly connected to the manufacture of weapons systems which utilise satellite positioning and targeting also fall under the arms embargo. In order to circumvent these legal obstacles, since the end of 2003 the EU governments that have supported more strongly China’s participation in the Galileo project (i.e. France and, to a lesser extent, Germany) have started to propose that the arms embargo be lifted.<sup>426</sup>

The rationale can be summarised as follows: if China is considered by the EU a strategic partner reliable enough to cooperate in Europe’s main space project, why then

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<sup>425</sup> Interview, *ibid.*

<sup>426</sup> For further details on the arms embargo debate see Chapter 6.



maintain an arms embargo imposed during the Cold War which, in the words of the advocates of the lifting, “does not correspond anymore to the political realities of the contemporary world”? In sum, the arms embargo issue is directly linked to China’s participation in the Galileo project. The two initiatives, though quite different in nature and scope, must be seen, however, as the logical extension in the security-strategic dimension of the EU’s policy of constructive engagement towards Beijing.

Europe’s invitation to China to participate in the Galileo project is also part of the growing cooperation between the EU and China on science and technology. At the eighth EU-China Summit in Beijing on 5 September 2005, the two sides endorsed a joint statement on cooperation in space exploitation, science and technology development.<sup>427</sup> The latter is seen in Beijing as having great strategic significance for fostering China’s modernisation process. However, some EU partners – especially the US and Japan – have voiced their concerns about China’s participation in the Galileo project and, more generally, the growing EU-China science and technology cooperation, since it involves European advanced technology transfers that can be exploited for the modernisation of China’s army and power projection in the region.<sup>428</sup>

Chinese policy makers and scholars view co-operation with the EU over Galileo as an additional initiative aimed at promoting China’s space programme, which is considered a major undertaking aimed at advancing comprehensive national strength.<sup>429</sup> China’s involvement in Galileo is expected to further Beijing’s space capabilities and satellite recognition, which are likely to be exploited for both commercial and military uses. The most recent US Department of Defence Report on the Military Power of the People’s Republic of China (MPPRC) concludes that the modernisation of the PLA has gone beyond preparing for a Taiwan scenario and is likely to threaten third parties operating in the area, including the US.<sup>430</sup> While Chinese leaders insist that their country is engaged in a “peaceful rise” to power, the US says that China is focusing on procuring and developing weapons that would counter US naval and air power,

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<sup>427</sup> [http://europa.eu.int/comm/external\\_relations/news/barroso/sp05\\_478.htm](http://europa.eu.int/comm/external_relations/news/barroso/sp05_478.htm).

<sup>428</sup> See Chapters 6 and 7.

<sup>429</sup> Interview, Chinese Academy of Social Sciences (CASS), Beijing, 6 May 2005.

<sup>430</sup> US Department of Defence, *Report on the Military Power of the People’s Republic of China* (MPPRC), October 2005.

especially in the Taiwan Strait.<sup>431</sup> Moreover, according to the MPPRC report, China's space programme is now intended to challenge American dominant position in the sector and this explains US concerns over China's participation in the development and deployment of Galileo.<sup>432</sup>

The decision to allow China play a prominent role in the development of the Galileo project highlights divergent approaches between the EU and the US towards (i) China's rise and (ii) the use of space. With regard to the former, it is important to underline that Europe does not view China as a potential military threat or peer strategic competitor. In this sense, Galileo must be seen as an extension in the security-strategic dimension of the policy of constructive engagement that has characterised the EU foreign policy towards China since the mid-1990s. With regard to the latter, it reflects the different conception between the EU and the US regarding the use of space. In essence, Washington places an emphasis on space power and control, while Europe stresses that the space should be used peacefully.<sup>433</sup> Thus, while the US concentrates on leveraging the space to provide America and its allies an asymmetric military advantage, the Union is more concerned in creating useful – i.e. commercial – space applications for European peoples and industries. For European policy makers, EU-China cooperation is meant to boost commercial activities while the US looks at space from a different angle, i.e. the protection of its global interests and primacy in world affairs.

Under the Clinton administration, for instance, the US attempted to cooperate with China on space transportation. This was meant to curtail China's exportation of missile technology to countries such as Iran and North Korea, very much like what had been done in the 1990s with Russia. The problem of illegal missile technology transfers between some US companies and China emerged in 1998, following the failed launch of an Intelsat satellite on a Long March booster, effectively ending this policy. The resulting classification of space technology on the US Department of State munitions

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<sup>431</sup> 2004 Report to Congress of the US-China Economic and Security Review Commission. Chapter 8: China's Military Modernization and the Cross-Strait Balance, available at: <http://www.uscc.gov/researchpapers/2004/04reportpage15.pdf>

<sup>432</sup> William S. Murray III and Robert Antonellis, "China's Space Program: The Dragon Eyes the Moon (and Us)", in *Orbis*, Fall 2003, pp. 645-652.

<sup>433</sup> See: Bastian Giegerich, *Satellite States – Transatlantic Conflict and the Galileo System*, paper presented at the 46<sup>th</sup> ISA Annual Convention, Honolulu, Hawaii, 1-5 March 2005.

list ended any cooperation in space with Beijing. As a result of the tightening rules in the US, transatlantic cooperation in space technologies decreased as well.

The US appears to believe that space technology should not be disseminated. The Europeans, on the other hand, seem to view space-related activities (technology included) as a medium for international cooperation.<sup>434</sup> The question which has emerged in the last years is that very little cooperation regarding space-based security applications goes on between Europe and the US, despite their military alliance. Today, the EU only has relations with agencies such as NASA and the National Oceanic and Atmospheric Administration (NOAA) that focus on the peaceful use of space.

It is important to stress that according to EU policy makers, EU-China partnership over Galileo and other potential space applications is not meant to isolate the US, or balance against it. Nor it is meant to increase the proliferation of space technologies that would be used for anything other than peaceful aims. For the EU, Galileo is meant to build trust with China.<sup>435</sup> Again, it is the continuation of the policy of constructive engagement based on the idea of change through trade. In addition, it is widely perceived at the DG TREN in Brussels<sup>436</sup> and Paris that the EU-China cooperation over Galileo is a reaction of the isolationist space policies of the US in the last years. Those policies have adversely impacted international space cooperation through draconian export regulations. In addition, the US has committed itself to the control and militarisation of space. As a consequence, it appears that for EU policy makers in Brussels and Paris, Washington has forced other space-faring nations such as China and Europe to cooperate among themselves. In this context, EU-China cooperation in the Galileo satellite network goes well beyond their bilateral agreement to include - and highlight - the different perceptions and responses that both the EU and China have developed in the last decade to respond to Washington's aerospace primacy.

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<sup>434</sup> Ibid., p. 3.

<sup>435</sup> Interview, European Commission, Brussels, 18 December 2005.

<sup>436</sup> The Directorate-General for Energy and Transport (DG TREN), based in Brussels, reports to Jacques Barrot (French) Vice-President of the European Commission, Commissioner for Transport and Andris Piebalgs (Latvian) Commissioner for Energy. The Director General of the DG TREN was François Lamoureux (French) until the end of 2005. Since 2006, the new Director is Matthias Ruete (German). Interestingly, the DG TREN (which controls Galileo) has been the preserve of Franco-German policy makers since the late 1990s.

We will look at this in more detail, since it has implications not only for EU-China relations, but also for the emerging global space order.<sup>437</sup>

### **5.3 Behind Galileo: the development of an independent European aerospace sector in the post-Cold War era**

Behind the development of Galileo there are well-planned European efforts to create an independent European aerospace sector. In this sense, Galileo - along with Airbus and the Arianespace project – must be seen as representing the third most prominent example of Europe's efforts to challenge the US' technological and economic supremacy in the aerospace sector. The push towards the development of a strong and autonomous European aerospace sector derives from a desire of ensuring the EU's strategic independence coupled with the fear of reduced influence in international affairs and declining international economic competitiveness. Thus, both economic and political considerations underpin Galileo and, more generally, the EU's objective to develop an independent aerospace sector.

As discussed in Chapter 3 and 4, the post-Cold War period has been characterised by an emphasis on economic competition. The post-world war II period, coinciding with the Cold War era, was preoccupied with the political-ideological struggle which somewhat overshadowed economic concerns. Even if economic matters were addressed, these were always subordinate to the wider ideological conflict. The post-Cold War period, however, saw a swing in the pendulum leading directly to all kinds of economic conflicts, best revealed by the trade dispute between the US and Japan, on the one hand, and the differences between the US and the EU best exemplified by the growing competition between Boeing and Airbus. In this context, a new European discourse on economic security – based on the perception of the EU's declining international economic competitiveness and reduced influence in international affairs - provided the basis for the development of an independent aerospace sector, strong enough to counter American primacy, in order to ensure the EU's strategic independence.

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<sup>437</sup> The idea of the multipolarisation of space has been put forward, in particular, by the Chinese leadership. See: <http://www.china-un.ch/eng/gjhyfy/hy2003/t85237.htm>.

Since the early 1990s, an independent aerospace capability has been perceived as having a key role for European industrial and technological development and it has begun to be closely associated with concepts of European security and political autonomy. This idea has been clearly expressed by the EU in its report *Strategic Aerospace Review for the 21<sup>st</sup> Century (STAR 21)* presented by the European Advisory Group on Aerospace to the President of the European Commission in July 2002.<sup>438</sup> The aim of this high-level group was to “identify the key area which will determine the future competitiveness of the aerospace industry and its ability to contribute effectively to Europe’s main policy goals”.<sup>439</sup> In the report, the European Advisory Group on Aerospace argues that:

A flourishing and competitive aerospace industry is essential to ensuring a secure and prosperous Europe. Apart from its contribution to sustainable growth, the aerospace industry is a home to key skills and technologies and an important driver of innovation; it guarantees the means for delivering services from space, and makes an essential contribution to security and defence, thereby helping to safeguard Europe’s freedom of action in its external policies.<sup>440</sup>

The *STAR 21* report makes the link between the protection of the Union’s global competitiveness and economic security – endorsed by the European Council of Lisbon in 2000 - and the development of the CFSP. In the words of the *STAR 21* report, aerospace is seen as “vital to meeting Europe’s objectives for economic growth, security and quality of life. It is directly associated with, and influenced by a broad range of European policies such as trade, transport, environment and security and defence”. Moreover, the report continues “A strong, globally competitive industrial base is essential to provide the necessary choices and options for Europe in its decisions as regards its presence and influence on the world stage”.<sup>441</sup>

With regard to space capabilities, the *STAR 21* report calls for the deployment on schedule of Galileo and argues for the need to take early action to “sustain European

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<sup>438</sup> European Advisory Group on Aerospace, *STAR 21: Strategic Aerospace Review for the 21<sup>st</sup> Century. Creating a Coherent Market and Policy Framework for a Vital European Industry*, Brussels, European Commission/Enterprise publications, July 2002.

Available at: [http://europa.eu.int/comm/enterprise/aerospace/report\\_star21\\_screen.pdf](http://europa.eu.int/comm/enterprise/aerospace/report_star21_screen.pdf).

<sup>439</sup> *Ibid.*, p. 4. The European Advisory Group on Aerospace was set up in 2001. Chaired by Erkki Liikanen (Member of the European Commission responsible for Enterprise Policy), it comprised seven aerospace industry chairmen (among them, the chairmen of EADS, SNECMA, BAE Systems, THALES, Finmeccanica, Rolls-Royce), five European Commissioners (Trade, External Relations, Enterprise, Transport and Energy, Research), the EU High Representative for the Common Foreign and Security Policy (Javier Solana) and two members of the European Parliament. The report was presented to the President of the European Commission, Romano Prodi, on 16 July 2002.

<sup>440</sup> *Ibid.*, p. 6.

<sup>441</sup> *Ibid.*, p. 7

launch capabilities and to explore applications of space technologies especially for communication and monitoring, including those required for security and defence".<sup>442</sup> In essence, for the European Advisory Group on Aerospace a flourishing aerospace industry is a key component in enabling Europe to realise its political and economic ambitions, in particular for maintaining the EU's competition in world markets for a wide range of civil and defence products and safeguarding the Union's freedom of action in its foreign and security policy. As the STAR 21 report stresses:

Aerospace is an essential contributor to any national or supra-national system of security and defence. Its products, which include aircraft, space technologies, electronics, engineering systems and sub-systems, are crucial for domestic security as well as providing the capabilities for realising policy aims in neighbouring and in more distant parts of the world. A competitive aerospace sector is vital for any nation or region wishing to maintain full sovereignty over its territory, to exercise political influence beyond its borders and to have available to it the necessary range of political choices and options.<sup>443</sup>

In this context, the report underlines the importance of international cooperation and the fact that the demand for civil aircraft and other aerospace products over the next 20 years is projected to arise outside the US or Europe's market and come mainly from Asia and, in particular, China. In this context, building political and diplomatic relations with the above countries is key for acquiring increasing shares of these markets and, as a consequence, maintain Europe's global competitiveness in the aerospace sector. As a matter of fact Asian countries - and, in particular, China - have become the battleground between Boeing and Airbus, which fiercely compete against each other for the leadership of the world aerospace sector. Analysts estimate that since 2005, China has become the second largest market for aerospace, behind the US.<sup>444</sup>

In November 2005, during the state visit of Wen Jiabao to France, the Chinese Prime Minister started its four days tour in Toulouse, at the headquarters of Airbus. On that occasion, the Chinese Premier committed his government to buy 150 Airbus A320 (worth US\$ 9,3 billion), the biggest ever order for the Airbus conglomerate. Thanks to this order, Airbus has regained a large share of China's aerospace market and by the end of 2005 the European constructor had surpassed Boeing in terms of contracted orders from China (804 for Airbus, against 801 for Boeing).<sup>445</sup> This allows Airbus to position itself strategically in what is poised to become the most important market for the civil

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<sup>442</sup> Ibid., p. 9.

<sup>443</sup> Ibid., p. 13.

<sup>444</sup> Claude Fouquet, *La France engrange 9 milliard d'euros de contracts avec la Chine*, Les Echos, Tuesday 6 December 2005, p. 6.

<sup>445</sup> Ibid., p. 6.

aircraft industry. Strategically, thus, China has become the most contentious battlefield between the two constructors, as demonstrated by Hu Jintao visit to the US in April 2006 which started in Seattle at the headquarters of Boeing.

In this context of global competition, Airbus and Galileo must be seen as part of increasing EU's efforts to counter American primacy in the aerospace sector. Especially after the first Gulf War, EU policy makers have begun to perceive a new security concern that some scholars have described as the interrelated issues of increasing technological dependency and declining international competitiveness.<sup>446</sup> Increasingly, EU policy makers would perceive this new threat as coming from the US's high technology industries. As the European Commission pointed out in 2001:

A new threat perception arising not from the East but from the West emerged in Europe during the second half of the 1990s. It was not a threat to national security and independence, but to European military-industrial survival and advanced technology competitiveness.<sup>447</sup>

According to the French analyst François Heisbourg, this emerging American threat was a direct consequence of how EU policy makers evaluated the technology policy promoted by the Clinton Administration.<sup>448</sup> Although the fundamental intent of many US programs was domestic, the comprehensive set of initiatives taken by Washington after 1992 in high technology, defence industrial, and exports promotion policies was perceived by EU policy makers as promoting an enhanced role of economic and technological issues in defining the US's national security priorities. A series of decisions taken by the Clinton Administration led German and French observers, in particular, to stress that the EU would increasingly have to deal with a changed US perception of technology as an element of economic security.<sup>449</sup>

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<sup>446</sup> Thomas Lawton, *Technology and the New Diplomacy: The Creation and Control of EC Industrial Policy for Semiconductors*, Aldershot, Ashgate Publishing Company, 1998, p. 36.

<sup>447</sup> METDAC Report, *Conclusions and Policy Implications: As set out in the Final Report to the European Commission*, Brussels, January 2001. The Management of European Technology: Defense and Competitiveness Issues (METDAC) thematic network was funded by the Commission from Spring 1998 to Autumn 2000. See also: Sorin Lungu, "Power, Techno-Economics, and Transatlantic Relations in 1987-1999: The Case of Airbus Industrie and Galileo", in *Comparative Strategy*, No. 23, 2004, pp. 369-389.

<sup>448</sup> See François Heisbourg, *European Defence: making it work*, Paris, EU Institute for Security Studies, Chaillot Paper 42, September 2000 and personal consultation with François Heisbourg at the Foundation for Strategic Research, Paris, 7 July 2004.

<sup>449</sup> See: Gilles Marcoin, "Le concept de sécurité économique: un défi pour l'Europe", in Nicole Chaix (ed.), *Economie et sécurité: de l'industrie de défense à l'intelligence économique*, Paris, Fondation pour les Etudes de Défense, 1996, pp. 125-134; and Joachim Rhode and Jens van Scherpenberg, "Defence/Civilian Technology Trends – the Security/Economic Challenge", in *European*

The creation in early 1993 of the National Economic Council (NEC) coupled with the establishment in 1994 of the position of Assistant Secretary of Defence for Economic Security (disestablished in 1996), indicated that the Clinton Administration was proposing a strong link between the preservation of American military and technological power and the vigorous pursuit of its own economic interests in global markets. Moreover, the launching of the Technology Reinvestment Program (TRP) in 1993 was the largest dual use technology development effort ever attempted by the US Department of Defence. Its goals were to spin off defence technologies into commercial fields, lower costs for new defence technologies; and develop military useful and commercial viable technology in order to improve access to affordable and advanced technology. Finally, the Clinton Administration made it clear that it would use federal funds to promote the rationalisation of the American defence industry through a series of mergers to create giant corporations.<sup>450</sup>

In this context, the high-technology policy developments in the US, combined with the emphasis on economic security in defining the US' national security priorities forced EU policy makers and scholars (and the Chinese, as we will discuss later) to rethink and adjust their industrial and technological goals, as well as the most appropriate means for achieving them. In the case of Europe, by the mid-1990s EU policy makers and industrialists began to articulate a new "US technological threat". This rhetoric became explicitly anti-American, especially in France. While the French government adopted the anti-American argument on a political basis, the aerospace and defence firms were employing it for mainly economic reasons.<sup>451</sup> In 1994, French defence analyst Yves Boyer suggested that the US had begun to promote a new international order in which advances in high-technology functioned as instruments to achieving economic and military dominance.<sup>452</sup> At the same time, leading German aerospace industrialists, referring to post-Cold War developments, began to voice concerns about Germany's ability to maintain a competitive position in high-technology

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*Commission/DGI – Seminars on Economic Security*, Ebenhausen, Stiftung Wissenschaft und Politik (SWP), 1994, pp. 4-12.

<sup>450</sup> For a critical analysis of these developments see: Seymour Melman, *From Private to State Capitalism: How the Permanent War Economy Transformed the Institutions of American Capitalism*, Washington, National Commission for Economic Conversion and Disarmament, Briefing Paper 18, February 1997, available at: <http://www.webcom.com/ncecd/bp18.html>.

<sup>451</sup> Interview with Francois Heisbourg, Paris, 7 July 2004.

<sup>452</sup> Yves Boyer, "Technologies, defense et relations transatlantiques", in *Politique étrangère*, Vol. 59, No. 4, Winter 1994-95, pp. 1006-1015.



sectors.<sup>453</sup> In 1996, the French analyst Elie Cohen noted that since the early 1990s the American battle order with regard to Japan and Europe had been organised and conceptualised using concepts of economic security. As a result, the defence of the economic interest of the US had been elevated to the level of a strategic priority.<sup>454</sup>

In the US, the notion of economic security has traditionally included both military and defence-industrial implications, while European countries have tended to perceive such term as having primarily civilian and economic connotations.<sup>455</sup> However, since the early 1990s due to the realisation that technological innovation was increasingly being driven from the commercial side and that it had to be integrated into military systems, defence industrial issues started to be perceived as having an impact on the EU's technological competitiveness and, thus, on its economic security. As a consequence, EU policy makers have increasingly made the link between economic security and technological competitiveness of national firms in both the civilian and military markets. Following up on this, an independent aerospace capability has been perceived as having a key role in European industrial and technological development and it has begun to be closely associated with issues pertaining to the EU's security and political autonomy.

In this context, the promotion of the Airbus programme in the 1990s became the first textbook case-study in which the European Commission used its financial assets to create competitors to the American-dominated aerospace sector.<sup>456</sup> Following the 1996 Boeing-McDonnell Douglas merger, the Trilateral Statement by France, Germany and the UK of 9 December 1997 called for the restructuring of the European aerospace and defence industry in order to limit overdependence on the US. The first step of the restructuring process was the establishment of *Airbus* as a Single Corporate Entity.<sup>457</sup>

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<sup>453</sup> Hartwig Knitter, "Hochtechnologie – Sicherung des Industriestandortes Deutschland?" in *Dokumente der Luft- und Raumfahrtindustrie*, No. 9, Munich, Daimler-Benz Aerospace A.G., 1994.

<sup>454</sup> Elie Cohen, *La tentation hexagonale: la souveraineté à l'épreuve de la mondialisation*, Paris, Fayard, 1996, p. 139.

<sup>455</sup> Jens van Scherpenberg, "Transatlantic competition and European defence industries: a new look at the trade-defence linkage", in *International Affairs*, Vol. 73, No. 1, January 1997, p. 100.

<sup>456</sup> See Thomas Duesterberg, "Global Competitiveness and U.S.-EC Trade Relations", in *The Washington Quarterly*, Vol. 16, No. 3, Summer 1993, p. 121. *Airbus Industrie* was formed under French law in 1970 as a *Groupement d'Intérêt Economique* (GIE) and has been jointly owned by British Aerospace (BAE – 20%) of the UK, Aérospatiale of France (37,9%), Messerschmitt-Bölkow/Blohm (MBB).Daimler-Benz Aerospace (DASA – 37,9%) of Germany, and Construcciones Aeronauticas (CASA – 4,2%) of Spain. Initially headquartered in Paris, the company moved to Toulouse in 1974.

<sup>457</sup> *Trilateral Statement*, 9 December 1997, London, MoD Press Notice 208/97. The commercial success of *Airbus* highlights the fact that some large EU members, the European Commission, and industrial

The establishment of Airbus Industrie can be seen as a strategic move instrument by some of the large European states in response to a challenge embodied in the US dominance of the post-Cold War II aerospace industry.

Furthermore, EU policy makers and industrialists started to push forward proposals for a thorough integration and restructuring of the aerospace and related defence industries in Europe. Airbus shareholders - British Aerospace (BAE), Aérospatiale of France, Messerschmitt-Bölkow/Blohm and Daimler-Benz Aerospace (MBB/DASA), and Construcciones Aeronauticas (CASA) - agreed to negotiate the establishment of a single integrated European Aerospace and Defence Company (EADC), merging all relevant assets, with core business in the fields of civil and military transport aircraft, combat and special military mission aircraft, helicopters, space launchers and orbital infrastructures, guided weapons, and defence and aerospace systems.<sup>458</sup> This agreement paved the way for the creation of the European Aeronautic Defence and Space Company (EADS) in 1999.<sup>459</sup>

At the same time, international developments convinced EU policy makers to push forward the creation of an independent space and satellite positioning programme. The Kosovo air campaign by NATO in March-June 1999 demonstrated to EU policy makers that an improved air and space combat technological capability was a prerequisite for greater independence in security policy. It was also felt, in particular in

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interests have been able to successfully engage in sustained collaboration in creating an effective instrument of commercial strategy in certain high technology sectors.

<sup>458</sup> Joint report of Aérospatiale S.A., British Aerospace plc, Construcciones Aeronauticas S.A., Daimler-Benz Aerospace A.G., *European restructuring in the field of aerospace and related defence industries: Industrial response to the inter-governmental declaration of 9 December 1997*, March 27, 1998. For more details see: Burkard Schmitt, *From cooperation to integration: defence and aerospace industries in Europe*, Paris, EU Institute for Security Studies, Chaillot Paper 40, July 2000; available at: <http://www.iss-eu.org/chaillot/chai40e.pdf>.

<sup>459</sup> EADS – European Aeronautic Defence and Space Company is the result of a series of moves. Firstly, the German DaimlerChrysler Aerospace A.G. (DACA) took over the Spanish firm Construcciones Aeronauticas S.A. (CASA) on 12 June 1999. Then, DACA merged with Aérospatiale-Matra (France) on 14 October 1999 creating EADS. Finally, on 14 April 2000, the joint venture between EADS with the Italian strategic partner Finmeccanica (Alenia Aerospazio S.A.) led to the final shape of the new European aerospace and defence conglomerate. The European Commission approved the creation of EADS N.V. (registered in the Netherlands) on 11 May 2000. As of 31 December 2004, about one-third of EADS stock is publicly traded on six European stock exchanges and the rest is divided among three major shareholders. Publicly traded: 34.08% (Includes 3.55% held by EADS employees, 0.06% held by the French government, and 0.78% held as treasury stock). Daimler-Chrysler: 30.17%; SOGEADE (Société de gestion de l'aéronautique, de la défense et de l'espace - a French holding company): 30.17% (50% French government, 50% Lagardère – former MATRA); SEPI (Sociedad Estatal de Participaciones Industriales): 5.51% (Spanish state holding company). EADS is traded on Euronext Paris, the Frankfurt Stock Exchange, and the Madrid, Bilbao, Barcelona and Valencia stock exchanges. In the policy jargon, France, Germany, Spain and Italy are often referred to as the “EADS countries”. We will see later the significance of the “EADS countries” for the development of the EU foreign policy towards China.

France, that the lack of adequate European space capabilities and satellite navigation systems was greatly limiting the EU's posture abroad by maintaining a high degree of strategic dependence from American technology. In this context, the EU decided to challenge the already existing American GPS by launching Galileo – the European satellite navigation system which has sparked a significant transatlantic rift ever since. Galileo can be rightly considered, after Airbus and the Arianespace project, as the third common project that aims to secure the EU against too much dependence from the American aerospace sector.<sup>460</sup>

In 1996 the European Commission had adopted a policy document on space. In *The European Union and space: fostering applications, markets and industrial competitiveness*, the Commission pointed out that if the EU did not want to be left behind on the very promising markets arising from the new space applications – satellite telecommunications, satellite navigation, and earth observation – the Union had to immediately come up with a suitable strategy.<sup>461</sup> At the same time, some ESA officials published an article in which they stated that the time had come for Europe to take “the initiative to balance the US ambitions to promote worldwide acceptance of GPS for civil applications”, since this will give Europe “independence from foreign national/military satellite systems and control over its own element within a global civil navigation satellite system”.<sup>462</sup>

In 1998 the Commission released its policy paper *Towards a trans-European Positioning and Navigation Network together with a European strategy for a global navigation satellite system (GNSS)*. In the document, the Commission stated that the GNSS represents a strategic challenge impacting on Europe's position in the world and that foreign control over Europe's navigation system would raise serious problems for both sovereignty and security. The document also underlined the potential dual

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<sup>460</sup> See Jost Vielhaber and Daniel Sattler, “Why Europe needs Galileo”, in *Internationale Politik – Transatlantic Edition*, Vol. 3, No. 4, Winter 2002, p. 35.

<sup>461</sup> European Commission, *The European Union and space: fostering applications, markets and industrial competitiveness*, Brussels, COM (96) 617, 4 December 1996, available at: [http://aei.pitt.edu/3910/01/000151\\_1.pdf](http://aei.pitt.edu/3910/01/000151_1.pdf).

<sup>462</sup> Karin Barbance, Karl Bergquist, Simonetta Cheli, Valerie Hood, and Frederic Nordlund, “Satellite Navigation Activities: The International Context”, *Space Communications*, Vol. 14, No. 3, 1996, pp. 155-161. At the time of the publication, the authors were all working in ESA's International Relations Office.

civil/military use of the GNSS.<sup>463</sup> In 1999 the Commission gave the name Galileo to the European space programme.<sup>464</sup>

Three European organizations have been cooperating closely to develop Galileo: the ESA, Eurocontrol (the organization responsible for coordinating air traffic control) and the Directorate General for Transport and Energy of the European Commission (DG TREN). EU member states participate in Galileo to varying degrees. However, Galileo – and more generally, Europe’s space programme – is mainly driven by France and, to a lesser extent, Germany.<sup>465</sup>

#### **5.4 EU member states’ space policies and the role of France**

Among EU members France has taken the lead in the development of the satellite system and, more generally, Europe’s aerospace sector both in terms of financial commitment and political support. Paris accounts for approximately 40% of Europe’s overall spending in the space sector (military and civilian). Italy, Spain, Belgium and Germany have some significant military space programmes. The UK abandoned the development of its own space defence programme decades ago and now has access to military space information through the NATO infrastructure (communications) or via bilateral agreements with the US (intelligence). The other EU countries have only

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<sup>463</sup> European Commission, *Towards a trans-European Positioning and Navigation Network together with a European strategy for a global navigation satellite system (GNSS)*, Brussels, COM/98/0029 final, 21 January 1998.

<sup>464</sup> European Commission, *Galileo: Involving Europe in a New Generation of Satellite Navigation Services*, Brussels, COM (1999) 54 final, 7 May 1999, available at: [http://www.dft.gov.uk/stellent/groups/dft\\_aviation/documents/pdf/dft\\_aviation\\_pdf\\_503448.pdf](http://www.dft.gov.uk/stellent/groups/dft_aviation/documents/pdf/dft_aviation_pdf_503448.pdf).

<sup>465</sup> Alain Dupas, Stéphane Janichewski, Wulf von Kries, Kai-Uwe Schrogl, “A Franco German view of Europe’s ambition in space for the 21<sup>st</sup> century”, in *Space Policy*, Vol. 17, 2001, pp. 103-110; Alain Dupas and Stéphane Janichewski are researchers at the Centre National d’Etudes Spatiales (CNES). Founded in 1961, CNES is the French government agency responsible for shaping and implementing France’s space policy in Europe. With a 2,400 strong workforce, CNES’ aim is, according to the official website, “to guarantee France’s independent access to space and maintain France and Europe’s competitive edge”. Wulf von Kries and Kai-Uwe Schrogl are researchers at the Germany’s Aerospace Research Center and Space Agency (Deutsches Zentrum für Luft und Raumfahrt – DLR). DLR is a national institution and consists of 30 institutes at eight locations throughout Germany. Approximately 5,000 employees work for DLR. With a budget of approximately 450 million euros, DLR also administers the space budget of the German government. See also Klaus Peter Ludwig and Stefan Hess, “Toward a European Space Policy”, in *Internationale Politik – Transatlantic Edition*, Vol. 1, No. 2, Summer 2000, pp. 49-56; Klaus Peter Ludwig was at that time head of the International Relations Section of the Dornier Satellite System; Stefan Hess was at that time head of the Space Department of the German Aerospace Industries Association (Bundesverband der Deutschen Luft – und Raumfahrtindustrie, BDLI). See also Jost Vielhaber and Daniel Sattler, “Europas Aufbruch zu grösserer Unabhängigkeit: Ein Plädoyer für das Satellitenproject Galileo”, in *Internationale Politik*, No. 9, 2002, pp. 47-52.

civilian space programmes. Overall, among EU member states, the civilian space sector is much more developed than the military.<sup>466</sup>

**Table 9: EU member states' space budgets 2003 (million of euros)**

France	2,000
Germany	1,050
Italy	950
Britain	400

Source: ESA (2004)<sup>467</sup>

Among the French political elite the conviction exists that only a united European policy can challenge the supremacy of the US in the aerospace sector, both in terms of the – ever increasing – budgets required and in terms of industry and user community base. Therefore, enlarging the national space effort to the entire European Union is clearly viewed in Paris as a prerequisite for starting any new major space programme like Galileo. Historically, France has played a key role in promoting the idea of an autonomous European launcher (the Arianespace project) and in translating it into facts. Moreover, French determination in pushing the *space dossier* has been instrumental for the promotion and development of Galileo and other European space undertakings, such as the Global Meteorological Environmental System (GMES).<sup>468</sup>

A major concern for French political leaders is that the various European aerospace programs must continue to draw sufficient political interest among EU governments so as to support and promote a genuine European construction agenda at a sufficient level. In turn, this pan-European aerospace programs have become a national objective for France. The development of a strong and independent European aerospace sector is viewed as part of France's efforts at challenging the existing configuration of power in the international system. Politically, this challenge has been translated in the

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<sup>466</sup> Simonetta Cheli and Jean-Pierre Darnis, "Towards a European Space Strategy?", in *The International Spectator*, 2/2004, pp. 103-114.

<sup>467</sup> European Space Agency (ESA), Annual Report 2004, available at: [http://www.esa.int/esapub/annuals/annual04/ESA\\_AR2004.pdf](http://www.esa.int/esapub/annuals/annual04/ESA_AR2004.pdf).

<sup>468</sup> Interview, French Ministry of Foreign Affairs, Paris, 7 July 2004.

discourse on multipolarity – or multiple poles of influence - of which the EU is one of them. Since this view is not shared by the majority of EU members, especially the more Atlanticist ones, the challenge for France remains, according to the strategic analyst Xavier Pasco, to balance the objective of autonomy so that it remains “sufficiently ambitious to foster interest at the national [French] level without having it become a specifically national type of program unable to keep its European identity...this balance constitutes a prerequisite nowadays for any successful national and European space endeavour”. In other words, for France any new program must be balanced between national and European motivations; i.e., encompassing traditional national, as well as global purposes.<sup>469</sup> Thus, the Galileo undertaking owes much to the fact that France – as the main space power in Europe - has continued to preserve its national ability to act independently in space and is nowadays committed to translate this commitment at the European level.

Strategically, Galileo offers another example of French efforts to promote European autonomy within NATO. France cannot afford to build an alternative network of satellites to the dominant American GPS for its national needs. Moreover, most of France’s EU partners do not share French reservations about relying on the American GPS. For these reasons, the Galileo project has been presented to the public as an exclusive civilian project. However, satellite navigation system and positioning technology has military applications. It is, inherently, a dual use system. Some of the services (for instance, the Positioning, Navigation and Timing – PNT) will offer military planners and commanders a wide range of applications to manage assets, troops and munitions more effectively.

There has been a conscious and deliberate effort by EU institutions to promote and legitimise the development of an autonomous global navigation satellite system (Galileo) as a purely civilian project. The European Commission continues to emphasize the civilian applications of Galileo and the absence of any military application.<sup>470</sup> The European Council stressed, in its decision on 16 March 2002, that

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<sup>469</sup> Xavier Pasco, “A Question of Balance: French Space Policy in the Global Age”, in Dana J. Johnson and Ariel E. Levite (eds.), *Toward Fusion of Air and Space: Surveying Developments and Assessing Choices for Small and Middle Powers*, Santa Monica: CA, RAND – National Security Research Division, 2003. Xavier Pasco is Maitre de Recherche at the Foundation for Strategic Research, Paris. He is one of the most authoritative voices on European space policy.

<sup>470</sup> European Commission, *Communication from the Commission to the European Parliament and the Council. Progress report on the Galileo research programme as at the beginning of 2004*, Brussels, 18

“Galileo is a civil programme, under civil control”.<sup>471</sup> Moreover, the European Parliament released a report on Galileo in January 2004, stating that unlike the American GPS and the Russian GLONASS, it is a project, “which is and must continue to be used solely for civilian purposes”.<sup>472</sup>

The role of the European defence ministries and military agencies have remained largely hidden from the public debate. However, it appears that military considerations have played a role in advancing the project. Since the beginning, the French government, in particular, has consistently promoted Galileo’s military security role and, as such, Paris has engaged in examining the potential implications of GNSS for NATO and, more generally, for the transatlantic alliance.<sup>473</sup> Senior French officials declared in March 2004 that Galileo could have military applications as early as 2010, raising protests in the Nordic states, Austria and Ireland.<sup>474</sup> Another high-ranking French official stated that:

Galiléo constituera la seule alternative crédible à l’instauration d’un monopole de fait du système de positionnement global GPS et de l’industrie américaine dans ce domaine...Avec le signal PRS notamment, Galiléo fournira un outil essentiel pour les activités de défense et de sécurité et pour la gestion des crises...sans évoquer les nombreuses applications militaires, sur lesquelles le ministère de la Défense, aujourd’hui utilisateur du GPS, réfléchit actuellement.<sup>475</sup>

Furthermore, in the recently published *Petit Guide de la Politique Européenne de Sécurité et de Défense (PESD)*, published in October 2005 by the Permanent Representation of France to the EU, on Galileo is said that :

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February 2004, COM(2004) 112 final. See also the Commission’s website: [http://europa.eu.int/comm/dgs/energy\\_transport/galileo/index\\_en.htm](http://europa.eu.int/comm/dgs/energy_transport/galileo/index_en.htm)

<sup>471</sup> European Council, Barcelona, 15-16 March 2002.

<sup>472</sup> European Parliament, *Report on the Communication from the Commission to the European Parliament and the Council on the State of Progress of the Galileo Programme*, 28 January 2004, P5\_TA(2004)0051, available at: <http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2004/ce096/ce09620040421en01280131.pdf>

<sup>473</sup> Interview, French Defence Ministry, Paris, 12 November 2005.

<sup>474</sup> “Galileo may be battle-ready by 2010”, in EU Politixcom, 11 March 2004, available at: <http://www.eupolitix.com/EN/News/200403/57b385c8-157c-460c-b6a5-0e64447b6eed.htm>

<sup>475</sup> Patrick Bellouard (Chargé de mission du Premier ministre pour la coordination interministérielle du programme Galiléo), “Galiléo, la navigation par satellite à l’heure européenne”, in *Les cahiers de Mars*, n. 184, 2<sup>o</sup> trimestre 2005, pp. 73-79, quotations from p. 73 and p. 78 : Galileo will constitute the only credible alternative to the instauration of a de facto monopoly of GPS global positioning and of the American industry in this domain...With the PRS signal in particular, Galileo will provide an essential tool defence and security activities and for crisis management...without mentioning the numerous military applications that the Ministry of Defence, which currently uses the GPS, is pondering.

Le système de navigation par satellite Galileo aura des implications militaire et de sécurité, qui devront être prises en compte dans le cadre de la PESD.<sup>476</sup>

Thus, for France there is no doubt that Galileo is a grand commercial project with security and military implications. Among the other EU members, Germany, Italy and Spain share, to a large extent, French views of Galileo as a grand project, something of a public-oriented initiative similar to Airbus with a clear political and strategic goal rather than an exclusively commercial enterprise. The UK, Austria, Belgium and the Netherlands have preferred to underline the exclusive commercial side of the project. Finally, the Nordic countries (Finland, Sweden and Denmark) have expressed their interest in the development of Galileo but have expressed opposition to the inclusion of military uses.<sup>477</sup> Some of the smaller EU members have joined Galileo not for strategic reasons, but for budgetary or bureaucratic circumstances and in a few cases for diverting money initially allocated for ESA's slow-moving International Space Station.<sup>478</sup>

In conclusion, Galileo is Europe's major aerospace project whose political-strategic goal is supported, primarily, by France. Germany plays an important role in terms of research and financing through German DaimlerChrysler Aerospace and Germany's Aerospace Research Center and Space Agency. Italian and Spanish aerospace industries have large stakes in the construction and delivery of the satellite network - Italy through Finmeccanica (Alenia Aerospazio) and Spain through Construcciones Aeronauticas (CASA). To note that the above countries are also the main shareholders of EADS, the European Aeronautic Defence and Space Company.<sup>479</sup>

The above countries - France, Germany, Italy and Spain – are usually referred to as the “EADS countries”. These EU members have strongly supported China's participation in the Galileo project. Germany, Italy and Spain mainly for commercial

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<sup>476</sup> Permanent Representation of France to the EU, *Petit Guide de la Politique Européenne de Sécurité et de Défense (PESD)*, October 2005, p. 14 (Galileo, the navigation satellite system, will have military and security implications that will have to be taken into consideration in the framework of the CFSP).

<sup>477</sup> The positions of the EU member states have been gleaned from interviews. See also: Johan Lembke, *The Politics of Galileo*, University of Pittsburgh, European Union Center – Center for West European Studies, European Policy Paper No. 7, April 2001; available at: [http://aei.pitt.edu/29/01/Politics\\_of\\_Galileo.pdf](http://aei.pitt.edu/29/01/Politics_of_Galileo.pdf).

<sup>478</sup> Francois Heisbourg, *European Defence: making it work*, Paris, EU Institute for Security Studies, Chaillot Paper 42, September 2000.

<sup>479</sup> EADS is the result of a series of mergers among the German DaimlerChrysler Aerospace A.G. (DACA), the Spanish firm Construcciones Aeronauticas S.A. (CASA) and the French Aérospatiale-Matra (France). Since 14 April 2000, EADS has established a joint venture with the Italian strategic partner Finmeccanica (Alenia Aerospazio S.A.). EADS also controls Airbus.



considerations, while France also for political reasons (i.e., multipolarisation of space). The EADS countries are the same who have pushed more strongly in favour of a policy of constructive engagement towards China and, at the same time, watered down the more principled positions on human rights.<sup>480</sup> We will see in Chapter 6 that the EADS countries have also strongly supported the lifting of the EU arms embargo on China.

The UK is also playing an important role in the construction and overall development of Galileo through British Aerospace (BAE Systems) and Inmarsat Ventures (satellite communications provider). From a political point of view, the British government has found itself in a somehow delicate situation, given the strong American opposition to the project. The participation of London to the European global navigation satellite system has largely depended on the fact that Galileo has been presented as a civilian project, funded by the European Commission, the European Space Agency (ESA) and various European departments of transportation or of research - and not as a strategic venture with a security dimension undertaken by defence departments.<sup>481</sup>

Moreover, China's participation in Galileo is viewed in London as simply part of the policy of constructive engagement towards Beijing, without the political and strategic implications that the "EADS countries" – and most notably France – attach to it. However, there is no doubt that the Galileo satellite network will have potential military uses, since satellite navigation is, inherently, a dual-use technology. It is in this context that the US' opposition to China's participation must be understood. Washington increasingly views Beijing as a space competitor and it is concerned that through Galileo and related space-based technology cooperation the EU is contributing to the modernisation of China's space program. We will discuss this further in the next section.

### **5.5 Behind China's participation in Galileo: fostering Beijing's space program**

China is widely acknowledged as a space-faring nation. It is the third country after Russia and the US to have flown a man in space. However, while symbolically important, manned flight is not as valuable to China as its ability to hoist satellites into orbit. With thousand of isolated rural communities characterised by low population

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<sup>480</sup> For more details, see Chapter 4.

<sup>481</sup> Interview, Foreign & Commonwealth Office, 13 April 2006.

densities and limited telecommunication infrastructure, China is poised to greatly benefit from an increased use of advanced satellite technologies. Chinese leaders point out that the various applications of remote-sensing satellites, which have been very helpful in urban development and agriculture in many countries world-wide, would be an invaluable asset to help the PRC connect its scattered population, as well as boost economic growth.

In this context, Chinese policy makers and scholars view co-operation with the EU over Galileo as an additional initiative aimed at promoting China's space programme, which has always been considered as a core initiative aimed at advancing comprehensive national strength.<sup>482</sup> In the last years, European aerospace companies have been particularly eager to work with China, hoping to reap the benefits from the most promising emerging market. This has allowed China to pursue joint ventures, like Galileo, in the near term in order to develop indigenous capabilities in the longer term.<sup>483</sup>

In this vein, China's manned space flight in October 2003 highlighted the dramatic achievements of Beijing in space technology. Compared to the US, Chinese space technology is not state-of-the-art. However, compared to other developing countries, China differs from having a space program that encompasses the full range of capabilities from satellite design to launch services. Traditionally, Beijing has tended to build satellites on its own, though current commercial and scientific collaborations with the EU, Russia and Brazil are aimed at joint development. China has also a well-developed commercial satellite launch industry and its space program is also notable for the exchange of personnel and technology between the civilian and military sectors.<sup>484</sup>

China's space program was founded as part of Beijing's Cold War strategic defence policy. Until 1985, when China initiated commercial launches, Chinese space activities were closed to the outside, and foreign countries for the most part refrained from working with China on space activities. As discussed in Chapter 2, during the Cold War the US' West European allies cooperated in the efforts of the Coordinating

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<sup>482</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 6 May 2005.

<sup>483</sup> Interview, Chinese Academy of Social Sciences (CASS), Beijing, 7 May 2005.

<sup>484</sup> See: Evan S. Medeiros, Roger Cliff, Keith Crane, James C. Mulvenon, *A New Direction for China's Defense Industry*, Santa Monica, RAND, 2005.

Committee for the control of strategic exports to communist countries (COCOM), based in Paris to embargo high technology sales and transfers to the PRC.

In the post-Cold War period, Beijing's space program has been further strengthened because the technology being developed is dual-use and folds into the overarching Chinese goal of economic development. Moreover, the PLA's involvement in space industries has encouraged support for dual-use space programs. The Chinese word for space - *hangtian* - refers to both space systems and ballistic, cruise, and surface-to-air missiles. In particular, the development of the ballistic surface-to-surface missiles has provided the basis for the development of space launch vehicles.<sup>485</sup> From a strategic point of view, since the first Gulf War Chinese leaders have emphasized the link between the space and information fields, as well as the need for China to modernise its air and space forces to counter the technologically-advanced US military. China's White Paper on space - *White Paper on China's Space Activities* - released in November 2000 stated that Beijing is intent to industrialise and commercialise space to advance "comprehensive national strength" in the areas of economics, state security and technology.<sup>486</sup>

In addition, prestige is an important driver of China's space development. This is most evident in the Chinese manned space program efforts. In October 2005, China launched its second manned rocket, the *Shenzhou 6* and plans are underway for the *Shenzhou 7* to be launched in 2007, which will involve a space walk. In recent years, China's space programme has become a major political symbol of Chinese nationalism, contributing to fostering both the economic and military sectors. Since November 1999, with the launch of the *Shenzhou 1*, China has made important technological progresses, carefully monitored by the US.<sup>487</sup> China's space aspirations pose significant security and strategic concerns for Washington. Although most of China's space programs have mainly commercial and scientific purposes, improved space technology has the potential to significantly improve Chinese military capabilities. According to American

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<sup>485</sup> See: Zhang Xinzhai, *The Achievements and the Future of the Development of China's Space Technology*, 10 June 1996, available at: <http://www.space.cetin.net.cn/docs/HTM-E/007.htm>.

<sup>486</sup> The Information Office of the State Council of the People's Republic of China, *White Paper on China's Space Activities*, Beijing, 22 November 2000, available at: <http://www.spaceref.com/china/china.white.paper.nov.22.2000.html>. For a comprehensive survey of China's space capabilities and, more generally, Beijing's defence industry, see: Evan S. Medeiros, Roger Cliff, Keith Crane, James C. Mulvenon, (2005).

<sup>487</sup> See: David O. Meteyer, *The Art of Peace: Dissuading China from Developing Counter-Space Weapons*, Institute for National Security Studies, US Air Force Academy, Colorado, INSS Occasional Paper 60, August 2005.

analysts, China's space programme is now intended to challenge American dominant position in the sector.<sup>488</sup>

There is no doubt that the EU is contributing to the modernisation of China's space program. As discussed earlier, Galileo has been designed primarily for civilian uses. However, the satellite network, once operational, will have the potential to be used for military uses as well. Although the EU may never develop Galileo for military purposes, other countries involved in the construction of the satellite network may do so. It is in this context, therefore, that the decision of the EU to allow China cooperate in the development of Galileo has raised serious concerns in Washington.

The question here is that most space technologies are inherently dual-use technologies, with civil space activities sometimes having direct military analogues. A communication satellite, for instance, can be used for both military and commercial uses. Similarly, given sufficient capabilities, a satellite navigation system has direct military applications since its images identify objects and activities on the earth's surface similar to a military reconnaissance satellite. In the case of Galileo, both the EU and China proudly state that the European GNSS will provide remote sensing data with resolution up to one meter. At present, the data resolution of the American GPS is only ten meters

The basic technologies required for commercial rockets and military missiles also share commonalities. This is a very sensitive issue which impinges on technology transfer regulations and where technical ambiguity can be deliberately exploited for circumnavigating existing export limitations to certain countries. Technically, it is difficult to determine where the line should be drawn regarding potentially relevant military technology. Moreover, in the case of China is fairly evident that much of the technology deemed essential for indigenous military aerospace capabilities includes technology also deemed essential for national economic development, and vice-versa. Thus, if a country has a technical space capability, then it will inherently have a military space capability. In this context, China's cooperation in the joint development of the European GNSS would allow China to enhance its technical civilian space capability and, by default, also its military space capability.

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<sup>488</sup> Ibid. and William S. Murray III and Robert Antonellis, "China's Space Program: The Dragon Eyes the Moon (and Us)", in *Orbis*, Fall 2003, pp. 645-652. We will examine China's defence budget and military modernisation in more details in Chapter 6.

Analysts of the PLA say that the skill China would gain from participating in the Galileo system's development would allow it to close an information gap that now gives the United States the advantage in the precise targeting of missiles and smart weapons.<sup>489</sup> The system would also allow the PLA to improve sharply their command and control of forces in the field. China's acquisition of the Galileo system will be a major setback to US efforts to limit China's access to advanced military space technology. American critics of China's participation in the Galileo project say that the EU is, in effect, assisting China's military modernisation despite the embargo.<sup>490</sup> In the *2004 Defense White Paper*, Chinese military planners make it clear that the use of advanced information technology is a top priority in efforts to make the army a modern force. American space analysts argue that access to secure navigation satellite signals is absolutely essential to the PLA realising its aim and that in this sense the EU is playing a critical role in helping the PLA fight its future wars.<sup>491</sup> To back up this argument, American analysts argue that missiles would spearhead the Chinese military strategy for gaining the upper hand over Taiwan.<sup>492</sup>

Europeans have rejected suggestions that China could gain a military advantage from Galileo. EU officials argue that this signal, known as the Public Regulated Service, or PRS, would be withheld from China and any other non-EU participants in the system though the decision regarding China is not official.<sup>493</sup> The PRS is an encrypted signal, meant to guarantee continuous signal access in the event of threats or crisis. Unlike other Galileo signals, the PRS will be accessible even when the other services are not available, making it suitable for security-and military-related uses.<sup>494</sup> Critics believe that the EU would find it extremely difficult to discriminate against a China with increasing economic and political power if Beijing insisted on access to the service. Even if the PRS signal and receiver equipment is off limits to China, some

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<sup>489</sup> Personal consultation with David Shambaugh and John J. Tkacik Jr.

<sup>490</sup> This is the position of the more conservative elements in Washington that advocate a policy of containment towards China. Among them, there are John Mearsheimer and scholars in think tanks such as the PNAC, the Heritage Foundation and the Cato Institute.

<sup>491</sup> Rick Fisher, Vice-President of the Washington-based International Assessment and Strategy Center (IASC), quoted by David Lague in his article: "GPS Substitute for China?", *International Herald Tribune*, Tuesday 19 April 2005.

<sup>492</sup> See: Michael O'Hanlon, "U.S. Military Modernization: Implications for U.S. Policy in Asia", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 41-66, p. 61.

<sup>493</sup> Interview, European Commission, DG TREN, Brussels, 18 December 2005.

<sup>494</sup> Gustav Lindström and Giovanni Gasparini (2003), p. 19.

American critics believe that Chinese technicians with inside knowledge of the technology would find it relatively easy to reverse engineer receivers or gain access to the codes.<sup>495</sup>

EU and Chinese officials recognise that the final content of China cooperation in the joint development of Galileo will follow the overall political evolution of EU-China relations. Hence, there is still a fair amount of unpredictability as to what China will be able to use – or not to use – in the end. However, US analysts of the PLA are worried that research work on Galileo will assist China - in any case - in developing its own, independent satellite navigation system.<sup>496</sup> In fact, as already happened in the past, China will almost certainly be able to use foreign technology to upgrade its indigenous space capabilities.

Currently China, like other countries, has access to the American GPS and the Russian GLONASS. Cooperation in the Galileo project will increase its choice and capabilities. Beijing also operates its own two-satellite *Beidou* system, a less sophisticated system with significant limitations for military applications. These satellites provide the PLA with navigation and location data that can potentially be used to improve ballistic and cruise missile accuracy and to convert dumb bombs into precision-guided munitions. According to Joan Johnson-Freese, an American analyst of China's military, there are indications that the GPS is being incorporated into all of China's new fighters. It is also believed that the GPS is being integrated with commercially available satellite imagery to develop digital terrain maps for targeting, missile guidance, and planning. Moreover, the American scholar point out to the fact that China seems to have prioritised the development of missile early warning systems, navigational satellites and space surveillance.<sup>497</sup> The dual-use nature of many of the technologies concerned leaves no doubts that by inviting Beijing to cooperate in the joint development of Galileo, the EU is contributing to further China's space capabilities.

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<sup>495</sup> Richard North, *Galileo - Implications for the United States*, available at: <http://www.brugesgroup.com/mediacentre/comment.live?article=201>.

<sup>496</sup> Personal consultation with David Shambaugh, Derek Mitchell, John J. Tkacik and Valerie Niquet.

<sup>497</sup> Joan Johnson-Freese, "'Houston, We Have a Problem': China and the Race to Space", in *Current History*, September 2003, pp. 259-265; see also by the same author: *The Chinese Space Program: A Mystery Within a Maze*, Malabar:FL, Krieger Publishing, 1998.

The EU-China cooperation in space technologies is carefully monitored by Washington. David Shambaugh, for instance, has underlined the fact that without access to Western sources of supply “the pace and scope of PLA modernisation would be negatively affected.”<sup>498</sup> With regard to satellite navigation, what worries more the US is that in case of conflict over Taiwan, the US will be able to shut down the GPS features currently utilised by Beijing, while Galileo would continue - in principle - to operate. The potential for Washington to restrict access to commercial satellite imagery or satellite navigation systems during a crisis is an important rationale for China to cooperate in Galileo, as well as to develop its independent capabilities.

The US military makes extensive use of space for intelligence, communications, meteorology and precision targeting. Chinese analysts note that the American army employed more than 50 military-specific satellites plus numerous commercial satellites in the 2003 Iraq war. They also highlight the extensive US reliance on GPS to support precision-guided munitions.<sup>499</sup> The US’ space dependence will deepen as transformation and network-centric warfare increase the importance of rapid collection and dissemination of information down to tactical units and individual soldiers. Satellites also play a crucial role in US missile defences. As US dependence on space increases, concerns have grown about the potential for adversaries to attack US space assets. According to the current Department of Defence (DOD) doctrine:

The United States must be able to protect its space assets ... and deny the use of space assets by its adversaries. Commanders must anticipate hostile actions that attempt to deny friendly forces access to or use of space capabilities.<sup>500</sup>

The report of the 2001 Rumsfeld Commission warns of a potential “space Pearl Harbor” if adversaries attack US satellites.<sup>501</sup> Underpinning these concerns is the possibility that China might target US space assets in a future conflict over Taiwan. Indeed, Chinese strategists view US dependence on space as an asymmetric vulnerability that could be exploited. They argue that for a country that can never win a

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<sup>498</sup> David Shambaugh, “China’s Military Modernization: Making Steady and Surprising Progress”, in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 67-104, p. 98.

<sup>499</sup> Interview, Beijing, 6 May 2005.

<sup>500</sup> United States Department of Defence, *Report of the Commission to Assess United States National Security Space Management and Organization*, (Chairman: Donald H. Rumsfeld), Washington, 11 January 2001, quotation from Chapter 3: US Objectives for Space. Report available at: <http://www.defenselink.mil/pubs/space20010111.html>.

<sup>501</sup> *Ibid.*, Chapter 3.

war with the United States by using the method of tanks and planes, attacking the US space system may be an irresistible and most tempting choice. Chinese strategists have explored ways of limiting Washington's use of space, including anti-satellite (ASAT) weapons, jamming, employing lasers to blind reconnaissance satellites, and even using electro-magnetic pulses produced by a nuclear weapon to destroy satellites.<sup>502</sup>

In sum, the US is worried that China's participation in the research and development of Galileo will boost the PLA's ability to acquire the expertise that allows armed forces to be integrated for today's increasingly digital warfare, in particular the most advanced early-warning systems and recognition satellites that would put China in a position to counter Taiwanese arms systems imported from the US. As such, Washington has put pressure on EU governments with regard to EU-China cooperation on satellite technology and related advanced technology transfers with security-military implications.<sup>503</sup> More generally, the US government is concerned about the development of Galileo as an alternative satellite network to the dominant American GPS, as we will examine in the next section.

## 5.6 Galileo and the GPS

Since 2003, US policy makers have become increasingly concerned about the global coverage and the dual nature of the European navigation system.<sup>504</sup> Galileo will, in fact, facilitate a large portion of its services to outside parties and for uses that were not originally intended. This will have important consequences for American space supremacy as other countries like China, Russia and India participate to the EU-led project. As discussed earlier, however, it is with regard to China's participation in the research, development and deployment of the satellite network that the US is more worried about.

The problem revolves around the fact that Galileo, being a civilian project driven by commercial considerations, will offer users a continued service, without the

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<sup>502</sup> See: Leonard David, "U.S. Defense Report: China Working on Anti-Satellite Systems", in *Space.com*, 27 July 2005; available at: [http://www.space.com/news/050727\\_china\\_military.html](http://www.space.com/news/050727_china_military.html).

<sup>503</sup> Interview, Foreign & Commonwealth Office, 13 April 2006.

<sup>504</sup> See: James Lewis, *Galileo and GPS: From Competition to Cooperation*, Washington, Center for Strategic and International Studies, June 2004, available at: [http://www.csis.org/media/csis/pubs/040601\\_galileo\\_gps\\_competition\\_coop.pdf](http://www.csis.org/media/csis/pubs/040601_galileo_gps_competition_coop.pdf); and Richard North, *Galileo: The Military and Political Dimensions*, The Bruges Group, Paper n. 47, available at: <http://www.brugesgroup.com/mediacentre/index.live?article=221>.



risks inherent in the American GPS of being shut down for national security reasons. The GPS is, in fact, a Pentagon-led project, which can be shut off in case of danger for the security of the US. Since Galileo is marketed as a system which will not stop operating (as it is not intended, primarily, for military uses), the US is preoccupied about the potential misuses of the system by hostile parties. In particular, Washington is concerned that a hostile country – for example, China in case of conflict with the US over Taiwan – may be able to use the encrypted features of the European satellite network without the US being able to interfere with it. Hence, the initial opposition of the US to the Galileo project. However, in the face of the determination by the Europeans to push forward the Galileo project, Washington's stance has shifted to finding a solution that will take into accounts American interests. The US has thus insisted, since the end of 2003, on reaching an agreement with the EU over the interoperability of the two systems in order to protect Washington's global interests and, more specifically, avoid any hostile use of Galileo by China.<sup>505</sup>

American concerns have led to high-level transatlantic discussions during 2004, which resulted in the signature of an agreement between the EU and the US over the interoperability between the European GNESS (Galileo) and the American GPS. At the conclusion of the EU-US summit held in Ireland on 26 June 2004, the United States and the EU agreed on the “promotion, provision and use of the two satellite-based navigation systems and related applications”. Signed by the European Commission Vice-President, Loyola de Palacio, and US Secretary of State, Colin Powell, the agreement is intended to allow each system to work alongside the other without interfering with its counterpart's signals, in order to protect and boost users worldwide. Moreover, the Bush Administration has made sure that Galileo's services will not degrade the navigation warfare capabilities of US and NATO military forces.<sup>506</sup>

National security compatibility criteria have been added to the EU-US agreement of June 2004. In Article 11 it is stated that: “The Parties intend to prevent hostile use of satellite-based navigation and timing services while simultaneously preserving services outside areas of hostilities. To this end, their respective satellite based navigation and timing signals shall comply with the National Security Compliance for GPS and GALILEO Signals in the 1559-1610 Mhz Band, Part 1, Part 2,

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<sup>505</sup> Interview, Council of the EU, Brussels, 18 December 2005.

<sup>506</sup> For more details on the discussions leading up to the EU-US agreement over Galileo, see: <http://www.useu.be/Galileo/Feb2604JointUSEUGalileo.html>.

Part 3”.<sup>507</sup> However, in the annex of the Agreement, it is stated that “access to Part 1, Part 2, Part 3 shall be only by the United States and those Member States that are a party to a General Security of Military Information Agreement (hereinafter ‘GSOMIA’) or a General Security of Information Agreement (hereinafter ‘GSOIA’) with the United States, which shall apply to the access, maintenance, use and release of these classified documents”.<sup>508</sup>

General Security of Military Information Agreement (GSOMIA) negotiations are undertaken by the US government with those countries with whom Washington exchanges classified military information on a continuing basis, and then only when their capability and intent to protect classified military information has been firmly established by the completion of a favourable on-site security survey. The eligibility levels for the negotiation of a GSOMIA are established by the National Disclosure Policy Committee (NDPC), which is designated by the Secretaries of State and Defence as the central inter-agency authority within the executive branch of the US government responsible for the formulation, promulgation, administration, and monitoring of the National Disclosure Policy. The *National Policy and Procedures for the Disclosure of Classified Military Information to Foreign Governments and International Organizations* (short title: *National Disclosure Policy* or *NDP-1*), is a highly classified document.<sup>509</sup> The insertion of this provision clearly indicates that the US views Galileo as a project that carries military and security implications. In this context, Article 13 of the EU-US Agreement establishes a “working group on security issues relating to GPS and Galileo”.<sup>510</sup>

What worries the US is the fact that China – increasingly viewed as a space competitor - might be able to access the encrypted features. Among the non-EU partners in Galileo, China is the only country to which access to the encrypted features has not been officially denied.<sup>511</sup> According to EU officials, this follows from Beijing actively contributing to the research, development and delivery into orbit of the satellite system.

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<sup>507</sup> *Agreement on the promotion, provision and use of Galileo and GPS satellite-based navigation systems and related applications (between the European Community and its Member States, of the one part, and the United States of America of the other part)*, 28 June 2004, Article 11.2; available at [http://europa.eu.int/comm/dgs/energy\\_transport/galileo/documents/doc/2004\\_06\\_21\\_summit\\_2004\\_en.pdf](http://europa.eu.int/comm/dgs/energy_transport/galileo/documents/doc/2004_06_21_summit_2004_en.pdf).

<sup>508</sup> *Ibid.*, Annex of the EU-US Agreement on Galileo-GPS (2004).

<sup>509</sup> For more information see: <http://cryptome.sabotage.org/us-ndp.htm>.

<sup>510</sup> *Ibid.*, EU-US Agreement on Galileo-GPS (2004), Article 13.

<sup>511</sup> Interview, European Commission, DG TREN, Brussels, 18 December 2005.

The more cynical critics add that commercial considerations may also play a role. However, no matter the future content or the level of access accorded to Beijing, the EU has granted China the status of the most important non-EU partner in Galileo, Europe's flagship aerospace program. We will see in the next section the rationale behind it.

### **5.7 Pragmatic engagement: When Europe's commercial interests meet with China's desire to acquire Western technology**

The EU's decision to allow China cooperate in the joint development of Galileo must be seen as the logical extension in the security-strategic dimension of the policy of constructive engagement. As discussed in previous Chapters, since the mid-1990s, the overall goal of this policy has been to promote the fullest possible Chinese involvement in the international arena, whether on economic, social, political, security or military issues. At the same time, we discussed in Chapter 4 that Chinese leaders have considered the development of economic and technological exchanges and cooperation with foreign countries as paramount for fostering China's modernisation and economic development. In this vein, Europe has become, over the years, a source for advanced technology that would otherwise be more difficult (if not impossible) to obtain from the US or Japan. China's access to modern technology is crucial for sustaining the country's economic growth, which is one of the three main historical tasks established by Deng Xiaoping for guaranteeing the legitimacy of the post-Mao CCP leadership.

The idea of science and technology as the key element for increasing national strength dates back to the late 1970s. Deng Xiaoping himself pointed out, in a speech in 1980, of the need to keep up with the latest developments in science and technology, as well as in international exchanges of scientists and information if the primary task of sustaining the country's economic growth was to be achieved.<sup>512</sup> According to scholars, an emerging discourse on science and technology, aptly termed "techno-nationalism", has emerged in China in the last decades. For Christopher Hughes, techno-nationalism "becomes a strategic context within which policy is oriented towards autonomy and independence from other states through policies that can be either state-owned or non-governmental enterprises".<sup>513</sup> For instance, Hughes point out that by the end of the 1990s Jiang Zemin's ideology of the *Three Represents* elevated the scientific and

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<sup>512</sup> For more details see: Christopher R. Hughes, *Chinese Nationalism in the Global Era*, Milton Park, Routledge, 2006, p. 30.

<sup>513</sup> *Ibid.*, p. 34.

technological personnel to the status of a revolutionary vanguard leading the nation to wealth and power.<sup>514</sup> This explicit form of Chinese techno-nationalism represented the growing realisation that China's economic development increasingly depended on access to international investments, know-how, and advanced technology.

In its blueprint for the medium-to long-term social and economic development, the Chinese government singled out science and technology as the “primary production forces”.<sup>515</sup> The necessity to narrow the gap between China and the world's advanced science and technology level figures among its main tasks. Over the last years, Beijing has undertaken significant efforts to improve its own Research and Development (R&D) capacities, for example, through science and technology research programs aiming at the promotion of key technologies.

Since the beginning of the reform period, China has launched five major science and technology programs. The first one was the *Key Technologies R&D Program* initiated in 1982 to serve China's industrial development by concentrating resources on technologies that were felt urgently needed in order to upgrade the industrial sector and foster economic growth. The following was the *Spark Program* in 1986, which aimed at developing the rural economy through science and technology and to initiate technological changes in village and town enterprises (VTE). In March 1986 a report on *Suggestions on Tracing the Development of World Strategic High-Technology* was submitted to the State Council and Deng Xiaoping. This report became the platform for the *High-Tech Research Development Program* (known as 863). The main mission of the 863 Program was to monitor the international developments in advanced technologies and submit suitable proposal to Chinese authorities. Moreover, the 863 aimed at reducing the gap between China and the developed countries (the so-called “first world” in the Maoist jargon) in several important fields, as well as, achieving breakthroughs in sectors where China held a comparative advantage. The 863 program coincided in time with initiatives in Japan and the EUREKA program in Europe, which were introduced in response to the Strategic Defence Initiative (SDI - Star Wars) in the US.<sup>516</sup>

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<sup>514</sup> Ibid., p. 34.

<sup>515</sup> *Report on the Outline of the Tenth Five-Year Plan for National Economic and Social Development*, delivered by Zhu Rongji, Premier of the State Council, at the Fourth Session of the Ninth National People's Congress, 5 March 2001. See: <http://english.people.com.cn/features/lianghui/zhureport.html>.

<sup>516</sup> For more details on the High-Tech Research and Development Program of China (known as 863 Program), see: <http://www.863.org.cn/english/index.html>.

In 1988 the Chinese government launched the *Torch Program*<sup>517</sup> with the specific objective of developing new-technology industries in China and in 1997 the *National Basic Research Program of China* (known as the 973 Program) was launched. The 973 overall objective was to establish a number of scientific projects that would boost China's long-term economic development.<sup>518</sup> Finally, in 2004 the Chinese government adopted the *2020 Science and Technology Plan*, with the aim to provide an overall framework for the above mentioned programs and foster Western technology transfers.

Advanced technology transfers from developed countries, through foreign investments, is considered by Beijing an important tool to upgrade China's technology base and to increase the technology content of its export products in order to sustain global competitiveness over the longer term. In this context, China's state industrial policy actively encourages the transfer of foreign technology. Since the mid-1990s, these objectives are reflected in the *Guidelines for Foreign Investment*.<sup>519</sup> Transfer arrangements have become a regular feature of Joint Venture (JV) contracts, although the conditions required do not always satisfy Western partners. Approval procedures, subject to strict government scrutiny, are cumbersome and the respect of confidentiality of business secrets is doubtful. Access to China's attractive market is often used as leverage to push foreign partners to provide their technology on terms that most Western companies would not be ready to accept anywhere else.<sup>520</sup> Likewise, contract for larger JVs require, on an increasing scale, that the Western company should contribute to the establishment of cooperative R&D departments, if not transfer some production-lines altogether. It was remarkable in this context the case of the French company Areva in March 2006, the world's top nuclear constructor. The Chinese authorities have overtly exerted pressures in order to extract better terms of technology transfers. Since Areva refused, the Chinese have been reluctant (so far) to grant the long-coveted contract to the French company.

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<sup>517</sup> For more details on the Torch Program see: <http://www.chinatorch.gov.cn/eng/other/MainContents.htm>.

<sup>518</sup> For more details on the National Basic Research Program of China (known as the 973 Program) See: <http://www.973.gov.cn/English/Index.aspx>.

<sup>519</sup> Since 1995, the *Guidelines for Foreign Investment* are explicitly aiming at the transfer of technology through FDI in sectors like energy, agriculture, transportation, infrastructure and other basic industries. In recent years, the emphasis is more and more on advanced technology and defence-related industries such as aerospace.

<sup>520</sup> Interview, Europe-China Chamber of Commerce, Beijing, 26 September 2004.

The European Commission has taken an active role in enhancing EU-China scientific and technological (S&T) cooperation by allocating a significant amount of funds as part of its framework program for research (EUREKA). The level of cooperation under this program has increased since a bilateral S&T agreement entered into force in 1999 and programs have been established to link research organisations, industry, universities and individual researchers in specific projects supported by the EU budget. A joint EU-China office for the promotion of research cooperation was established in June 2001 in Beijing, to help Chinese scientists access the European S&T Framework Program. At the same time, an agreement was reached on the specific S&T cooperation priorities for the coming years, namely biotechnology, environment, information technology and nanotechnologies.<sup>521</sup>

As discussed in Chapter 4, the EU has important economic (closely linked to political and strategic) interests in a sustainable development in China. It can, therefore, be argued that transferring technology and know-how at low cost in areas crucial to a sustainable growth is in the EU's very interest. On the other hand, the EU has obviously also an economic interest in exploiting its competitive edge and selling advanced European technology at market prices to China – though the inadequate enforcement of International Property Rights (IPR) legislation remains an important hurdle. In this lies also a substantial long-term interest for Europe for, in increasingly globalised markets, Europe's competitiveness is likely to depend on its capacity to maintain and develop its comparative advantage on high-technology goods.

Transferring latest technology and R&D capacity as actively encouraged - and increasingly required - by China's policy of technological upgrading could, in the longer term, undermine the EU's (relative) global competitive position. It seems that in the face of the fierce global competition for the Chinese market the Europeans have bowed to the insisting requests from Beijing that companies and governments should contribute to the establishment of cooperative R&D departments - such as the Sino-European satellite navigation training and cooperation centre opened in Beijing in February 2003 - if not transfer some production-lines altogether. Airbus, for instance, has increasingly offered China projects that will, over time, make Chinese producers critical suppliers of components and sub-assemblies for some of the most important

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<sup>521</sup> Interview, European Commission delegation in Beijing, 27 September 2004.

Airbus products.<sup>522</sup> These agreements have also allowed European consortia such as Eurocopter, which is itself a first-tier supplier of Airbus, to work more closely with Chinese partners such as the Shenyang Aircraft Corporation (which is a partner to Airbus).

Washington is worried about the prospect of China becoming a technological superpower also thanks to European advanced technology transfers to Beijing.<sup>523</sup> This is not without fundament. Indeed, the process of achieving rapid technological progress and reaching the status of a technological superpower has been the substance of China's *2020 Science and Technology Plan*.<sup>524</sup> The 2020 Plan covers altogether twenty different but also closely related features. Manufacturing is one of them for which the Chinese Academy of Engineering (CAE) has been given the mandate of coordinating views on China's future course in industrial development. Basic research is the responsibility of the Chinese Academy of Sciences (CAS), while the State Defence and Technology Commission focuses on China's future in military technology. The National Research Centre for Science and Technology Development (NRCSTD) is entrusted with the task of coordinating the various scientific institutions in order to reach its ambitious goal by 2020.

In 2004, China's expenditure in science and technology accounted for 1.23% of GDP. In the Outline of the 11<sup>th</sup> Five-Year Plan for China's National Economic and Social Development approved in March 2006 by the National People's Congress, it is stated that Beijing will launch a number of major S&T projects, especially in ICTs, life sciences and space technologies. Moreover, the State Council has recently published an Outline of the National Program for long-and medium- term development of S&T, indicating that the country's expenditure on S&T would account for 2.5% of GDP by 2020 and that annual R&D would be US\$ 111 billion – similar in percentage to the other developed countries.<sup>525</sup>

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<sup>522</sup> Claude Fouquet, *La France engrange 9 milliard d'euros de contracts avec la Chine*, Les Echos, Tuesday 6 December 2005, p. 6.

<sup>523</sup> Jon Sigurdson, *China Becoming a Technological Superpower – A Narrow Window of Opportunity*, Singapore, East Asian Institute, Working Paper No. 194, June 2004, available at: <http://swopec.hhs.se/eijswp/papers/eijswp0194.pdf>

<sup>524</sup> See: [http://www.chinadaily.com.cn/english/doc/2006-02/09/content\\_518645.htm](http://www.chinadaily.com.cn/english/doc/2006-02/09/content_518645.htm).

<sup>525</sup> Data from the paper presented by prof. Yang Yang of the Chinese Academy of Social Sciences at the international conference on *The International Politics of EU-China Relations*, held at the British Academy in London on 20-21 April 2006.

As discussed earlier, cooperation with the EU on S&T is viewed in Beijing as highly strategic. Both China and the EU have agreed to open their research programs to accommodate the increasing number of joint research projects. More and more Chinese are invited to participate in the EU-funded 7<sup>th</sup> Framework Program for Research, Technology Development and Demonstration Activities (RTD) for the period 2007-2013 and China is attracting Europeans into projects under the 863 and 973 programs.<sup>526</sup> Access to advanced technology not only ensures competitiveness over the medium to longer term, but it is also a prerequisite for the modernisation of the Chinese industry - and army. In the next chapter, we will discuss these issues further by analysing the arms embargo issue, as well as European arms and dual-use goods exports to China.

## **Conclusion**

This chapter has discussed the main themes that have characterised the development of the strategic partnership between the EU and China. Central to this new discourse is the idea that relations between the two sides have gained momentum and acquired a new strategic significance. The declaration of strategic partnership in October 2003 was accompanied by two substantial moves: the signature of the agreement allowing China to participate in the Galileo global navigation satellite system and the promise by EU policy makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo on China. This Chapter has focused on China's participation in the Galileo project and the related issue of European advanced technology transfers to China.

The central political question with regard to China's participation in Galileo is the access to the encrypted signals. Beijing has not been officially denied access to these encrypted signals since Beijing is taking part to the development of the applications of the satellite network. EU officials have stressed that a "security firewall" will be put in place though they recognise that Galileo is part of the development of a security-strategic linkage with China and that as such the final content and mechanism of China's participation in Galileo will be determined by the overall evolution of EU-China political relations.

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<sup>526</sup> For more details see: [http://europa.eu.int/comm/external\\_relations/china/intro/st.pdf](http://europa.eu.int/comm/external_relations/china/intro/st.pdf).



This chapter has also highlighted the divergent approaches between the EU and the US towards (i) China's rise and (ii) the use of space. With regard to the former, as discussed earlier Galileo must be seen as the logical extension in the security-strategic dimension of the policy of constructive engagement that has characterised EU foreign policy towards China since the mid-1990s. Europe's (and the US') response to China's rise has been to engage with Beijing in order to exploit the opportunities offered by its seemingly limitless market opportunities. But contrary to Washington, Europe does not perceive Beijing as a military threat or as a potential peer (security-strategic) competitor. In the same vein, Galileo reflects the different conception between the EU and the US regarding the use of space. In essence, Washington places an emphasis on space power and control, while Europe stresses that the space should be used peacefully. Thus, while the US concentrates on leveraging the space to provide America and its allies an asymmetric military advantage, the Union is more concerned in creating useful – i.e. commercial – space applications for European peoples and industries. For Europeans the EU-China cooperation on space-based technologies is meant to boost commercial activities while the US looks at space from a different angle, i.e. the protection of its global interests and primacy in world affairs. We will discuss this question further in the next Chapter, which is devoted to the analysis of the arms embargo issue and the different approaches of the US and the EU towards East Asia's strategic balance.

To sum up, the Galileo project – like other pan-European aerospace programs – is part of the development of a strong and independent European aerospace sector. Strategically, France is the EU member state which has promoted more strongly European autonomy. In this sense, Galileo is part of France's efforts at challenging the existing configuration of power in the international system. With regard to China's participation in Galileo, it appears that France's strategic and commercial interests to include Beijing as a partner in the development of the European satellite system has been Europeanised. Paris has, in fact, succeeded in influencing the other EU space powers - Germany, Italy and Spain -to establish a security-strategic linkage with Beijing over the use of space. France – along with the Schröder government (1997-2005) – has also been the strongest advocate of the lifting of the EU arms embargo on China, as we will discuss in the next Chapter.

## Chapter 6

### Strategic partnership II: The arms embargo issue and East Asia's strategic balance

China and the EU will maintain high-level military-to-military exchanges, develop and improve, step by step, a strategic security consultation mechanism, exchange more missions of military experts, and expand exchanges in respect of military officers' training and defense studies...The EU should lift its ban on arms sales to China at an early date so as to remove barriers to greater bilateral cooperation on defense industry and technologies.

Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, October 2003<sup>527</sup>

Il faut assumer les responsabilités. L'embargo actuel n'a aucune justification et d'ailleurs aucune conséquence. C'est une mesure de circonstance qui est purement et simplement hostile à l'égard de la Chine. Je vous rappelle que la Corée du Nord n'est pas soumise à l'embargo de l'Union européenne, c'est vous dire si nous sommes là dans une situation qui n'a aucune justification, ni fondement. C'est la raison pour laquelle la France, comme d'ailleurs la plupart des pays de l'Union européenne sont favorables à la levée de cet embargo que rien ne justifie aujourd'hui. Je pense que cet embargo sera levé dans les mois qui viennent, en tous les cas, je le souhaite.

Jacques Chirac, French President, Beijing, 9 October 2004.<sup>528</sup>

#### Introduction

This chapter examines the other key issue of the EU-China strategic partnership : the proposal to lift the EU arms embargo on China. The lifting was officially tabled by France and Germany in Fall 2003, at a particular propitious time for EU-China relations. In October 2003 the EU and China signed the agreement on the joint development of the Galileo satellite system and in the previous month the European Commission had released its last policy paper on China. At the sixth EU-China summit held in Beijing on 30 October 2003 the EU and China established a strategic partnership, only a few days after Beijing had published its policy paper on the EU. At the time, the international

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<sup>527</sup> Chinese Ministry of Foreign Affairs, *China's EU Policy Paper* (Title V), Beijing, October 2003.

<sup>528</sup> Speech by Jacques Chirac during his state visit to China in October 2004; available at [http://www.elysee.fr/elysee/elysee.fr/francais/interventions/conferences\\_et\\_points\\_de\\_presse/2004/octobre/conference\\_de\\_presse\\_conjointe\\_de\\_m\\_jacques\\_chirac\\_president\\_de\\_la\\_republique\\_et\\_m\\_hu\\_jintao\\_president\\_de\\_la\\_republique\\_populaire\\_de\\_chine.22770.html](http://www.elysee.fr/elysee/elysee.fr/francais/interventions/conferences_et_points_de_presse/2004/octobre/conference_de_presse_conjointe_de_m_jacques_chirac_president_de_la_republique_et_m_hu_jintao_president_de_la_republique_populaire_de_chine.22770.html).

press dubbed EU-China relations as a “love affair”.<sup>529</sup> With Galileo, the growing economic relationship started to include a security-strategic linkage, in a situation of total absence of issues that could provoke a conflict between the two sides. The proposal to lift the arms embargo was intended to give further meaning and content to this newly established strategic partnership. China’s participation in the Galileo satellite system and the proposal to lift the arms embargo are two interconnected issues, part of the same rationale that, in the previous Chapter, we summarised as follows: if China is considered by the EU a strategic partner reliable enough to cooperate in the development of Europe’s main space project, why then maintain an arms embargo imposed during the Cold War which, in the words of the advocates of the lifting, “does not correspond anymore to the political realities of the contemporary world”?<sup>530</sup> In sum, the arms embargo issue and China’s participation in the Galileo project are interconnected and must be seen as the logical extension in the security-strategic dimension of the EU’s policy of constructive engagement towards Beijing.

The first part of this chapter examines the debate surrounding the proposal to lift the arms embargo, with particular emphasis on the positions of the individual EU member states. The key question of the lifting revolves around the adoption of a revised EU Code of Conduct (CoC), which is meant to set in place checks and monitor European arms sales to China. Hence, the second part of this chapter analyses the current provisions of the EU Code of Conduct and the European defence sector. In the last part, this chapter will discuss the international politics of the arms embargo issue, focusing on the US’s opposition to the lifting and the consequences of an eventual lifting for East Asia’s strategic balance.

### **6.1 The debate on the arms embargo**

The arms embargo issue is currently postponed due to: (i) strong US opposition; (ii) China’s failure to provide clear and specific evidence on the improvement of its human rights record; and (iii) the passing of the anti-secession law by China’s National People’s Congress (NPC) in March 2005, clearly aimed at Taiwan. For the purposes of this research it is important to recall the main themes that have been raised for - and

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<sup>529</sup> David Murphy and Shada Islam, *China’s Love Affair With Europe*, Far Eastern Economic Review, 12 February 2004, pp. 26-29.

<sup>530</sup> These were the words used by Jacques Chirac, President of France, in October 2004 to justify the proposed lifting of the arms embargo.

against - the lifting (as the issue is still, in theory, on the EU agenda) The lifting of the arms embargo was first officially proposed by France and Germany at the European Council of Brussels in December 2003. In that occasion, all EU member states agreed, in principle, to initiate discussions on the issue.<sup>531</sup> The advocates of an end to the arms embargo base their case on a number of reasons. First of all, they claim, China has changed. Since the 1989 Tiananmen Square crackdown on students, Beijing has significantly reformed its system of government and its economy, as well as moderated its aggressive tendencies in Asia. For this, a reward should be made. French President Jacques Chirac, in particular, has led this position dubbing the arms embargo as “outdated”. In January 2004, Chirac stated that “the ban no longer corresponds to the political reality of the contemporary world and therefore makes no sense today”.<sup>532</sup> German Chancellor Gerhard Schröder, during a state visit to China in December 2003, had declared that the embargo should be lifted.<sup>533</sup> By the end of 2003, both Prime Minister Silvio Berlusconi and the Spanish Prime Minister had joined the same position (i.e. France, Germany, Italy and Spain: the EADS countries). By May 2004, the UK, Finland and the Netherlands joined the camp of the supporters of the lifting.<sup>534</sup> Sweden’s and Denmark’s situation were the most complex. None of the two wanted to break EU consensus but at the same time their parliaments opposed the lifting. To note that especially Sweden has a rather active Taiwan lobby in parliament.<sup>535</sup>

Notwithstanding the nuances, by the mid-2004 it appeared that all EU governments had agreed to start discussions on the procedures and criteria for lifting the arms embargo. The Franco-German proposal had been Europeanised, in the sense that it had succeeded in influencing the other EU members. Moreover, once the decision to start discussions on the lifting has been taken within the CFSP framework, Annalisa Giannella, the Personal Representative on Non-proliferation of Weapons of Mass Destruction to Solana travelled to the United States, Japan, Australia and to the other

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<sup>531</sup> See Presidency Conclusions of the European Council, Brussels, 12 December 2003, available at: <http://www.dt.tesoro.it/Aree-Docum/Relazioni-/Unione-Eur/Documenti-1/Presidency1/Presidency-Conclusion.pdf>. Point 72 (p. 19) of the Presidency Conclusions states that: “The European Council invites the General Affairs and External Relations Council to re-examine the question of the embargo on the sale of arms to China”.

<sup>532</sup> “Chirac renews call for end of EU arms embargo on China”, *Agence France-Presse*, 27 January 2004.

<sup>533</sup> “Schröder Backs Sales to China of EU Weapons”, *Wall Street Journal*, 2 December 2003.

<sup>534</sup> James Kirkup, “Blair’s Backing for China Trade Angers Activists”, *The Scotsman*, May 11, 2004, available at: <http://news.scotsman.com/archive.cfm?id=536302004>.

<sup>535</sup> Personal consultation with Gustav Lindström, Research Fellow at the EU Institute for Security Studies, Paris, 25 October 2005.

concerned Asian partners of the EU, to explain why the Europeans were considering lifting the EU arms embargo on China.

The official position of the Council in favour of the lifting is based on the argument that the EU Code of Conduct on arms sales and normal national arms export policies and controls will still apply, thereby preventing abuses when it comes to exporting arms to China.<sup>536</sup> Moreover, EU officials say that by treating China as a respected interlocutor, they can encourage its peaceful integration into the international community. They even argue that European weapons are too expensive and that China has frequently declared that it has no intention of buying weapons from Europe.<sup>537</sup> Thus, the end of the embargo would principally serve to show that the EU does not discriminate against Beijing but treats it on a par with nations such as Russia.<sup>538</sup>

However, the Nordic countries led by Denmark and Sweden though accepting in principle to discuss the lifting, have repeatedly voiced their criticism with regard to China's failure to provide clear and specific evidence on the improvement of its human rights record. Chris Patten explained the position of the more principled countries by stating that "more assurances from Beijing on human rights would make it easier for EU governments to explain any decision to lift the embargo".<sup>539</sup>

Also the European Parliament and some national Parliaments have intervened in the debate for opposing the lifting. On 28 October 2003, the German Parliament, including the vast majority of Chancellor Gerhard Schröder's own Social Democrats and virtually all of Foreign Minister Joschka Fischer's Greens, passed a resolution opposing Berlin's attempts to lift the embargo. On 19 November 2003, the European Parliament passed a similar resolution with 572 votes against 72. And on 11 March 2004, leaders of the four German political parties representing Germany in the European Parliament sent an open letter to Chancellor Schröder urging him to abandon his support for the lifting. In the 2005 Annual Report on the CFSP, with 431 votes in

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<sup>536</sup> Personal consultation with Annalisa Giannella.

<sup>537</sup> Interview with Henriette Geiger, European Commission, China desk, Brussels, 10 July 2004.

<sup>538</sup> Chinese officials stress the fact that the only other countries with which the EU has maintained an arms embargo are Zimbabwe, Sudan and Myanmar. Interview with Yang Hua, Deputy Director, Department of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, 22 September 2004.

<sup>539</sup> Chris Patten, *Lifting of the Arms Embargo on China: the Rueda Report on Arms Exports*, speech by Chris Patten, European Commissioner for External Relations to the European Parliament, Strasbourg, 16 November 2004; available at: [http://www.defense-aerospace.com/cgi-bin/client/modele.pl?prod=48947&session=dae.20435556.1146516274.RFZzMsOa9dUAACISgns&modele=jdc\\_1](http://www.defense-aerospace.com/cgi-bin/client/modele.pl?prod=48947&session=dae.20435556.1146516274.RFZzMsOa9dUAACISgns&modele=jdc_1).

favour and 85 against, the European Parliament urged again the Council not to lift the arms embargo. In the Report, the MEPs “call on the Council not to lift the arms embargo until greater progress is made in the field of human rights and arms exports controls in China and on Cross-Straits relations”.<sup>540</sup>

Human rights concerns are not the only argument used by the opponents to the lifting of the embargo. From a merely military and security point of view, once the embargo is lifted, China would be able to acquire weapons systems – especially advanced early warning capabilities as well as surface-to-air and air-to-air missile systems - from Europe that could affect the military balance across the Taiwan Strait in Beijing’s favour.

In this context, it is important to recall that French and British military exchanges and joint manoeuvres with the PLA took place in 2004, during the debate on the proposed lifting of the arms embargo. Joint manoeuvres are an important component of cooperation in military and security matters. Yet, they are also about the display of the latest military equipments and technology. More precisely, France and China held joint military exercises in the South China Sea in March 2004 (just before the presidential elections in Taiwan), the first ever naval manoeuvres between China and a Western country.<sup>541</sup> Following France, in June 2004 the UK held joint maritime search-and-rescue exercises with the PLA.<sup>542</sup>

Since the beginning of 2004, Washington has stepped up pressure on the EU (and some key member states such as the UK).<sup>543</sup> More specifically, the US government has voiced threats of retaliation in EU-US industrial and defence cooperation in case the arms embargo is lifted. The US bases its opposition to the lifting of the arms embargo

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<sup>540</sup> European parliament, *Report on the Common Foreign and Security Policy* (Brok’s Report, 28 November, 2005) discussed and adopted by the European Parliament on 2 February 2006. Quotation from point 34. Report available at:

[http://www.europarl.eu.int/registre/presse/debat\\_du\\_jour\\_daily\\_notebook/2005/en/par/DG-INFO\\_DN\(2005\)04-14\(PAR004\)\\_EN.doc](http://www.europarl.eu.int/registre/presse/debat_du_jour_daily_notebook/2005/en/par/DG-INFO_DN(2005)04-14(PAR004)_EN.doc).

<sup>541</sup> France and China have established a strategic dialogue and held annual consultations on defence and security matters since 1997, complemented by the training of Chinese military officers. Interview with Marc Abensour, Deputy Director for the Far East, French Ministry of Foreign Affairs, Paris, 7 July 2004.

<sup>542</sup> The UK has, since 2003, started an annual strategic security dialogue with the PRC and has also been training PLA officers. Interview, Foreign & Commonwealth Office, London, 13 April 2006. For more details see: May-Britt Stumbaum, “Engaging China - Uniting Europe? European Union Foreign Policy towards China”, in Nicola Casarini and Costanza Müsu (eds.), *European Foreign Policy in an Evolving International System: The Road Towards Convergence*, Basingstoke, Palgrave, 2006.

<sup>543</sup> Interview, Ian Seckington, First Secretary (Political), British Embassy in China, Beijing, 21 September 2004.

on the following reasons: (i) The ban was originally imposed because of concerns over human rights, and the human rights situation in China has not improved to the point where it merits lifting the ban; (ii) The US has concerns about EU export controls and the ability to protect sensitive technology from being transferred to China; (iii) The US has obligations and interests in maintaining a balance between Taiwan and China and ensuring that Taiwan can defend itself.<sup>544</sup>

In response to US criticism, EU officials have asserted that the lifting of the arms embargo would be mainly a “symbolic gesture”. In other words, the lifting would be a political act that does not suggest that the EU member states seek to sell arms or defence technologies (which the embargo also covers) to China. EU members have clarified that the lifting is not meant to change the current strategic balance in East Asia. In this context, EU members have been asked not to increase arms exports to China “neither in quantitative nor qualitative terms”. In the Presidency Conclusions of the European Council held in Brussels on 16-17 December 2004, the EU member states stated that:

The European Council reaffirms the political will to continue to work towards lifting the arms embargo. It invited the next Presidency to finalise the well-advanced work in order to allow for a decision. It underlined that the result of any decision should not be an increase of arms exports from EU Member States to China, neither in quantitative nor qualitative terms. In this regard the European Council recalled the importance of the criteria of the Code of Conduct on arms exports, in particular criteria regarding human rights, stability and security in the region and the national security of friendly and allied countries. The European Council also stressed the importance in this context of the early adoption of the revised Code of Conduct and the new instrument on measures pertaining to arms exports to post-embargo countries (“Toolbox”).<sup>545</sup>

With regard to the last sentence, EU officials have repeatedly stressed that a revised Code of Conduct will be put in place.<sup>546</sup> This new Code of Conduct will amend the one adopted in 1998 and establish criteria for EU arms sales worldwide. While discussions are still underway with regard to the new Code of Conduct, we will now examine the existing provisions.

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<sup>544</sup> Richard Lawless and Randy Schriver, *Administration Views on US-China-Taiwan Relations*, testimony before the US China Economic and Security Review Commission, 6 February 2004, available at: [www.fnsg.com](http://www.fnsg.com)

<sup>545</sup> European Council, *Presidency Conclusions*, Brussels, 16/17 December 2004.

<sup>546</sup> Annalisa Giannella (Personal Representative for Weapons of Mass Destruction, Council of the European Union – High Representative), paper presented at the International Conference on *China's Challenge to Europe and the US* organised by the Aspen Institute (Italy) in Rome on 11 March 2005.

## 6.2 European arms export control policies and the EU Code of Conduct

The EU ban on arms sales to China was adopted by the European Council on 27 June 1989. The embargo took the form of a European Council Declaration since in 1989 the Treaty did not provide the possibility for the adoption of a legal instrument in this field.<sup>547</sup> Due to the nature of the declaration, the scope of the embargo was not clearly defined. Thus, different EU member states have interpreted the embargo on arms sales to China in different ways. In addition, the arms embargo on China does not cover a large proportion of sensitive items, which are, on the contrary, covered by the Dual Use Regulation.<sup>548</sup> The latter is a legally binding instrument directly applicable in EU member states. It sets out all the requirements which need to be met and the procedures to be followed for the granting of an export license.<sup>549</sup>

In the years following the adoption of the embargo, EU member states' arms export control policies have continued to converge as illustrated by the adoption of common criteria to be applied to arms exports in 1991 and 1993 and by the subsequent adoption, in 1998, of the EU Code of Conduct on Arms Exports. The Code of Conduct lays down eight criteria against which member states assess applications to export military equipment. Among the criteria set out in the Code, several take into account concerns expressed by some partners of the EU, especially the US. For instance, respect of human rights in the country of final destination (Criterion Two), preservation of regional peace, security and stability (Criterion Four), national security of the member states and of territories whose external relations are the responsibility of a member state, as well as that of friendly and allied countries (Criterion Five), existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions (Criterion Seven), and compatibility of the arms exports with the technical and economic capacity of the recipient country (Criterion Eight).<sup>550</sup>

In addition, the operative provisions of the Code require, inter alia, that: (i) as appropriate, EU member states should assess, through the CFSP framework, the

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<sup>547</sup> European Council Declaration on China: Madrid, 26-27 June 1989, available at: [http://europa.eu.int/comm/external\\_relations/cfsp/sanctions/measures.htm#1](http://europa.eu.int/comm/external_relations/cfsp/sanctions/measures.htm#1)

<sup>548</sup> Council Regulation (EC) No. 1334/2000 of 22 June 2000 setting up an European Community regime for the control of exports of dual-use items and technology, available at: [http://europa.eu.int/eur-lex/pri/en/oj/dat/2000/l\\_159/l\\_15920000630en00010215.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2000/l_159/l_15920000630en00010215.pdf).

<sup>549</sup> See: Alberto Traballese (ed.), *Controlling the Transfer of Military Equipment and Technologies in Italy*, Rome, Center for High Defence Studies, December 2004.

<sup>550</sup> Council of the European Union, *EU Code of Conduct on Arms Exports*, Brussels, 8 June 1998, available at: [http://www.europaworld.org/DEVPOLAWAR/Eng/Conflict/Conflict\\_DocA\\_eng.htm](http://www.europaworld.org/DEVPOLAWAR/Eng/Conflict/Conflict_DocA_eng.htm)



situation of potential or actual recipients of arms exports from EU member states; (ii) EU member states should circulate between themselves details of licences refused in accordance with the Code of Conduct, with explanations of why the licences have been refused; (iii) an annual EU report on arms exports by member states, containing statistical annexes, should be published.

The statistical annexes have become more and more detailed since the first EU annual report in 1999, so that they now contain figures on the number and value of licences granted per destination with some member states supplying details broken down per military list category. The statistical annexes also contain figures for the number of denials issued, and the criteria on which such denials are based.<sup>551</sup> On 25 April 2005, in accordance with Operative Provision 5 of the Code of Conduct, the Council adopted a new version of the Common Military List of the EU.<sup>552</sup> In October 2005, in a further move, the EU member states adopted a *User's Guide to the EU Code of Conduct on Arms Exports*, with the aim to help member states (in particular, export licensing officials) apply the Code of Conduct.<sup>553</sup>

According to EU officials, the above provisions are aimed at ensuring mutual political control among member states as well as transparency and accountability.<sup>554</sup> However, a report by the European Parliament released in October 2004 points out that, in the past, both the embargo and the EU Code of Conduct have been varyingly and erratically applied by EU member states.<sup>555</sup> In addition, the Council in its *Sixth Annual Report of the EU Code of Conduct on Arms Exports* declares that a number of EU member states have partially sidestepped the embargo by supplying China with components for military equipment, particularly engines for aircraft, frigates and submarines. The report shows that the value of licenses for arms exports to China

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<sup>551</sup> *Sixth Annual Report According to Operative Provision 8 of the European Union Code of Conduct on Arms Exports* (2004/C 316/01), Brussels, 12 December 2004. See: [http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2004/c\\_316/c\\_31620041221en00010215.pdf](http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2004/c_316/c_31620041221en00010215.pdf)

<sup>552</sup> Available at: [http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2005/c\\_127/c\\_12720050525en00010027.pdf](http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/oj/2005/c_127/c_12720050525en00010027.pdf)

<sup>553</sup> Council of the European Union, *User's Guide to the EU Code of Conduct on Arms Exports*, Brussels, 14 October 2005, 13296/05, PESC 853, COARM 43. See, in particular, the list of Internet addresses for national reports on arms exports, p. 33.

<sup>554</sup> Interview, Council of the European Union, Brussels, 18 November 2005.

<sup>555</sup> *Report on the Council's Fifth Annual Report According to Operative Provision 8 of the European Union Code of Conduct on Arms Exports*, A6-0022/2004, Rapporteur: Raül Romeva Rueda, European Parliament Committee on Foreign Affairs, October 19, 2004, available at: <http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//NONSGML+REPORT+A6-2004-0022+0+DOC+PDF+V0//EN&L=EN&LEVEL=3&NAV=S&LSTDOC=Y>

increased from €54 million in 2001 to €210 million in 2002 and €416 million in 2003. France, Italy and the UK, Europe's main arms manufacturers, accounted for almost all of the sales.<sup>556</sup>

In its *2005 Annual Report*, the Council states that in 2004 EU member states exported military equipment worth more than €340 million to China, significantly less than in 2003. Among the EU-25, eight member states concluded a total of 202 deals for transferring military equipment to China. France accounted for the largest share, signing 123 contracts worth €169 million in total, followed by the UK (38 contracts, €148 million), and the Czech Republic (7 contracts, €19 million).<sup>557</sup> Thus, notwithstanding the embargo, some EU governments – and their arms manufacturers – have been able to circumvent it by selling components for arms or dual-use goods (with both military and civilian applications).<sup>558</sup> It is therefore to the analysis of Europe's defence industry that we will now move.

### 6.3 The European defence sector

EU arms producers are very keen on entering into the promising Chinese market. For Europe's defence sector, China – and indeed, the whole of East Asia – is just another market. It is, in fact, a very critical market for a European defence industry that increasingly depends on exports for the bulk of its revenues. BAE Systems, the British arm manufacturer, for example, typically does 70% of its business outside the United Kingdom, as does Thales of France. Overseas sales comprise nearly half of the Swedish defence company Saab's revenues, while EADS is also heavily dependent upon exports.<sup>559</sup> Furthermore, the European defence industry suffers much more from the embargo than do US arms producers, who have the benefit of a domestic defence market four times larger than all of Europe combined. In addition, US defence firms regularly capture around half of a \$40 billion-a-year business in international arms exports.<sup>560</sup>

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<sup>556</sup> Council of the European Union, *Sixth Annual Report of the EU Code of Conduct on Arms Exports*, Brussels, November 2004, available at: <http://www.sipri.org/contents/expcon/codereport6.pdf>

<sup>557</sup> Council of the European Union, *Seventh Annual Report of the EU Code of Conduct on Arms Exports*, Brussels, December 2005.

<sup>558</sup> See: David Cronin, "EU military exports to China continue despite arms embargo", in *European Voice*, 8-14 December 2005, p. 4.

<sup>559</sup> See: *EADS In-depth Report*, 14 October 2005.

<sup>560</sup> See: The International Institute for Strategic Studies (IISS), *The Military Balance 2004/2005*, Oxford, Oxford University Press, 2004.

Putting an end to the arms embargo is, however, unlikely to result in Beijing buying more European weapons. European defence firms cannot hope to compete with Russia's prices or technology-transfer arrangements, nor with the fact that Russian weapons are simply a better fit for a Chinese army based on Soviet design and technology. More likely, European arms producers would mainly provide the PLA with competing bids in order to extract better deals from Moscow.<sup>561</sup> Nevertheless, Europe might be able to sell components or subsystems that could greatly contribute to the modernisation of the PLA and fill critical technology gaps, particularly in such areas as command and control, communications, or sensors.<sup>562</sup> In sum, EU arms producers will profit from the lifting of the arms embargo, since it would open the way to arms sales from China's procurement budget, the second fastest growing in the world after the US.<sup>563</sup>

The lifting of the arms embargo would also allow EU defence companies to sell to Beijing weapons systems which utilise satellite positioning and targeting. For instance, EADS is directly connected with the manufacture of those weapons systems that can be guided in space by satellites. We discussed before that the EADS group is Galileo's largest industrial partner. The EADS group includes, *inter alia*, Airbus (the aircraft manufacturer) Eurocopter (the world's largest helicopter suppliers), and MBDA, the world's second largest missile producer.<sup>564</sup> EADS is also a major partner in the Eurofighter consortium as well as the prime contractor for Ariane, the launcher that will deliver the Galileo satellites into orbit. As discussed in Chapter 5, the EADS countries (France, Germany, Spain and Italy) have keenly supported the lifting of the arms embargo, as well as China's participation in the Galileo project. The same EU members have pushed more strongly in favour of a policy of constructive engagement towards China and, at the same time, watered down the more principled positions on human rights.<sup>565</sup>

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<sup>561</sup> Interview with Henriette Geiger, China Desk, DG XII (External Relations), European Commission, Brussels, 9 July 2004.

<sup>562</sup> Personal consultation with David Shambaugh at the margins of the international conference on *The International Politics of EU-China Relations*, held at the British Academy in London on 20-21 April 2006.

<sup>563</sup> *Ibid.*, IISS (2004).

<sup>564</sup> MBDA is a joint-venture resulting from a merger in 2001 between Matra BAE Dynamics, EADS Aérospatiale Missiles and Alenia Marconi Systems.

<sup>565</sup> For more details see Chapter 4.

The problem facing EU policy makers and industrialists wanting to enter the lucrative Chinese market is that European defence companies are still largely dependent on US cooperation on defence technology, not to mention the importance of the US market for some of them. American retaliation could take the form of target sanctions at specific defence contractors that sell sensitive military-use technology or weapons systems to China. According to US policy makers, these companies could be restricted from participating in defence-related cooperative research, development, and production programs with the US in specific technology areas or in general. Such measures are allowable under the rules of the World Trade Organisation, which permit protectionist measures based on national security concerns.<sup>566</sup>

Washington is adamant to prevent its advanced defence technology, currently shared with the EU allies, ending up in Chinese hands. Some US scholars have argued that loopholes in any new EU Code of Conduct would allow China to acquire subsystems and technologies to make their weapons far more accurate and deadly.<sup>567</sup> The hope in Brussels is that informal consultations with the US (and Japan) on what the EU member states sell to China would prevent sensitive technology transfers and defuse a serious transatlantic dispute.<sup>568</sup> However, this underestimates US opposition to the lifting. The more conservative elements in Washington complain that by proposing to lift the arms embargo the EU is acting “irresponsibly” towards East Asia, an area where the Union has few real strategic interests, but where the US is robustly committed to its security.<sup>569</sup> We will discuss this important issue in transatlantic relations in the next section.

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<sup>566</sup> US Code, Title 41, Chapter 1, Section 50.

<sup>567</sup> This is the view put forward by the more conservative think tanks in Washington such as the PNAC, the Cato Institute, The Heritage Foundation. See for instance: John J. Tkacik, Jr., *Washington Must Head Off European Arms Sales to China*, Washington, The Heritage Foundation, 18 March 2004, available at: <http://www.heritage.org/Research/AsiaandthePacific/bg1739.cfm>.

<sup>568</sup> Interview, Council of the EU, Brussels, 18 November 2005.

<sup>569</sup> This is particularly voiced by some neo-conservative elements in Washington. This author had the opportunity to discuss these issues with some of them at the margins of the International Conference on *China's Challenge to Europe and the US* organised by the Aspen Institute (Italy) in Rome on 11 March 2005. In particular The Heritage Foundation and the PNAC have been prominent in voicing criticism to the lifting. See for instance the website of the Project for the New American Century (PNAC) at: <http://www.newamericancentury.org/eastasia.htm>.

#### **6.4 US opposition to the lifting (and to China's participation in Galileo)**

Since the signature of the EU-China agreement on Galileo in October 2003 and the official proposal by France and Germany to start discussions on the lifting of the arms embargo, the US has begun lobbying and pressuring key EU members (especially the UK). With regard to Galileo and China's participation in the European satellite system, we discussed in Chapter 5 that the EU-US Summit in June 2004 reached a compromise regarding the interoperability of the two systems and guaranteed the American ally that Beijing will be restricted access to the encrypted features. However, it has been with regard to the arms embargo issue that US opposition has become more visible. The strong opposition from the US (coupled with increasing uneasiness in many national parliaments and within the EP) along with China's passing of the anti-secession law in March 2005 clearly aimed at Taiwan convinced the majority of the European governments to postpone discussions on the lifting. Moreover, the new German government led by Angela Merkel reversed the previous policy advocated by Schröder and in the end only France, Italy, and Spain were left to openly support the lifting. After the European Council of June 2005, Washington congratulated the "wise decision" taken by the Europeans to shelve the issue.

The US' strong opposition was based on the fact that for the Bush administration the prospect of the People's Republic of China armed with weapons technologies from the EU facing American forces in the South China Sea would be something that could forever change the post-Cold War geopolitical order. Both the Bush administration and the Democrats have argued that the proposal of lifting the arms embargo is a "cynical ploy to open doors for the European defence industry" and that, even if arms sales remain limited, the EU is "tossing aside more than a decade of human rights concerns for economic gains".<sup>570</sup> American criticism gathered pace at the beginning of 2005, when all commentators were expecting that the EU would lift the 16-year old arms embargo to coincide with the 30<sup>th</sup> anniversary of the establishment of diplomatic relations between the EC and the PRC in 1975.

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<sup>570</sup> Although US opposition to the lifting is bipartisan, this author has decided to emphasize the views of the more conservative elements in Washington to show the vehemence of the arguments used against the proposal to lift the arms embargo (but bearing in mind that also the Democrats have used strong wordings against the lifting). For instance, see: Ellen Bork, *Human Rights and the EU Arms Embargo*, Memorandum to Opinion Leaders, Washington, Project for the New American Century (PNAC), 22 March 2005. Available at: <http://www.newamericancentury.org/europe-20050322.htm>. See also: John J. Tkacik Jr. and Nile Gardiner, "Blair could Make a Strategic Error on China", *Backgrounders*, Washington, The Heritage Foundation, No. 1768, June 7, 2004.

In the first months of 2005, US policy makers adopted a series of initiatives that clearly demonstrated to their European counterparts the bi-partisan nature of the opposition to the lifting. For instance, at the beginning of February 2005, the Republican Policy Committee circulated a paper compiled by John Kyl, an Arizona Senator, which warned, in essence, that if the EU ignores US security concerns, the US will restrict technology transfers to EU member states.<sup>571</sup> On 16 February 2005 Porter Goss, the director of the US Central Intelligence Agency (CIA), while delivering the agency's annual assessment of worldwide threats, warned that China's military modernisation was tilting the balance of power in the Taiwan Strait and increasing the threat to US forces in the region. Dropping any mention of the co-operative elements of the US-China relationship that had characterised previous CIA statements, Goss stated that China was making determined military and diplomatic efforts to "counter what it sees as US efforts to contain or encircle China".<sup>572</sup> A few weeks earlier, on 2 February 2005, the US House of Representatives had voted unanimously (411-3) to pass a resolution condemning the EU's moves toward lifting its arms embargo on China. The resolution alleged that lifting the embargo could destabilise the Taiwan Strait and put the US Seventh Fleet at risk. "It is in this context that the EU's current deliberations on lifting its arms embargo on China are so outrageous" declared Tom Lantos, the senior Democrat on the House of Representatives' International Relations Committee.<sup>573</sup>

What has driven US' concerns is, firstly, that the EU code of conduct is not legally binding and, secondly, that the embargo is interpreted differently by the 25 member states of the EU. What worries the US more is the transfer from the EU to China of the expertise that allows armed forces to be integrated for today's increasingly digital warfare. This includes communications gear, hardened computer networks and night-vision cameras, as well as the most advanced early-warning systems and recognition satellites that would put China in a position to counter Taiwanese arms systems imported from the US.<sup>574</sup> Moreover, Washington is worried that China would be able to use Galileo's encrypted features for military purposes, or gain access to secret

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<sup>571</sup> United States Senate, Republican Policy Committee (Jon Kyl, Chairman), *US Generosity Leads the World: The Truth about US Foreign Assistance*, 22 February 2005.

<sup>572</sup> *Global Intelligence Challenges 2005: Meeting Long-Term Challenges with a Long-Term Strategy*, testimony of Director of Central Intelligence Porter J. Goss before the Senate Select Committee on Intelligence: [http://www.cia.gov/cia/public\\_affairs/speeches/2004/Goss\\_testimony\\_02162005.html](http://www.cia.gov/cia/public_affairs/speeches/2004/Goss_testimony_02162005.html)

<sup>573</sup> 109<sup>th</sup> Congress, 1<sup>st</sup> Session H.Res.57, *Urging the European Union to maintain its arms embargo on China* ([http://www.fapa.org/EU%20Embargo/TEXT\\_HRES57.htm](http://www.fapa.org/EU%20Embargo/TEXT_HRES57.htm))

<sup>574</sup> See Richard D. Fisher Jr., *The Impact of Foreign Weapons and Technology on the Modernization of China's People's Liberation Army*, draft report for the US-China Economic and Security Review Commission, January 2004.

Western traffic. To sum up, the US' major concern is that the EU may contribute to tilt East Asia's strategic balance in Beijing's favour, thus putting at risk American troops committed to the maintenance of the status quo. We will examine these issues in the following section.

### **6.5 East Asia's strategic balance**

The US is the true guarantor of East Asian security. From the Spanish-American war through the Cold War, the US has understood that its security depends upon preventing any hostile foreign power or coalition from dominating the Asia-Pacific. America's alliances in the region and its military presence, directed from the Pacific Command in Hawaii and, now also, from the Central Command in Florida, have provided a stable security structure for the region in recent decades. Of the Pacific Command's 300,000 personnel, almost one-third is forward-deployed in permanent bases in Japan and South Korea. Mutual defence treaties with Tokyo and Seoul – plus unofficial agreements with Taipei – underpin the US security presence in Northeast Asia. In Southeast Asia, the US has security treaties with Australia, the Philippines and Thailand.<sup>575</sup>

From an economic perspective, the US market is a major driver for many East Asian economies. East Asia has become the most important trading region for the US, having surpassed even North America. However, its economic importance is not limited to trade alone. During the extraordinary growth of the mid- to late-1990s, US equity investors shifted their focus increasingly to Asian markets and, over time, the stock of American investment in the region expanded dramatically. Moreover, East Asia has become the provider of inexpensive, high-quality products to US consumers, creating a huge trade deficit with these countries, reflected in the growing foreign reserves kept within the regions' central banks.

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<sup>575</sup> See: Michael Yahuda, *International Politics of the Asia-Pacific, 1945-2005*, London, Routledge, 2005; and *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005; see also: William T. Tow, *Asia-Pacific Strategic Relations: Seeking Convergent Security*, Cambridge, Cambridge University Press, 2001.

**Table 10: World Foreign Reserves, US\$ billion**  
(as of 28 February 2006)

<b>Country</b>	<b>Foreign Reserves</b>
China	853,70
Japan	850,06
Taiwan	256,98
South Korea	215,95
India	146,16
Hong Kong	125,70
Singapore	120,25
Malaysia	72,20
Thailand	54,80
Indonesia	35,54

Source: *Il Sole 24 Ore*<sup>576</sup>

China's foreign reserves have jumped from \$165 billion in 2000 to \$854 billion at the end of February 2006, becoming the largest in the world. The political question here is that most of Asian foreign reserves are invested in US treasury bonds. As a result, the US has a strategic interest – almost a national security interest – in the prevention of regional warfare, particularly a conflict that would involve East Asia's largest powers. The interest in maintaining a peaceful environment in East Asia is based on the desire to prevent disruptions to global commerce (which would have a direct impact on the US relative welfare position) and the likely exacerbation in tensions and possibility of arms races that could result in the aftermath of a regional war. Both conflicts and military build-ups among Asia's great powers are seen by American policy makers as germane in bringing about serious consequences for the US and its allies.<sup>577</sup>

In this context, Washington has a wide range of security and strategic interests in Asia. First of all, given the fact that US foreign policy is still based upon a desire for

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<sup>576</sup> *Il Sole 24 Ore*, Wednesday 29 March 2006, p. 4.

<sup>577</sup> See: Ashley J. Tellis, "Military Modernization in Asia", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 3-40.



dominance in certain spheres – what scholars have termed as hegemonic – the US has an interest in ensuring that major Asian powers, such as China, Japan, Russia, and India – are not aligned against it. In other words, it is in the primary interest of Washington to monitor developments in the above countries in order to ward off the emergence of strong anti-US alliances in the region. From an IR perspective, this form of defensive realism has been replaced, in the last years, by the idea that the US should not only prevent the coalescence of threatening constellations of major powers, but also try to ensure the continuation of US primacy. In this context, US scholars and policy makers largely agree that China is the only country with the potential – in future – to challenge Washington’s dominant position.<sup>578</sup>

US-China relations are key to the maintenance of regional stability. At the economic level there seems to be an implicit bargain with Beijing: Washington tolerates China’s surging exports to the US and the resulting bilateral trade surplus for China, but China recycles its new wealth by helping to finance the US budget deficit. Economically, therefore, China and the US are more and more interlocked. Together, they have been driving the world economy in the last years. At the political level, though, things are different. In the 2002 National Security Strategy, the Bush administration stated that the US “welcome[s] the emergence of a strong, peaceful, and prosperous China”.<sup>579</sup> However, the US also believes that China’s declared “peaceful rise” (and “harmonious development”) cannot be taken for granted and that the lack of democratisation and political liberalisation in China could presage tensions in future US-China relations. Moreover, the Taiwan issue continues to loom large on US-China relations. At the beginning of his first mandate in 2000, President Bush dubbed China a “strategic competitor”. Bush himself has declared his firm commitment to the defence of Taiwan and Secretary of State for Defence, Donald Rumsfeld, has expressed alarm with regard to the pace and nature of China’s military build-up.<sup>580</sup>

What worries more the Bush administration is that China’s fast-growing economy and the country’s rapid industrialisation are giving Beijing previously

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<sup>578</sup> See: *The Emergence of Peer Competitors: A Framework for Analysis*, Santa Monica, RAND, 2001.

<sup>579</sup> George W. Bush, President of the United States of America, *The National Security Strategy of the United States of America*, Washington, September 2002, in particular section VIII; <http://www.whitehouse.gov/nsc/nss.pdf>

<sup>580</sup> Victor Mallet and Guy Dinmore, “The Rivals: Washington’s Sway in Asia is Challenged by China”, *Financial Times*, 18 March 2005, p. 19; see also *The United States and Asia: Toward a New US Strategy and Force Posture*, Santa Monica, RAND, 2001.

unimaginable financial and technical resources to modernise its armed forces.<sup>581</sup> Blocked by the EU arms embargo and Washington's refusal to authorise arms sales to the mainland, Beijing has depended largely on Moscow as a supplier in recent years and – to a lesser extent – other countries like Ukraine and Israel.<sup>582</sup> China's defence industry has been restructured in recent years to increase efficiency and put it on a profit-seeking basis. To raise capital, nearly 50 defence manufacturers have listed on the Hong Kong and Chinese stock markets. Though China still lags behind Western, Japanese and South Korean shipbuilders in technology and efficiency, the main enterprise, China State Shipbuilding Corporation (CSSC), increased its output by 65% in 2004 to 3.6 million tons as part of a construction programme focused on destroyers with stealth features, hard-to-detect submarines and support craft.<sup>583</sup>

Estimates of the real China's military budget are, however, difficult to assess. American analysts tend to believe that "even the PLA is probably unsure of how much money the Chinese military has at its disposal".<sup>584</sup> During the annual session of the National People's Congress in March 2005, Beijing announced a 12,6% increase in its official defence budget, to US\$ 30 billion. In 2005, the RAND Corporation concluded that China's total defence expenditures (based on 2003 data) were between 1.4 and 1.7 times that official number.<sup>585</sup> What worries the US is the size of China's foreign procurement budget. For the International Institute for Strategic Studies (IISS), the latter "is not known, but is likely to be substantial".<sup>586</sup> Based on these estimates, China ranks third in the world in overall defence spending after the US and Russia. According to the more conservative elements in Washington that view China as an emerging threat to US primacy, China's military spending is growing both rapidly and in a sustained fashion

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<sup>581</sup> See: Dwight Perkins, "China's Economic Growth: Implications for the Defense Budget", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 363-386.

<sup>582</sup> David Shambaugh, "China's Military Modernization: Making Steady and Surprising Progress", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 67-104; see also: Konstantin Makienko, "Les ventes d'armes de la Russie à la Chine. Aspects stratégiques et économiques", in *Le courrier des pays de l'Est*, n. 1032, February 2003, pp. 29-38.

<sup>583</sup> *Ibid.*, David Shambaugh (2005) and Dwight Perkins (2005). See also: Evan S. Medeiros, Roger Cliff, Keith Crane, James C. Mulvenon, *A New Direction for China's Defense Industry*, Santa Monica, RAND, 2005.

<sup>584</sup> David Shambaugh, "China's Military Modernization: Making Steady and Surprising Progress", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 67-104, p. 78.

<sup>585</sup> Keith Crane, Roger Cliff, Evan Medeiros, James Mulvenon, and William Overholt, *Modernizing China's Military: Opportunities and Constraints*, Santa Monica, RAND, 2005, p. 133.

<sup>586</sup> The International Institute for Strategic Studies (IISS), *Strategic Survey 2004/05*, London, Routledge, May 2005, p. 307.

precisely at a time when there is no pressing external threat to China. This alone fuels suspicions in the more conservative elements of the Bush administration - as well as in some of China's neighbours, in particular, Japan and Taiwan - that Beijing is actively pursuing a military build-up.

The 2005 US Department of Defence Report on the Military Power of the People's Republic of China (MPPRC) concludes that the modernisation of the PLA has gone beyond preparing for a Taiwan scenario and was likely to threaten third parties operating in the area, including the US.<sup>587</sup> While Chinese leaders insist that their country is engaged in a "peaceful rise", the US says that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait.<sup>588</sup> The US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of diplomatic recognition from Taipei to Beijing.<sup>589</sup> Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of the Chinese territory. In March 2005 the Chinese National People's Congress adopted the anti-secession law, which reiterates the "sacred duty" for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Washington's concerns about China's rising military power and regional posture are shared by Tokyo, which in the February 2005 2+2 statement on Cross-Strait pointed out that the status quo is a matter of mutual concern, thus implying that China is a potential threat.<sup>590</sup> Tokyo's worries were sharpened at the end of 2004, when a Chinese nuclear-powered submarine entered Japanese territorial waters. In addition, Sino-Japanese relations were strained by the repeated incursions by Chinese destroyers into a disputed part of the East China Sea between the two countries, which is believed to contain rich oil and gas deposits. Japan sees China's naval build-up as a threat to the sea

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<sup>587</sup> US Department of Defence, *Report on the Military Power of the People's Republic of China* (MPPRC), October 2005.

<sup>588</sup> *2004 Report to Congress of the US-China Economic and Security Review Commission*. Chapter 8: China's Military Modernization and the Cross-Strait Balance, available at: <http://www.uscc.gov/researchpapers/2004/04reportpage15.pdf>

<sup>589</sup> Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

<sup>590</sup> Interviews with Jun Hasebe, Second Secretary, Japanese Embassy in the UK, London, 29 April 2005 and Otaka Junichiro, Deputy Director, European Policy Division, European Affairs Bureau, Japanese Ministry of Foreign Affairs, Tokyo, 12 May 2005.

lanes on which it depends.<sup>591</sup> On 16 February 2005, the US and Japan held top-level security talks at which they agreed to set new common security objectives to deal with what they called “unpredictability and uncertainty” in East Asia. This new initiative is the most important addition to the 1994 US-Japan Security Alliance, which is considered the linchpin of US interests in East Asia. The agreement should allow Tokyo to further extend its military cooperation with Washington, which is currently inhibited by Japan’s pacifist constitution. It will also greatly increase pressure for a revision of the war-renouncing article of the constitution, something that the Koizumi administration is keen to achieve. The Japanese Prime Minister wants to change the current limited status of Japan’s Self-Defence Forces (SDF) and convert them into a full-fledged military.<sup>592</sup>

Following up on the 2005 February talks, on 29 October 2005 Tokyo and Washington jointly assented to long-pending changes in bilateral security collaboration, including important alterations in roles, missions, capabilities and force posture alignments that will take place over the coming six years. The document issued by the Japan-US Security Consultative Committee outlines 15 areas of defence cooperation and seven measures designed to enhance policy and operational coordination. Like the US-Japan agreement of February 2005, the October 2005 document reflects a growing anxiety about the increasing capability of China’s armed forces and it clearly signals that Japan has decided to adopt a more assertive stance toward Beijing. Moreover, by declaring in the February 2005 joint *communiqué* that Taiwan is a “mutual concern” for both the US and Japan, the Koizumi government has dropped Tokyo’s long-standing policy of neutrality towards the Taiwanese issue.<sup>593</sup>

Beijing views the February 2005 US-Japan security accords as a sign that Tokyo is actively siding with Washington over Taiwan. The Chinese Foreign Ministry denounced it as a interference in China’s internal affairs, since the mainland insists that Taiwan is still a province of one China. The official *People’s Daily* newspaper wrote of

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<sup>591</sup> Christopher W. Hughes, “Japanese Military Modernization: In Search of a ‘Normal’ Security Role”, in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 105-136.

<sup>592</sup> Ibid., see also: Council on Security and Defense Capabilities, *Japan’s Visions for Future Security and Defense Capabilities*, October 2004, available at: [www.jiaponline.org/resources/japan/security/Japan%20CSDC%20Report.pdf](http://www.jiaponline.org/resources/japan/security/Japan%20CSDC%20Report.pdf).

<sup>593</sup> See: *East Asian Strategic Review 2005*, The National Institute for Defense Studies, Tokyo, June 2005; and Régine Serra, *L’évolution stratégique du Japon : un enjeu pour l’Union*, European Union Institute for Security Studies, Occasional Paper n. 59, June 2005.

a “brazen provocation which the Chinese people would not tolerate”, accusing the US and Japan of seeking an excuse to expand in the Pacific with the aim of containing China.<sup>594</sup> Beijing’s response was to pass an anti-secession law in March 2005, clearly aimed at Taiwan.

The above events were happening while in Europe the debate on the proposed lifting of the arms embargo was underway. China’s anti-secession law in March 2005, coupled with the firm US opposition to the lifting, have induced EU policy makers, in Spring 2005, to postpone any decision regarding the lifting of the arms embargo.<sup>595</sup> The *impasse* over the arms embargo has weakened the image of the EU, which has found itself being pulled in two opposite directions. On the one hand, the lure of the Chinese market had led EU members – in particular the French, German, Italian and Spanish governments – to promise the lifting to the Chinese leadership. On the other hand, the strong opposition of the US, the passing of the anti-secession law and China’s human rights record have convinced the Europeans to shelve the issue. Robert Zoellick, currently US Deputy Secretary of State, posed the right question in April 2005: “As Europe becomes a larger player on a global stage, we urge it to consider some of the messages it sends. Why would Europe want to send that symbolic message to this point?”<sup>596</sup> While no easy answer appears to be in sight, it is clear that by proposing to lift the arms embargo the EU had become an additional factor– albeit unconsciously – of East Asia’s strategic balance. We will examine this topic further in the next Chapter.

## Conclusion

In the last Chapters it was argued that beneath the surface of official declarations (i) China’s participation in the Galileo project, (ii) the related issue of advanced technology transfers and (iii) the proposed lifting of the arms embargo have come to represent the three most important security-strategic issues in Sino-European relations. Their relevance lies in the fact that they have gone far beyond the bilateral dynamics of EU-China relations to assume a global significance. The Bush administration, for instance, has voiced its concerns to these security-strategic elements of the EU foreign policy

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<sup>594</sup> *People’s Daily*, 17 February 2005.

<sup>595</sup> On 1<sup>st</sup> July 2005, Britain took over the Union’s rotating Presidency. Given the close ties between London and Washington, it is not surprising that by the end of 2005 no decision had been taken as to when re-open discussions on the lifting of the arms embargo. Also the Austrian Presidency (1 January-30 June 2006) has not put the issue on the agenda.

<sup>596</sup> *International Herald Tribune*, 6 April 2005.

towards China on the grounds that they have the potential to boost China's military modernisation and tilt the strategic balance across the Taiwan Strait in Beijing's favour. The more conservative elements in Washington argue that with these policies – even if only proposed as in the case of the lifting of the arms ban - the Europeans are acting irresponsibly towards East Asia, a part of the world whose security is guaranteed by Washington.

Notwithstanding the nuances among EU members, by the mid-2004 it appeared that all EU governments had agreed to start discussions on the procedures and criteria for lifting the arms embargo. In sum, the Franco-German proposal had been Europeanised, in the sense that it had succeeded in influencing the other EU members. However, due to the strong opposition of the US to the lifting of the arms embargo, the passing of the anti-secession law by the National People's Congress in March 2005 (clearly directed at Taiwan), and the lack of any serious progress in Beijing's human rights record, the EU members have decided to postpone the issue. The UK Presidency of the EU in the second half of 2005, for instance, has been responsible for steering EU foreign policy towards China in a new direction, which would increasingly take into consideration the interests of the American ally. It was under the British Presidency, in fact, that the EU has established the EU-China strategic dialogue (initiated in December 2005) alongside the EU-US and EU-Japan strategic dialogues on East Asia (initiated in September 2005). These newly established consultative mechanisms serve the purpose to move forwards EU-China relations by taking into account American and Japanese perspectives. Europe's establishment of a security-strategic linkage with China has contributed to make the EU an additional factor – albeit unconsciously – of East Asia's strategic balance. We will analyse Europe's role and involvement in East Asian security, focusing on Cross-Strait relations, in the next Chapter.

## Chapter 7

### The inter-regional level II

#### The security dimension

## Europe's involvement in East Asia's strategic balance and the Taiwan issue

The EU supports the peaceful resolution of differences between Taiwan and the People's Republic of China, rejecting the use or threat of force. It urges both sides to resume constructive dialogue, and to eschew dogmatic positions. The EU insists that any arrangement between Beijing and Taipei can only be achieved on a mutually acceptable basis, with reference also to the wishes of the Taiwanese population.

Website of the European Economic and Trade Office in Taipei (accessed on 14 April 2006)<sup>597</sup>

Le Gouvernement français confirme sa position constante sur l'unicité de la Chine. Il s'oppose à quelque initiative unilatérale que ce soit, y compris un référendum qui viserait à modifier le statu quo, accroîtrait les tensions dans le détroit et conduirait à l'indépendance de Taiwan. Il considère que les relations entre les deux rives du détroit doivent reposer sur un dialogue constructif afin de trouver un règlement pacifique à la question de Taiwan et d'assurer la stabilité et la prospérité dans la région.

Joint franco-Chinese Declaration, Paris, 27 January 2004<sup>598</sup>

### Introduction

As discussed in the previous Chapters, three elements of EU foreign policy towards China have the potential to impact on East Asia's strategic balance: (i) China's participation in the Galileo satellite system; (ii) European advanced technology transfers to China; and (iii) the proposed lifting of the arms embargo. In particular the arms ban, though currently postponed, has been strongly opposed by the US on grounds that it

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<sup>597</sup> Quotation from the website of the European Commission (European Economic and Trade Office in Taipei), [http://www.deltwn.cec.eu.int/EN/eu\\_taiwan/overviewofeu\\_taiwanrelations.htm](http://www.deltwn.cec.eu.int/EN/eu_taiwan/overviewofeu_taiwanrelations.htm).

<sup>598</sup> [http://www.elysee.fr/elysee/elysee.fr/ressources\\_documentaires/asie/chine/declaration\\_commune\\_francochinoise\\_visite\\_d\\_etat\\_de\\_m\\_hu\\_jintao\\_president\\_de\\_la\\_republique\\_populaire\\_de\\_chine.2334.html](http://www.elysee.fr/elysee/elysee.fr/ressources_documentaires/asie/chine/declaration_commune_francochinoise_visite_d_etat_de_m_hu_jintao_president_de_la_republique_populaire_de_chine.2334.html).

may – if adopted – contribute to boosting China’s military modernisation and, as a result, tilt East Asia’s strategic balance in Beijing’s favour.

The problem is that Washington is committed to the maintenance of the strategic balance across the Taiwan Straits. The term “strategic balance” refers here to the relative capabilities of the two sides to achieve their respective strategic objectives in relation to the other. For China, this strategic objective is reunification with Taiwan on China’s terms. Taiwan’s objectives are to maintain its political independence, freedom of action, and way of life, free from coercion or undue influence from China, and to gain acceptance as a member of the international community. The concept of a strategic balance encompasses but is broader than an assessment of the military balance between two sides - though the military balance is what deters China to take over Taiwan, according to most American analysts. Cross-strait strategic balance, however, also includes the impact of economic, social and cultural ties between China and Taiwan on cross-Strait strategic dynamics; the influence of changing social developments on each side as they affect notions of self-identity, mutual identity, etc.; and the effect of international perspectives and involvement in cross-Strait affairs. Washington is the ultimate guarantor of the above strategic balance and as such is concerned if other players (in this case the EU) take initiatives which may have the potential to affect this strategic balance without prior consultation and/or accommodation with the US.

The Bush administration has voiced its criticism – and strongly opposed - the more security-related elements of the EU’s China policy, since with these initiatives, Washington argues, the Europeans do not take into adequate consideration (i) the US’ strategic interests in East Asia and (ii) the role of Washington as the ultimate guarantor of regional security.<sup>599</sup> The EU’s China policy of the last years has in fact revealed profound differences between the EU and the US on how to deal with China’s rise. While the EU and its member states do not perceive China as a military threat, some powerful voices in the US argue that China is a potential threat and needs to be contained.

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<sup>599</sup> See: U.S.-China Economic and Security Review Commission, *Symposia on Transatlantic Perspectives on Economic and Security Relations with China*, Washington, 108 Congress, Second Session, Brussels 30 November 2004 and Prague 2 December 2004; available at: [http://www.uscc.gov/hearings/2004hearings/transcripts/04\\_11\\_30\\_transcript.pdf](http://www.uscc.gov/hearings/2004hearings/transcripts/04_11_30_transcript.pdf).



While Chinese leaders insist that their country is engaged in a “peaceful rise” and “harmonious development”, some powerful voices in the US argue that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait.<sup>600</sup> The US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of diplomatic recognition from Taipei to Beijing.<sup>601</sup> On the basis of the Taiwan Relations Act, the US export weapons to the island. The US President, George W. Bush, declared in April 2001 that the US would do “whatever it takes” to defend Taiwan against an attack by mainland China.<sup>602</sup> Washington has recently reminded Beijing that the US has committed itself to reduce progressively arms sales to Taiwan but also to maintain a qualitative advantage in favour of Taipei which, according to the above mentioned MPPRC Report, is currently diminishing due to recent acquisitions by the PLA.<sup>603</sup> Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of the Chinese territory. In March 2005 the Chinese National People’s Congress adopted the anti-secession law, which reiterates the “sacred duty” for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Any tension in Cross-Strait relations could thus presage tensions between Washington and Beijing. In this context, recent European initiatives aimed at establishing a security-strategic linkage with Beijing are impacting on Sino-US relations. This explains the strong opposition of the US against the lifting of the arms embargo and the need to obtain reassurances from European partners that China will not be allowed to access the encrypted features of the Galileo satellite system. The arms embargo issue, in particular, has become a “wake-up” call for the US and has led some American commentators to dub Europe an “irresponsible” player in East Asia <sup>604</sup> since the lifting, according to the US, may put at risk American forces committed to the defence of Taipei.

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<sup>600</sup> 2004 Report to Congress of the US-China Economic and Security Review Commission. Chapter 8: China’s Military Modernization and the Cross-Strait Balance, available at: <http://www.uscc.gov/researchpapers/2004/04reportpage15.pdf>

<sup>601</sup> Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

<sup>602</sup> See: Ashley J. Tellis, “Military Modernization in Asia”, in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 3-40 and Michael D. Swaine and Roy D. Kamphausen, “Military Modernization in Taiwan”, in *ibid. Strategic Asia 2005-06*, pp. 387-422.

<sup>603</sup> Michael D. Swaine and Roy D. Kamphausen, “Military Modernization in Taiwan”, in *Strategic Asia 2005-06*, pp. 387-422.

<sup>604</sup> This emerged with interviews with all US scholars and policy makers.

Taiwan remains a thorny issue in US-China relations and, more recently, also in Japan-China relations. As discussed in the previous Chapter, in February 2005, the US and Japan held top-level security talks at which they agreed to set new common security objectives to deal with what they called “unpredictability and uncertainty” in East Asia. Since 2005, Japan has begun to seriously identify China as a potential threat. In the joint *communiqué* the two sides declared that Taiwan is a “mutual concern” for both the US and Japan. The latter is worried of an escalation in Cross-Strait relations, since should a war between the US and China break out, American troops will come from Okinawa, thus bringing Tokyo in the conflict.

For the EU, Taiwan is not an issue of major or immediate concern. However, any confrontation between the US and China – with the likely involvement of Japan - will inevitably disrupt regional stability and thus jeopardise Europe’s economic interests in the area. It is clear that cross-Strait relations cannot be considered marginal, if only because China considers Taiwan part of the mainland. Yet, Europeans have tended to overlook the Taiwan issue, mainly for not upsetting Beijing which considers the principle of the one China policy the basis for political relations with third countries. However, over the years the EU and its member states have continued to maintain and develop relations with Taiwan. This chapter will explore these issues, in the context of current evolution and upgrading of Europe’s relations with Asia. The EU has large stakes in the maintenance of regional stability in East Asia, since only a peaceful environment can protect Europe’s growing economic interests in the region.

This Chapter begins with an examination of recent developments of the EU’s Asia strategy which, in the last years, has been characterized by the inclusion of a security dimension. As discussed in Chapters 5 and 6, by cooperating with Beijing on space satellite technology and by proposing to lift the arms embargo the EU has become an additional factor – albeit unconsciously – of East Asia’s strategic balance. It is because of the establishment of a security-strategic linkage with Beijing that the Taiwan issue has come to the fore. Hence, the next section analyses the Taiwan issue. It is argued here that the development of relations between China and Taiwan, as well as the potential conflict that may arise by miscalculations or unilateral/aggressive postures from one of the two sides continue to be one of the key questions of East Asia’s security. The following section examines the EU’s Taiwan policy from its inception in

1972, i.e. after the West's normalisation with Beijing and the switch of diplomatic relations from the island to the mainland. In particular, the section examines the main themes that have characterised relations between Europe (both at the national and the EC/EU level) and Taiwan since the official recognition of the PRC as the only China. Since the early 1970s, the EC/EU has been neither directly involved nor it has devoted the issue the due attention. While the European Commission and the Council have adopted, over the years, an accommodating attitude towards the principle of the one China policy so as not to upset Beijing, the European Parliament has put forward, in the last decade, a position on the Taiwan issue that goes beyond the common stance set forth by the EU member states (and adopted by the Commission and the Council). In the final part of the chapter, we will draw some conclusions on the EU's Taiwan policy in light of the EU's Asia policy and growing EU-China relations.

### **7.1 The evolution of the EU's Asia strategy at the beginning of the 21<sup>st</sup> century: the inclusion of a security dimension**

As discussed in Chapter 3, since the early 1990s the EU and its member states - in particular Germany and France - have pushed for the adoption of a more pro-active engagement towards Asia, on the assumption that the Asian markets would be increasingly important for maintaining Europe's global competitiveness and its (relative) welfare position. In 1993, Germany became the first EU member state to elaborate a strategy towards Asia and in 1994 the European Commission released its Communication on the *EU's New Asia Strategy* (NAS). Since the beginning, the overall strategy of the EU's policy in Asia has been related to economic matters which, according to the Commission, need to be presented "in the framework of the political and security balance of power in the region".<sup>605</sup> While the NAS concentrated on the whole continent, the subsequent establishment of the ASEM process in 1996 clearly indicated that the priority for the EU was the development of relations with the economically thriving East Asian countries. In Chapter 3 we also examined the EU's response to the Asian financial crisis, arguing that in the middle of the crisis - i.e. during the ASEM II in London in 1998 - the EU moved quite deliberately to exploit the situation to further the development of a common EU foreign economic policy and promote the EU as a global economic power. This pro-active foreign policy agenda was dictated by the belief that Europe's economic security was increasingly affected by

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<sup>605</sup> European Commission, *Towards a New Asia Strategy*, COM(94) 314 final, 13 July 1994., p. 2.

developments in Asia and, as a consequence, the EU needed to respond to the Asian financial crisis in order to protect the Union's welfare position.

In September 2001, the European Commission reviewed its Asia policy<sup>606</sup> with the aim to provide EU member states with a more updated, coherent and comprehensive approach to the long-standing variety of EU-Asia relations that over the years had matured into a process of individual dialogues linking the EU with ASEAN<sup>607</sup>, China<sup>608</sup>, Japan<sup>609</sup>, South Korea<sup>610</sup>, India<sup>611</sup>, Indonesia<sup>612</sup> and on the ASEM process<sup>613</sup>, energy<sup>614</sup> and environment sectors<sup>615</sup>. The 2001 Commission's document *Europe and Asia: A Strategic Framework for Enhanced Partnership* asserts that the prosperity of the two regions is inseparably linked. Europe's current Asia strategy is based, therefore, on the understanding that the economic prosperity of Europe may be jeopardized not only by financial crises, but also by political instability in the region. Echoing the European Commission's concerns, the European Security Strategy (ESS) adopted by the European Council in Brussels on 12 December 2003 states that "problems such as those in Kashmir...and the Korean Peninsula impact on European interests directly and indirectly...nuclear activities in North Korea, nuclear risks in South Asia...are all of concern to Europe".<sup>616</sup> In this vein, the Union needs "to develop strategic partnerships, with Japan, China...and India".<sup>617</sup> In sum, both the ESS and the latest Commission's Communication on Asia recognise that it is in the EU's own strategic interests to engage Asia not only on economic and trade issues, but also - and increasingly - on security matters. But what has the EU done in support of Asian security?

Europe's involvement in the security architecture of the Asia-Pacific region dates back to the mid-1990s. For instance, the EU is a member of the multilateral

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<sup>606</sup> European Commission, *Europe and Asia: A Strategic Framework for Enhanced Partnership*, Brussels, COM(2001) 469 final, 4 September 2001.

<sup>607</sup> *Creating a New Dynamic in ASEAN-EU Relations*, COM (96) 314 final, 3.07.96.

<sup>608</sup> *Building a Comprehensive Partnership with China*, COM (98) 181 final, 25.03.98.

<sup>609</sup> *Europe and Japan: The Next Steps*, Brussels, COM (95), 73 final, 1995; and *Overview of EU-Japan Relations*, Brussels, CEC, 2000.

<sup>610</sup> *Framework Agreement on Trade and Co-operation with the Republic of Korea*, COM (98) 147 final, 8.12.98.

<sup>611</sup> *EU-India Enhanced Partnership*, COM (96) 275 final, 25.06.96.

<sup>612</sup> *Developing Closer Relations between Indonesia and the EU*, COM (00) 50 final, 2.02.00.

<sup>613</sup> *The Asia-Europe Cooperation Framework (AECF) 2000*, Seoul, ASEM III, October 2000.

<sup>614</sup> *Europe-Asia Cooperation Strategy for Energy*, COM (96), 308 final, 18.07.96.

<sup>615</sup> *Europe-Asia Cooperation Strategy in the Field of the Environment*, COM (97) 490 final, 13.10.97.

<sup>616</sup> The European Union, *A Secure Europe in a Better World: European Security Strategy*, Brussels, December 2003, p. 11

<sup>617</sup> *Ibid.*, p. 20-21.

security activities of the ASEAN Regional Forum (ARF) and the Council for Security Cooperation in Asia Pacific (CSCAP). The ARF as “track-one” represents the governmental level (in particular, diplomats from the foreign ministries), CSCAP as “track-two” involves regional experts of think tanks and universities, as well as government officials in private capacity. With the establishment of the Asia-Europe Meeting (ASEM) in 1996, a “track-two” has been initiated which also includes a multilateral security dialogue on various levels between Europe and Asia. Finally, in September 1997, the EU through the European Commission has also become a member of the Korean Energy Development Organisation (KEDO), created to implement denuclearisation of the Korean peninsula. Since their establishment in the mid-1990s, all the above mentioned inter-regional security cooperation activities have been widened and deepened. Moreover, a number of bilateral security and military cooperation agreements between EU members and Asian countries has been initiated in the last years.

The EU has further contributed to peace and security in the region by assisting the establishment of democratic governments in Cambodia and East Timor. Finally, the EU has been instrumental in ensuring the implementation of the peace agreement between the Government of Indonesia and the Free Aceh Movement (GAM) which fights for the independence of the Indonesian province of Aceh. In order to supervise the peace process, the Aceh Monitoring Mission (AMM) has begun its operations on 15 September 2005, with hundred of monitors from the EU and from a number of ASEAN countries. In this context, the European Commission is providing assistance to the reintegration of former GAM combatants and is funding a number of programmes to support the democratic process and rule of law in Aceh.

Although Europe has no permanent military forces deployed in East Asia after the return of Hong Kong to China, the United Kingdom is still a member of the Five-Power Defence Arrangements (FPDA), a military consultation agreement with Australia, Malaysia, New Zealand and Singapore. In addition, France has an operational military presence in the Indian Ocean and the South Pacific, with thousand of troops that can be deployed in East Asia in a relative short time.<sup>618</sup>

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<sup>618</sup> For more details see: <http://www.ambafrance-us.org/atoz/defense.asp>.

The most significant contribution that Europeans are currently making to Asia's strategic balance, however, is through their growing arms sales in the region. Arms transfers are in large part about corporate profit, but they also represent strategic decisions. In recent years, Asia has become an increasingly important market for an European defence industry that depends more and more on exports for the bulk of its revenues. Furthermore, the demand for aerospace products (both civilian and military) over the next 20 years is projected to arise outside the US or Europe's market and come mainly from Asia and, in particular, China. The latter has become the battleground between Boeing and Airbus, which fiercely compete against each other for the leadership of the world aerospace sector. Analysts estimate that since 2005, China has become the second largest market for aerospace, behind the US.<sup>619</sup> In this context, EU-China cooperation on satellite navigation and other space-based technologies - which are likely to foster China's civilian and military space capabilities - along with European advanced technology transfers and arms sales (likely to increase after an eventual lifting of the arms embargo) represent huge commercial opportunities for Europe's defence industry and aerospace sector.

Although any decision on the lifting of the arms embargo is currently postponed, some EU members (in particular, France, the UK, Germany and Italy) continue to sell weapons to Beijing. In its latest *Annual Report*, the Council states that in 2004 EU member states exported military equipment worth more than €340 million to China, though significantly less than in 2003 (whose total amounted to €416 million). By the end of 2004, eight EU member states concluded a total of 202 deals for transferring military equipment to China. France accounted for the largest share, signing 123 contracts worth €169 million in total, followed by the UK (38 contracts, €148 million).<sup>620</sup> Thus, in spite of the embargo, some EU governments - and their arms manufacturers - have been able to circumvent it by selling components for arms or dual-use goods (with both military and civilian applications).

As discussed earlier, the more conservative elements in Washington argue that China's participation in the Galileo project (with the related issue of advanced

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<sup>619</sup> "La Chine: le nouvel eldorado d'EADS", in *Air & Cosmos*, n. 2009, 9 December 2005, pp. 10-11; see also Claude Fouquet, *La France engrange 9 milliard d'euros de contracts avec la Chine*, *Les Echos*, Tuesday 6 December 2005, p. 6.

<sup>620</sup> Council of the European Union, *Seventh Annual Report of the EU Code of Conduct on Arms Exports*, Brussels, December 2005.

technology transfers) and the proposed lifting of the EU arms embargo on China (which will likely increase European arms sales) may contribute to help China's military modernisation and potentially tilt East Asia's strategic balance in Beijing's favour in a situation where there could be future tensions in US-China relations, especially over Taiwan. The question here is that the EU does not view Taiwan and cross-Strait relations as an issue of immediate strategic interest (contrary to the US). Moreover, growing EU-China relations appear to have drastically reduced the scope of the EU's Taiwan policy.

It is important to recall at this point that the EU and its large member states (Germany, France, the UK and Italy) since the early 1990s have pushed for the adoption of a more pro-active engagement with Asia, on the assumption that taking advantage of the thriving Asian markets would be increasingly important for maintaining Europe's global competitiveness and its (relative) welfare position. According to the US and other concerned Asian partners of the Union such as Japan and Taiwan, recent European initiatives aimed at fostering a security-strategic linkage with China (mainly supported by France and, to a lesser extent, Germany and Italy) could have the potential to affect East Asia's strategic balance and, as a consequence, Europe's economic interests in the area.

At the same time, we have seen in previous chapters that China has become a key partner of the EU and that EU policy makers have made the link between China's development and Europe's economic security. As discussed in Chapter 4, this securitisation discourse argues that Europe's future economic prosperity will increasingly depend on European companies' capacity to acquire shares of the Chinese market (including the defence market) which, in turn, depends on maintaining good political relations with the Chinese leadership. In this context, why should Europe bother about Taiwan and, more generally, Cross-Strait relations? The answer is straightforward: political developments in China and Taiwan that could affect cross-Strait relations would have a direct detrimental impact on East Asia's security and economic growth. Consequently, EU exports and FDI in the area could be affected, thus bearing directly upon EU's economic security and welfare position. As such, recent developments of the EU's China policy that could have an impact on cross-Strait relations and, more generally, East Asia's strategic balance point to the need for the EU to devote more attention to the Taiwan issue. In the following section, we will analyse

the Taiwan question and how Europe has engaged with the island since 1972, i.e. after the West's normalisation with Beijing and the switch of diplomatic relations from the island to the mainland.

## 7.2 The Taiwan issue

The key issue of cross-Strait relations comes down to two inter-related questions: Taiwan's future political status (unification with the mainland or *de jure* independence) and the means to arrive at this future political status. Over the years scholars have questioned whether mainland China and Taiwan will be reunified according to Beijing's demands, whether the present situation will continue - with Taiwan functioning as a separate and independent society - or whether Taiwan will, in fact, attain *de jure* sovereignty. The above questions, taken together, constitute the Taiwan issue.<sup>621</sup>

The majority of scholars agree that the dispute over Taiwan has the potential to threaten China's stability. In the worst case, it would lead to a war between China and the US, since Washington is committed to the defence of the island. Given the global implications of such a conflict, the Taiwan issue is, thus, not only a cause of concern for East Asia and the US, but is also significant for the EU and its member states. As discussed earlier, any tension arising in the Taiwan Straits has the potential to disrupt regional stability and have an impact on European trade and investments in the area.

Although Chinese leaders have made the realistic assessment that the goal of reunification is not achievable in the near future, they would be willing to sacrifice the country's stability in order to avoid a declaration of independence from Taiwan.<sup>622</sup> Beijing, in fact, still asserts its right to use force against Taiwan, as demonstrated in the passing of the anti-secession law in March 2005. However, the problem is complicated by the fact that today the island does not need a proclamation of independence in the traditional sense, since Taiwan's President Chen Shui-bian has on several occasions stated that Taiwan already is a sovereign state. In this vein,

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<sup>621</sup> See: Christopher R. Hughes, "Living with 'One country, two systems'? The future of Beijing's Taiwan policy", in *Cambridge Review of International Affairs*, Vol. 14, No. 2, May 2001, pp. 124-138.

<sup>622</sup> Christopher R. Hughes, "Nationalism and multilateralism in Chinese foreign policy: implications for Southeast Asia", in *The Pacific Review*, Vol. 18, No. 1, March 2005, pp. 119-235.



Beijing would respond with military action if the international community, led by the US, were to acknowledge Taiwan's sovereignty or if the island would take steps to further consolidate its separate status in a way that China regards as irrevocable.<sup>623</sup>

According to scholars and opinion polls, the majority of Taiwanese are in favour of a continuation of the present situation, the maintenance of the status quo.<sup>624</sup> In other words, Taiwan constitutes an independent society with its own political system, its own armed forces, and so forth. What sets the island apart from sovereign states is recognition by the international community – and as a corollary, exclusion from international organisations where statehood is required. Most Taiwanese seem to be opposed to the prospect of reunification with Beijing as long as the one-party rule by the Chinese Communist party (CCP) continues. Taiwanese policy makers argue that unification cannot take place before the mainland is also democratically ruled. In other words, there seems to be a prerequisite put forward by Taipei, namely that unification cannot take place before both societies, on either side of the Strait, have similar political systems.<sup>625</sup>

In the last years, Taiwan and China have moved much closer to each other in terms of economic integration. From an economic point of view, in fact, the two societies are increasingly mutually dependent, despite the lack of political dialogue between the authorities. However, the question is how long can the current status quo last. The emphasis placed by Taiwan's political leaders on the island's special status continues to infuriate Beijing's leadership, as well as raise nationalistic sentiments among the Chinese.<sup>626</sup> As discussed in Chapters 2 and 4, Chinese leaders have retaliated in the past against those European countries who had not complied to the one China policy, demonstrating how sensitive the CCP regime is to national sirens. Any dispute across the Strait, no matter how minor the cause, has the potential to develop into a major crisis. For instance, in Autumn 2003, Taiwan's President Chen Shui-bian announced his intention to hold a referendum on a new constitution. Beijing interpreted this as a way of consolidating the island's independency and

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<sup>623</sup> For more details see: Christopher R. Hughes, *Chinese Nationalism in the Global Era*, Milton Park, Routledge, 2006, in particular section 4.

<sup>624</sup> Interview, Taipei Representative Office in the UK, London, 28 April 2006.

<sup>625</sup> For more details see: Shelley Rigger, "The Unfinished Business of Taiwanese Democratisation", in *Dangerous Strait: The US-Taiwan-China Crisis*, Nancy Tucker (ed.), New York, Columbia University Press, 2005.

<sup>626</sup> Hughes (2005).

threatened Taiwan with military action. It was the intervention of President George W. Bush (under pressure from Taipei and the Taiwanese lobby in the Congress) that eased the situation. The US President stated that Washington would oppose any unilateral action that might be interpreted as altering the status quo. As a result, Chen Shui-bian retreated and modified the wording in the referendum.<sup>627</sup> Instead of being asked to take a stance on a new constitution, the electorate was asked about increasing the defence budget should China refuse to remove the missiles targeted at Taiwan.<sup>628</sup>

From the interviews conducted in China, it appears that Chinese leaders have made Taiwan a question of life and death. Taiwan is closely related both to national self-esteem and to the ability of the present regime to stay in power. Moreover, there are reasons inherent to the proximity of the island to the mainland. Beijing, in fact, does not want to find itself in a situation in which a sovereign Taiwan could place its territory at the disposal of an enemy. Thus, Beijing's foremost objective is to prevent any action by the political leadership of Taiwan that might make reunification impossible.<sup>629</sup> Moreover, as already discussed, Washington is also part of the game. According to the Taiwan Relations Act of 1979, the US is committed to the defence of Taiwan.<sup>630</sup> The US President, George W. Bush, declared in April 2001 that the US would do "whatever it takes" to defend Taiwan against an attack by mainland China.<sup>631</sup> In this sense, the Taiwan issue is a global question which has the potential to disrupt regional stability. It is in this context that Washington has reacted strongly to the establishment a EU-China security-strategic linkage.

As discussed earlier, China's participation in the Galileo project, the related issue of advanced technology transfers and the proposed lifting of the arms embargo may have the potential (especially if the embargo is lifted) to affect East Asia's strategic balance, in a situation where the most powerful resident countries are engaged in the modernisation and upgrading of their armies and defence systems. The EU does not view the future status of Taiwan and cross-Strait relations as issues of immediate

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<sup>627</sup> Rigger (2005).

<sup>628</sup> Interview, Taipei Representative Office in the UK, London, 28 April 2006

<sup>629</sup> Interview, Chinese Ministry of Foreign Affairs, Beijing, 7 May 2005.

<sup>630</sup> Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

<sup>631</sup> See: Ashley J. Tellis, "Military Modernization in Asia", in *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty*, Ashley J. Tellis and Michael Wills (eds.), Seattle, The National Bureau of Asian Research, 2005, pp. 3-40 and Michael D. Swaine and Roy D. Kamphausen, "Military Modernization in Taiwan", in *ibid. Strategic Asia 2005-06*, pp. 387-422.

concern. Because of that, the US has criticised the EU for the more security-related initiatives towards Beijing for lack of strategic vision of - and real commitment to - East Asia's strategic balance and the future of Taiwan. In the next section we will examine how the EC/EU – both member states and the supranational institutions (Commission, Council, Parliament) – have dealt with the Taiwan issue.

### **7.3 The EU and the Taiwan issue**

#### **7.3.1 EU member states' relations with Taiwan**

All European countries, with the exception of the Holy See, have established diplomatic relations with the PRC and, as a consequence, have developed non-official relations with Taipei. Due to China's insistence on the "one China" policy, Europe-Taiwan ties are limited to the commercial, scientific and cultural sphere. Since the Republic of China (ROC) on Taiwan lost its seat in the UN in favour of mainland China, only the US has expressed serious concern for the future of the island. European countries have never been a party to the settlement of the Taiwan issue, with the exception of the UK which had participated in the Cairo (1943) and Potsdam (1945) inter-Allied conferences. On these occasions, London made it clear that Taiwan should be restored to China and that the Taiwan question was a Chinese internal affair.<sup>632</sup>

In March 1972, the UK issued a joint *communiqué* with the PRC. In it, London acknowledged the position of the Chinese government, i.e. that Taiwan is a province of the PRC. Back in 1964, France had recognised Beijing unconditionally, as part of de Gaulle's policy of "national independence". It was generally admitted that with the recognition of the PRC, France had also acknowledged the sovereignty of Beijing over Taiwan. On 27 September 1991, the French Ministry of Foreign Affairs clarified this point. In the *communiqué* issued on the sale of frigates to Taiwan, it was stated that "France reaffirms the terms of the Franco-Chinese joint

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<sup>632</sup> For more details see: Françoise Mengin, "A Functional Relationship: Political Extensions to Europe-Taiwan Economic Ties", in *The China Quarterly*, No. 169, March 2002, pp. 136-153.

declaration of 1964 according to which the PRC government is the sole legal government of China”.<sup>633</sup>

The European Community recognised the PRC in 1975, abiding from the beginning by Beijing’s one China policy. Taiwan was denied membership to the EC’s Generalised System of Preferences (GSP), as well as any other economic assistance from which all the other Asian new industrialised countries were benefiting. Since the beginning, EC-Taiwan relations have remained confined to economic, scientific and cultural issues. Unlike Japan and the US which simply continued relations with Taiwan on a non-official level after normalisation with Beijing, European countries have tended to develop strictly non-official ties. In the case of Japan, continuation of relations with Taiwan took the form of a non-governmental agreement signed in December 1972 (three months after severing diplomatic relations), while in the case of the US it took the form of the Taiwan Relations Act passed by the Congress on 10 April 1979.

Devoid of state content, from the end of the 1970s Europe-Taiwan relations started to focus on developing commercial relations, in light of the island’s economic dynamism that offered growing opportunities for European companies. However, over the years a network of non-official representative offices developed both in Europe and in Taipei. During the 1970s and 1980s the heterogeneous designations of these representative offices symbolised the unofficial, almost underground, presence of Taiwan in Europe. Since the early 1990s, under the pressure of Taipei and European companies competing for key contracts in the emerging Taiwanese market, some EU members accepted changes of name in order to standardise the various designations and to upgrade the status of the offices. Thus, in Portugal, Spain, Austria, Norway and Luxembourg the representative office became the “Taipei Economic and Cultural Office”, while in Germany, Italy, Belgium, the Netherlands, France, Denmark, Ireland, and the UK it became “Taipei Representative Office” and in Sweden and Latvia “Taipei Mission”. At the same time, EU governments began to establish offices in Taiwan, using various designations but carefully avoiding any hint that would suggest more than a trade, scientific or cultural association.<sup>634</sup>

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<sup>633</sup> See: Patricia Wellons, “Sino-French Relations: Historical Alliance vs Economic Reality”, in *The Pacific Review*, Vol. 7, No. 3, 1994, pp. 341-348.

<sup>634</sup> See: Robert Ash, “Economic Relations between Taiwan and Europe”, in *The China Quarterly*, No. 169, March 2002, pp. 154-180.

While European governments continued to remain unwilling to engage in any institutionalisation of bilateral relations with Taiwan, arms sales to the island have continued. In 1981 the Netherlands sold two submarines to the ROC and France sold 16 La Fayette frigates to the Taiwanese navy in 1991 (worth \$3.8 billion) and 60 Mirage 2000 fighter-interceptors in 1992. In 1993, the newly appointed government of Edouard Balladour authorised the sale to Taiwan of some armaments for the frigates.<sup>635</sup> These sales unleashed strong criticism from Beijing. In 1981, China downgraded its relations with the Netherlands and took commercial reprisals. It was, however, France's decision to sell advanced weaponry to Taiwan that triggered the strongest reactions. Beijing retorted harshly, by announcing the closure of the French Consulate General in Guangzhou and barring French companies from bidding for the contract to build the subway system in the same city. These sanctions aimed not only at punishing France, but also at deterring further arms sales to the island by other European countries. As a result, Germany did not authorise the sale of submarines and frigates in 1993.<sup>636</sup>

Arms sales are a sensitive aspect of foreign policy. In particular in the case of China and Taiwan where the military balance is a key element for maintaining the status quo. The US has clearly defined its policy in this field both towards Taipei and Beijing. The amount of American weapons that can be shipped to Taiwan is specified by the Taiwan Relations Act of 10 April 1979 and the US-PRC joint *communiqué* of 17 August 1982. On the contrary European governments have continued to authorise arms sales to China - and Taiwan - without a clear strategy or political vision in sight. The best example of this short-sighted European policy was represented by France in 1994. In March 1994 Sino-French relations were further strained by Paris' decision to sale to Taiwan \$2.6 billion more in advanced weaponry, including Exocet, Crotale and Mistral missiles, torpedos, anti-submarine sensors and electronic warfare equipment.<sup>637</sup>

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<sup>635</sup> Personal consultation with Prof. Valérie Niquet, Director, Centre Asie IFRI, Institut Français des Relations Internationales, at the margins of the conference on *Developing a European security perspective on China*, Paris, European Union Institute for Security Studies (EUISS), 3 March 2006.

<sup>636</sup> See Chapter 2.

<sup>637</sup> See Chapter 2.

Following Beijing's strong reaction, France decided to invert this trend by publicly reaffirming China's "sole and inalienable sovereignty over Taiwan". The joint *communiqué* signed in Paris on 12 January 1994 on the eve of the 30<sup>th</sup> anniversary of the establishment of diplomatic relations between France and the PRC was aimed at untangling the Sino-French crisis by declaring that "the French government commit itself not to authorise French firms in the future to participate in the armament of Taiwan", while the Chinese side declared that "French firms are welcomed to compete, on an equal footing, on the Chinese market".<sup>638</sup> In sum, France obtained the reassurance that the loss of the Taiwanese market would be compensated by increased opportunities in the mainland.

At the strategic level, it is interesting to compare the sale of the French Mirages and that of 150 American F16s in 1992. Although George Bush had authorised the sale for domestic purposes and to prevent the purchase of the French fighters, the American administration had also emphasized the strategic aspect of the deal, reaffirming the US' commitment to a peaceful settlement of the Taiwan issue. Washington reminded Beijing that the US had committed itself to reduce progressively arms sales to Taiwan but also to maintain a qualitative advantage in favour of Taipei, which was currently diminishing due to recent acquisitions by the PLA.<sup>639</sup>

In the case of French arms sales to Taiwan, however, concerns for cross-strait strategic balance was largely absent. Driving the French deal were mainly commercial considerations – promoting French companies in order to redress the trade deficit. In the end, taking advantage of Taiwan growing economy was felt more important than to send a message about Taiwan's future. This attitude continued until the end of the 1990s, as demonstrated by the decision of the French government in December 1999 to sell to Taiwan an observation satellite (RocSat-2) built by the defence company Matra (also involved in the Galileo project).<sup>640</sup> The deal triggered severe tensions between Paris and Beijing. China put pressure on France to cancel the deal throughout 2000, insisting on the dual-use of the satellite, but it was unsuccessful. That event would be the last, as France in the last years has not sold

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<sup>638</sup> Wallons (1994); see also Chapter 2.

<sup>639</sup> Michael D. Swaine and Roy D. Kamphausen, "Military Modernization in Taiwan", in *Strategic Asia 2005-06*, pp. 387-422.

<sup>640</sup> See Chapter 5.

Taiwan any important weapons system. French policy makers have, in fact, decided to concentrate on the Chinese market and carefully avoid any move that could upset Beijing.<sup>641</sup>

To sum up, since the early 1990s the EU's Taiwan policy has been driven by commercial considerations. Taipei has been able to cash in on the attractiveness of its market for European companies strengthening in this way Taiwan's external relations and by establishing the island as an important Asian market for European businesses, in particular in the defence, nuclear and transport sector.<sup>642</sup> While EU members have focused on enhancing business opportunities, what about the EC/EU institutions with regard to the Taiwan issue?

### 7.3.2 The European Commission

In the European Commission website it is stated that the EU sticks to the one China policy and recognises the government of the PRC as the sole legal government of China while it recognises Taiwan as an economic and commercial entity.<sup>643</sup> The EU has solid relations with Taiwan in non-political areas and maintains exchanges in various technical fields, such as economic relations, science, education and culture. On 10 March 2003, the European Commission established a permanent presence on the island through the opening of its European Economic and Trade Office (EETO). In line with the EU's one China policy, the EETO does not engage in relations of a diplomatic or political nature. The main purpose of EETO is the promotion of economic ties.<sup>644</sup>

Taiwan is the EU's third (or fourth – it depends on the year) largest trading partner in Asia, after China, Japan (and sometimes South Korea).<sup>645</sup> The Commission promotes trade and investment flows between Europe and Taiwan, and as such Brussels has strongly supported Taiwan's accession to the WTO on 1 January 2002 as the "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu" (or

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<sup>641</sup> Interview, French Embassy in China, Beijing, 24 September 2004 and Personal consultation with Prof. Valérie Niquet, Paris, 3 March 2006.

<sup>642</sup> Ash (2002).

<sup>643</sup> See: [http://ec.europa.eu/comm/external\\_relations/taiwan/intro/index.htm](http://ec.europa.eu/comm/external_relations/taiwan/intro/index.htm).

<sup>644</sup> For more details see the European Economic and Trade Office (EETO) website: <http://www.deltwn.cec.eu.int/>.

<sup>645</sup> Data from the EETO website.

simply “Chinese Taipei”). Moreover, the European Commission holds annual consultations with Taiwan, alternately in Brussels and Taipei, which cover all relevant aspects of the relationship. The last round of consultations took place in Brussels in Summer 2006. With regard to cross-Straits relations, the official position of the EU is the following:

The EU supports the peaceful resolution of differences between Taiwan and the People’s Republic of China, rejecting the use or threat of force. It urges both sides to resume constructive dialogue, and to eschew dogmatic positions. The EU insists that any arrangement between Beijing and Taipei can only be achieved on a mutually acceptable basis, with reference also to the wishes of the Taiwanese population.<sup>646</sup>

This is the official position put forward by the European Commission. What about the position that the EU member states have taken in the CFSP framework?

### 7.3.3 The Council

The Council had taken an active interest in Cross-Strait relations back in 1996. During the missile test crisis in March 1996, the EU Presidency in the CFSP framework expressed “deep regrets”. In the words of the Presidency:

The EU deeply regrets the firing by the PRC of missiles, beginning in the morning of March the 8<sup>th</sup>, into test zones in Taiwan Strait...The EU, recalling the pledge always made by the PRC to stick to its fundamental policy on the Taiwan issue, which is seek a peaceful solution, calls on the PRC to refrain from activities which could have negative effect on the security of the entire region.<sup>647</sup>

Moreover, in July 1999 another crisis erupted, this time provoked by former President Lee Teng-hui’s “Two States Theory”, The Council reacted promptly, with the indication that China should be more self-restrained and that Taiwan should not go too far:

The European Union notes with concern recent developments concerning relations across the Taiwan Strait. The EU supports the principle of ‘One China’. It underlines the necessity of resolving the question of Taiwan peacefully through constructive dialogue. The EU hopes that every effort will be made to clarify misunderstanding and to maintain constructive dialogue. It urges both sides to avoid taking steps or making statements with increase tension.<sup>648</sup>

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<sup>646</sup> Quotation from the website of the European Commission (European Economic and Trade Office in Taipei), [http://www.deltwn.cec.eu.int/EN/eu\\_taiwan/overviewofeu\\_taiwanrelations.htm](http://www.deltwn.cec.eu.int/EN/eu_taiwan/overviewofeu_taiwanrelations.htm).

<sup>647</sup> *Press statement on China’s military exercises off the Taiwan coasts*, Italian Presidency of the EU, 8 March 1996.

<sup>648</sup> *Taiwan: Principle of “One China”*, CFSP Presidency Statement, Brussels, 20 July 1999.



Notwithstanding the above statements by the Presidency of the EU in the aftermath of the two most serious crises in the Taiwan Strait in the last decade, the EU and its member states have kept a rather low profile on the issue since they are quite susceptible to Beijing's concerns. The EU and its member states adhere to Beijing's one China principle, they cannot extend formal recognition to the ROC, nor can they envision extending recognition to an independent Taiwan state. All gestures suspected of this kind of recognition or enhancing the island's political status are forbidden and, thus, likely to engender retaliation by Beijing. As discussed earlier, Chinese leaders had taken concrete reprisals against some EU members for having sold arms to Taiwan.

In sum, neither the EU nor the member states recognise Taiwan as a sovereign state, but only as a separate customs territory or economic entity. Moreover, the European Commission, the Council and the member states have carefully avoided dealing with the ROC-Taiwan authorities on a "government-to-government" basis and taking any act implying political recognition. In contrast to this "common position" - which deliberately maintain a political distance from Taiwan so as not to irritate Beijing - the European Parliament has, on many occasions, explicitly adopted a more favourable stance towards the island.

#### **7.3.4 The European Parliament**

As discussed in Chapter 1, with regard to the CFSP the EP has only consultative power and, as such, it cannot impose its opinion on the Commission or the Council. However, over the years, through the adoption of resolutions, as well as, oral and written questions, the EP has focused on various issues concerning Taiwan. In particular, the EP has followed the island's internal political transformation, Taiwan's participation in inter-governmental organisations, cross-Strait relations, and EU-Taiwan political ties.<sup>649</sup> This stance of the EP has elicited a fair amount of criticism from Beijing.

The fact that Taiwan has become a fully-fledged Western-style democracy is possibly the most important reason for the continuous support given by the EP to the island.<sup>650</sup> When Taiwan launched its first political reform at the end of the 1980s with

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<sup>649</sup> For more details see: Yuchun Lan, "The European Parliament and the China-Taiwan Issue: An Empirical Approach", in *European Foreign Affairs Review*, No. 9, 2004, pp. 115-140.

<sup>650</sup> Interview with Luciano Vecchi, former MEP (Socialist group), Modena, 24 February 2006.

the lifting of martial law and the lifting of the ban on new political parties, some MEPs asked the Council of Foreign Ministers to develop political links with the “Republic of China in Taiwan”.<sup>651</sup> Moreover, at the height of the missile crisis during Taiwan’s presidential election in 1996, the MEPs viewed Beijing’s military exercise as a temptation of interference in Taiwan’s process of political transformation, and expressed their support for the people of Taiwan in the face of Beijing’s “provocative behaviour” of trying to influence the outcome of the election.<sup>652</sup> Moreover, the EP considered the election of Chen Shuibian in 2000, after more than fifty years of rule by the Kuomintang, as a landmark in the development of democracy on the island. The change of majority at the parliamentary level after the legislative elections in December 2001 was seen by the MEPs as a sign that Taiwan had established a fully-fledged democratic system and as a result the EP invited the EU members to recognise the success story of Taiwan’s democratisation and its importance for other Asian countries.<sup>653</sup>

With regard to cross-Strait relations, the year 1996 was a turning point for the EP’s approach to the issue. In two urgent resolutions, the MEPs condemned Beijing’s firing of missiles in international waters close to Taiwan. Since these events, the EP has expressed its concerns and asked the mainland to renounce threats of the use of force for achieving unification. Furthermore, in a landmark resolution on the *EU Strategy towards China: Implementation of the 1998 Communication and future steps for a more effective EU policy* adopted in April 2002 the MEPs emphasized that:

Any arrangement between China and Taiwan can only be achieved on a mutually acceptable basis; expresses the view that the future of cross-Strait relations will depend on both sides’ willingness to demonstrate flexibility...the will and approval of the 23 million people in Taiwan must be respected and accounted for in the light of a hopefully peaceful solution between the parties.<sup>654</sup>

In September 2002 the EP passed a resolution on the *Europe-Asia Partnership*, where concerns were expressed regarding:

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<sup>651</sup> Question No. H-827/88, 17 January 1989, by Selva (PPE group), concerning political relations with the Republic of China in Taiwan.

<sup>652</sup> *Résolution sur la menace d’une action militaire de la République Populaire de Chine contre Taiwan*, adopted by the European Parliament on 15 February 1996.

<sup>653</sup> *Europe-Asia Partnership*, Resolution by the European Parliament on the Commission communication *A strategic framework for enhanced partnership between Europe and Asia*, 5 September 2002.

<sup>654</sup> *EU Strategy Towards China*, European Parliament resolution on the Commission communication to the Council and the European Parliament on a EU Strategy towards China: Implementation of the 1998 Communication and future steps for a more effective EU policy, P5\_TA (2002) 0179, as quoted in Tang Shaocheng, “EU’s Taiwan policy in the light of its China policy”, in *Asia Europe Journal*, No. 1, 2003, pp. 511-525, p. 519.

The arms build-up between China and Taiwan; [the EP] urges both sides to de-escalate the arms build-up and in particular for China to withdraw missiles in the coastal provinces across the Taiwan Strait.<sup>655</sup>

Both resolutions irritated Beijing, as the EP made clear that the mainland's right to use military force in the cross-Strait dispute was unacceptable. In fact, the EP asserted that the EU's adherence to the one China principle is directly linked to its commitment to a peaceful resolution. Moreover, any arrangement between China and Taiwan should be achieved on a mutually acceptable basis. For the first time there was an explicit reference to the will and approval of the people in Taiwan.

In the September 2002 resolution, the EP went even further. By urging withdrawal of China's missiles, the EP clearly interfered with the mainland's internal affairs. It was the first time for the EP to link the EU's adherence to the one China principle with Beijing's renunciation of the use of force. The fact that the resolution urged Beijing to withdraw the missiles threatening Taiwan was a clear demonstration of a significant pro-Taiwanese lobby in the EP.<sup>656</sup>

The resolution urging China to withdraw the missiles was voted with 448 against 26.<sup>657</sup> Following the EP resolutions, Beijing reacted by warning the EP not to impede the development of China-EU relations and "immediately cease" its interference in China's internal affairs.<sup>658</sup> However, China's mild reaction was based on the fact that the EP has only symbolic powers in the making of the CFSP. Beijing has, in fact, constantly lobbied the Commission, the Council and, more importantly, the individual (large) member states in order to obtain political concessions – i.e. silence over the Taiwan question - or for reiterating the one China principle. At the same time, lobbying the EP is the main objective of Taipei's diplomats in Brussels.<sup>659</sup>

The EP has also expressed its opposition to the lifting of the EU arms embargo on China in various occasions. On 19 November 2003, the European Parliament passed

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<sup>655</sup> *Europe-Asia Partnership* (2002).

<sup>656</sup> According to officials of the Taipei Representative Office in the UK, the EP resolutions must be attributed to Taiwan's friends in the EP. Since 1991 there is a Taiwan Friendship Group in the EP which spreads across all political factions. Among the prominent pro-Taiwanese MEPs it is worth mentioning Graham Watson (UK, Lib Dem) and Olivier Dupuis (I, Lib Dem) as some of the more active initiators of resolutions or written questions calling for more support for Taiwan.

<sup>657</sup> Shaocheng (2003), p. 521.

<sup>658</sup> Xinhua (English), 7 September 2002.

<sup>659</sup> Interview, Taipei Representative Office in the UK, London, 28 April 2006.

a resolution with 572 votes against 72 asking the Council not to lift the embargo. On 11 March 2004, leaders of the four German political parties representing Germany in the European Parliament sent an open letter to Chancellor Schröder urging him to abandon his support for the lifting. Furthermore, in November 2005 the EP adopted the Brok's *Report on the Common Foreign and Security Policy* (431 votes in favour, 85 votes against, 31 abstentions). Among other issues, the report calls on the Council not to lift the arms embargo against China and insists once more on a binding EU code on arms exports. In the report, Taiwan is described as a "model of democracy for the whole of China".<sup>660</sup>

The strong words are due to the marginal role played by the EP in the elaboration of the CFSP. As a result, MEPs are largely exempted from any direct political responsibility for their provocative stances vis-à-vis cross-Strait relations. Moreover, Taiwan has never been a political priority for the EU (and the MEPs as well), given its distance and the fact that the EU does not have a direct strategic or political interest in the Taiwan Strait issue, nor does have any credible military power in the region to implement its opinions on Beijing in the way the US can. In other words, Taiwan is perceived as marginal for the EU and its member states when compared to China.<sup>661</sup>

Thus, in the absence of significant pressure from domestic constituencies or external allies – with the exception of the EP – the EU and its member states are extremely cautious about taking positions that might provoke Beijing's hostility. The EU's circumspection is compounded by the fact that all the member states recognise the PRC as representing the whole of China and that they tacitly or explicitly accept Beijing's claim that there is but one China of which Taiwan is a part. As a result, the EU's Taiwan policy is geared towards the status quo, i.e. maintain the stability in order to achieve two objectives: (i) take full advantage of the economic opportunities in Taiwan; (ii) avoid any confrontation with Beijing on the international status of Taiwan so as to continue to take full advantage of the Chinese market.

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<sup>660</sup> *Report on the Common Foreign and Security Policy* (Brok's Report, 28 November, 2005) discussed and adopted by the European Parliament on 2 February 2006; quotation from point 34. Report available at:[http://www.europarl.eu.int/registre/presse/debat\\_du\\_jour\\_daily\\_notebook/2005/en/par/DG-INFO\\_DN\(2005\)04-14\(PAR004\)\\_EN.doc](http://www.europarl.eu.int/registre/presse/debat_du_jour_daily_notebook/2005/en/par/DG-INFO_DN(2005)04-14(PAR004)_EN.doc).

<sup>661</sup> Interview, Council of the EU, Brussels, 18 December 2005.

#### 7.4 The EU's Taiwan policy in light of growing EU-China relations

As discussed earlier, the EU does not have a direct and immediate strategic interest in the Taiwan issue nor does have any serious capability to affect the cross-Strait strategic balance. However, the decision of the EU to invite China play a prominent role in the development of Galileo and the proposed lifting of the arms embargo have prompted strong US' criticism.<sup>662</sup> The Bush administration has argued that with these initiatives the EU could potentially help China's military modernisation and tilt, as a consequence, cross-Strait strategic balance in Beijing's favour. Washington is concerned about China's surging defence spending. According to American analysts, Beijing's increasing purchase of dual-use goods is already altering the military balance across the Taiwan Straits and, more generally, in the Asia Pacific region.<sup>663</sup> In is in this context that the US views the recently established EU-China security-strategic linkage as a move that impacts on Washington's immediate interests in the region with the potential to put at risk American troops committed to the defence of Taiwan. The same perception is held in Tokyo<sup>664</sup> and Taipei.<sup>665</sup>

In this context of growing US-China misperceptions, some EU member states have also stepped up cooperation with China on military matters - as part of the newly established strategic partnerships between Beijing and the large EU members. Back in 1995 the European Commission had identified the People's Liberation Army (PLA) as a potential dialogue partner. Since the establishment of the EU-China strategic partnership in 2003, consultations on security and defence matters, military exchanges and joint manoeuvres with the PLA have been undertaken by some EU member states. Germany has held several rounds of high-level consultations on security and defence with China, underpinned by visits of high-ranking military and civilian representatives such as the General Inspector of the Armed Forces and the German Defence Minister. Moreover, Germany has been training PLA officers at its Military Academy in

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<sup>662</sup> U.S.-China Economic and Security Review Commission, *Symposia on Transatlantic Perspectives on Economic and Security Relations with China*, Washington, 108 Congress, Second Session, Brussels 30 November 2004 and Prague 2 December 2004; available at: [http://www.uscc.gov/hearings/2004hearings/transcripts/04\\_11\\_30\\_transcript.pdf](http://www.uscc.gov/hearings/2004hearings/transcripts/04_11_30_transcript.pdf).

<sup>663</sup> Dwight Perkins (2005).

<sup>664</sup> Interview with Jun Hasebe, Second Secretary, Embassy of Japan in the UK, London, 29 April 2005 and with Otaka Junichiro, Deputy Director, European Policy Division, European Affairs Bureau, Japanese Ministry of Foreign Affairs, Tokyo, 12 May 2005.

<sup>665</sup> Interview, Taipei Representative Office in the UK, London, 26 April 2006.

Hamburg and established a regular anti-terror mechanism dialogue with Beijing.<sup>666</sup> France and China have also established a strategic dialogue and held annual consultations on defence and security matters since 1997, complemented by the training of Chinese military officers. France and China held joint military exercises in the South China Sea in March 2004. Since 2003, the UK has also started an annual strategic security dialogue with the PRC and has also been training PLA officers. Following France, in June 2004 the UK held joint maritime search-and-rescue exercises with the PLA.<sup>667</sup>

The problem is that while consultations on security and military exchanges between EU member states and China are increasing in quantity and quality, there is a certain lack of coordination at the EU level. Security and military issues are still jealously kept within the control of EU member states, thus rendering difficult for the EU to put forward a common and comprehensive security strategy vis-à-vis China and explain it to Washington and to Europe's concerned Asian partners. Moreover, the fact that the EU is not involved in Cross-Strait relations, nor has showed any serious commitment to contributing to find a solution for the future status of Taiwan, has raised concerns both in Tokyo and Washington with regard to Europe's involvement in East Asian security.<sup>668</sup>

Taiwan is not only distant and of no immediate politico-strategic interest for Europe. Taiwan is also economically marginal for the EU and its member states when compared to China. As discussed in previous Chapters, the EU-25 has become China's first trading partner (ahead of the US and Japan), as well as the major supplier of advanced technology and an important source of foreign direct investment. By allowing China to participate in the Galileo project and by officially proposing to lift the arms embargo on China (though currently postponed), the EU has upgraded and expanded the policy of constructive engagement of the last decade to include a security-strategic linkage. In sum, growing EU-China relations appear to have further reduced the scope of the EU's Taiwan policy.

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<sup>666</sup> Personal communication with Dr Heinrich Kreft, Senior Strategic Analyst, Policy Planning Staff, German Foreign Office, 6 March 2006.

<sup>667</sup> For more details see: May-Britt Stumbaum, "Engaging China – Uniting Europe? European Union Foreign Policy towards China", in Nicola Casarini and Costanza Musu (eds.), *The Road Towards Convergence: European Foreign Policy in an Evolving International System*, Houndmills, Palgrave, forthcoming in 2006.

<sup>668</sup> This has emerged from interviews with American and Japanese policy makers.

In the 2003 *China's EU Policy Paper* the one China principle receives a fair amount of attention. Under the heading "strictly abide by the one-China principle", Beijing asks the EU's commitment to the following:

The one-China principle is an important political cornerstone underpinning China-EU relations. The proper handling of the Taiwan question is essential for a steady growth of China-EU relations. China appreciates EU and its members' commitment to the one-China principle and hopes that the EU will continue to respect China's major concerns over the Taiwan question, guard against Taiwan authorities' attempt to create "two Chinas" or "one China, one Taiwan" and prudently handle Taiwan-related issues. In this connection, it is important that the EU

- Prohibit any visit by any Taiwan political figures to the EU or its member countries under whatever name or pretext; not to engage in any contact or exchange of an official or governmental nature with Taiwan authorities.
- Not to support Taiwan's accession to or participation in any international organization whose membership requires statehood. Taiwan's entry into the WTO in the name of "separate customs territory of Taiwan, Penghu, Jinmen, Mazu" (or Chinese Taipei for short) does not mean any change in Taiwan's status as part of China. EU exchanges with Taiwan must be strictly unofficial and non-governmental.
- Not to sell to Taiwan any weapon, equipment, goods, materials or technology that can be used for military purposes.<sup>669</sup>

To complicate matters, there continues to be the ingrained habit among EU member states to pursue diverse and sometimes diverging national foreign policies. For instance, France's close embrace (some diplomats even speak of "intimacy") with China has been accompanied by a change of position with regard to Taiwan. This shift in Beijing's favour was remarkable during the state visit by Hu Jintao, the Chinese President, to Paris in January 2004. On that occasion, President Jacques Chirac stepped up his criticism of Taiwan's planned referendum on 20 March 2004 (which would ask voters whether Taiwan should increase its defences, if China refused to redeploy hundreds of missiles pointed at Taiwan), describing it as a threat to stability in East Asia. In Chirac's words:

Le Gouvernement français confirme sa position constante sur l'unicité de la Chine. Il s'oppose à quelque initiative unilatérale que ce soit, y compris un référendum qui viserait à modifier le statu quo, accroîtrait les tensions dans le détroit et conduirait à l'indépendance de Taiwan. Il considère que les relations entre les deux rives du détroit doivent reposer sur un dialogue constructif afin de trouver un règlement pacifique à la question de Taiwan et d'assurer la stabilité et la prospérité dans la région<sup>670</sup>

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<sup>669</sup> Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, October 2003, Section I (The Political Aspect).

<sup>670</sup> Joint Franco-Chinese Declaration, Paris, 27 January 2004. See also <http://news.bbc.co.uk/2/hi/asia-pacific/3432675.stm>. Following Chirac's remarks, especially the sentence "all initiatives that can be interpreted as aggressive by one side or the other are dangerous for everyone and thus irresponsible", Taiwan's Foreign Ministry spokesman Richard Shih said that Taipei would go ahead with the vote, and blamed China for pressurising European governments on the issue.

In the same vein, in April 2005 Jean-Pierre Raffarin, at that time French Prime Minister, declared that the anti-secession law adopted in March 2005 by the National People's Congress was compatible with France's one China policy.

Among the other EU members, Germany has traditionally maintained a low profile on Taiwan so as not to upset Beijing. The Federal government has consistently reaffirmed the one China policy in many occasions. In January 1993, for instance, Chancellor Kohl refused to approve the sale of 10 submarines and 10 frigates to Taiwan in order not to upset relations with the PRC. Since 1997, with the accession of Gerhard Schröder to the Chancellery, Germany has severely reduced ties with Taiwan.<sup>671</sup> During his state visit to China in December 2003, Schröder declared that Germany would continue not to sell any "sensitive materials" (i.e., weapons) to Taiwan.<sup>672</sup>

At the same time, there are other EU members which are more sensitive to the Taiwan issue, such as Sweden and the Netherlands. These are also some of the member states which have more strongly criticised China's human rights record and have raised their concerns with regard to the lifting of the arms embargo. In sum, the EU's Taiwan policy reveals the persistence by EU member states to pursue different national policies. In this situation, it is difficult to foresee how EU member states may accommodate growing EU-China relations with the EU's Taiwan policy (and without taking into consideration the problem of reconciling European perspectives with those of the US).

## **Conclusion**

What this chapter has sought to demonstrate is that the EU and its member states do not view EU-China security strategic linkage the same way as the US (as well as Japan and Taiwan). Contrary to the US, the EU does not view China as a possible military threat or strategic peer competitor. This largely explains Europe's invitation to Beijing to join in the development of Galileo, advanced technology transfers to China, the proposal to lift the arms embargo (though currently shelved) and the continuation of European arms sales to China. As discussed in Chapter 6, the US has recently accused Beijing of increasing its military spending in a sustained fashion precisely at a time when,

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<sup>671</sup> Interview, German Ministry of Foreign Affairs, Berlin, 10 March 2006.

<sup>672</sup> See: Jean-Pierre Cabestan, "The Role of France in Sino-European Relations: Central or Marginal?", paper presented at the international conference on *The International Politics of EU-China Relations*, London, 20-21 April 2006, p. 16.



according to Washington, there is no pressing external threat to China. This interpretation fuels suspicions in the US and in some of China's neighbours - in particular, Japan and Taiwan - that Beijing is actively pursuing a military build-up. It is in this context and with the idea of the need to contain China militarily that Washington has strongly criticised Europe's establishment of a security-strategic linkage with Beijing since the EU's China policy does not take into adequate consideration, according to the Bush administration, the US' strategic interests in the region.

The difference between the EU and the US' China policy and, more specifically, with regard to the impact of a EU-China strategic linkage on East Asia's strategic balance emerged during interviews conducted by this author with EU policy makers in Europe, China and Japan. In essence, Europeans do not make the same connections as the US do. In fact, the Europeans interviewed do not think that China's participation in Galileo and an eventual lifting of the arms embargo may affect significantly East Asia's strategic balance and have a bearing on Washington's interests in the area. With regard to Galileo, for instance, there emerged from interviews that most of the time the Foreign Ministry was highly unaware of the security-military implications of China's participation in Galileo.<sup>673</sup> Yet, as discussed in Chapter 5, cooperation over Galileo is likely to foster the modernisation of China's space program. Furthermore, the lack of coordination at the national level (between the Foreign Ministry and the office of the Prime Minister/Chancellery and between the former two with the Defence or Transport Ministry responsible for Galileo) and the lack of coordination at the EU level among member states are largely responsible for Europe's tendency to overlook strategic-security considerations, in stark contrast to the US. We will discuss this issue further in the next section devoted to the concluding remarks.

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<sup>673</sup> Most of the people in the Foreign Ministries honestly said to me that they did not have a clue about Galileo and its implications for China's modernisation of its space capabilities. The only authoritative experts of Galileo that this author has been able to access are in the French Defence Ministry (or academics working in close contact with the above Ministry) and in China.

## Conclusion

There is no doubting our commitment to deeper engagement. We want to fully normalise our relations with China. The EU-China relationship continues to expand. And at our last Summit both sides undertook to work for a comprehensive new framework agreement to steer this increasingly complex and important relationship and give political expression to our strategic partnership.

José Manuel Barroso, President of the European Commission, 16 July 2005.<sup>674</sup>

Since 1975, Europe-China relations have been developing steadfastly and since 2003, the relationship has acquired a new strategic significance. After a brief overview of the main points raised in this study, we will discuss the question of China in transatlantic relations and of the emergence of the EU as a global actor and its effective capabilities in that context. In the final part, we will outline some of the most promising avenues for future research.

### 1. The evolution of Europe-China relations

#### *1.1 From secondary relationship to post-Cold War partnership (1975-1995)*

As discussed in Chapter 2, formal relations between the European Community (EC) and the People's Republic of China were established in 1975, following the diplomatic recognition of Beijing by the United States in 1972. However, during the Cold War Sino-European relations were mainly derivative of Cold War imperatives and broader relations with the two superpowers. Strategically, from the mid-1970s, Chinese leaders would oppose any Western moves toward détente with Moscow and strongly support NATO. Such status also afforded China increased access to European defence suppliers. In the second part of the 1970s, Beijing purchased anti-air and anti-tank missiles from Italy and West Germany, radars from France, and jetfighter engines and technologies

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<sup>674</sup> José Manuel Barroso, *The dragon awakes: the EU and China's economic rise*, Shanghai, EU-China International Business School, 16 July 2005; available at: [http://europa.eu.int/comm/external\\_relations/china/docs/barroso\\_speech0705.pdf](http://europa.eu.int/comm/external_relations/china/docs/barroso_speech0705.pdf).

from Great Britain. This was possible since following the re-establishment of US-China diplomatic relations, Washington had accepted that its European partners sold certain weapons to the PRC which the US itself, due to domestic constraints, was still unable to sell.

From the mid-1980s onwards, it was also Western Europe's potential role as a new pole in a future multi-polar world, and not only as a bulwark against Soviet hegemony, that attracted Beijing's attention. Some Chinese scholars had argued for a multi-polar perspective in international relations and had come to the growing realisation that the European integration process would have a major role to play in the gradual political emancipation of Eastern Europe from Moscow. Deng Xiaoping himself called for the establishment of a united and strong Europe.

In an attempt to diversify its growing dependence on Japan and the US for imported technology, China began to increase its commercial ties with West Europeans. After a trade agreement had been signed with the EC in the late 1970s, in 1984 the two sides agreed on a broader Trade and Co-operation Agreement (TCA). The EC offered Most Favoured Nation (MFN) access and included in the Community's Generalised System of Preferences (GSP) provisions from 1980, in stark contrast with Beijing's exclusion from the GSP of the United States. By 1987, two-way trade totalled \$13 billion. This amounted to a mere 15% of China's total foreign trade, and a scant 1% of total EC trade.

The crackdown on students' demonstrations of 4 June 1989 in Tiananmen Square had a considerable impact on China-West Europe relations. In the aftermath of the massacre, the EC responded by imposing a range of sanctions that paralleled those of the US. However, in the months following the massacre China made a number of minor changes to its human rights legislation and these were received by the EC as justification for restoring normal relations. As a result, most of West European sanctions were lifted during the Summer of 1990, with the exception of the arms embargo.

Domestic developments in China after Tiananmen, the end of the Cold War and the gathering pace of the globalisation process created new possibilities for the development of EU-China relations. With the exception of arms sales, cooperation and

trade relations had been fully restored by 1991. Negotiations for China's General Agreement on Tariffs and Trade (GATT) accession, which had been broken off in 1989, were restarted in 1991. The value of Chinese imports accorded GSP preferences increased from 2.9 billion Ecu in 1989 to 14.1 billion Ecu in 1994. Also the EU's aid to China increased significantly in the first half of the 1990s. The only explicit form of political pressure that survived the immediate reaction to the Tiananmen Square events was the EU's practice of tabling a resolution criticising China's human rights record in the annual meeting of the United Nations Commission on Human Rights (UNCHR).

Strategically, by the mid-1990s Chinese leaders had come to perceive the post-Cold War environment as a transition process from a bipolar to a multi-polar system of international relations, while EU policy makers and elites tended to avoid world order issues and became intent on deepening the integration process and on equipping the EU with a common foreign and security policy.<sup>675</sup> It was argued in Chapter 2 that it was the German China policy model that would have a significant impact upon the subsequent development of the EU policy of engagement towards China. Germany's approach to Beijing – spearheaded by the Kohl government - has been founded on three principles: (i) silent diplomacy – i.e., no confrontation with Beijing on human rights or other sensitive issues; (ii) change through trade – i.e., encouraging political liberalisation in China via economic development; and (iii) a strict “one China” policy – i.e., without conceding to the pro-Taiwanese lobby. The success of the Germany's China policy made an impact on the rest of Europe's policy making elite. Thus, by the mid-1990s, due to the new weight acquired by Germany after the reunification, its lead in formulating a pragmatic approach to Beijing, and the awesome commercial results that ensued from it, Germany's China policy had succeeded in influencing the behaviour of the other EU member states (especially the large ones). With the publication of its first policy paper on China in 1995, the European Commission officially laid down this new policy of engagement towards Beijing, which came to be characterised as “constructive engagement”.

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<sup>675</sup> For more details on the question of how far European governments and elites responded to the transformation of their strategic environment at the end of the Cold War by rethinking their strategic foreign policies see: Robin Niblett and William Wallace (eds.), *Rethinking European Order: West European Responses 1989-1997*, Basingstoke, Palgrave, 2001.

### *1.2 The EU's China policy in the context of the EU's New Asia Strategy*

As discussed in Chapter 3, the normalisation of relations with China in the post-Cold War period was part of the development of a new EU's Asia strategy. The German government became the first EU member state to put forward, in 1993, a strategy towards Asia. In the *Asien Konzept der Bundesregierung*, Germany outlined the new significance of the Asian markets for Europe. This had become evident since 1992, when the EU trade with Asia overtook EU-US trade for the first time. The German concept paper stated that Germany - and Europe as a whole - had to face the challenge of an economically thriving Asia and strengthen economic relations with the largest growth region in the world. The view was held in Bonn that Germany's economic interests would increasingly depend on the ability of German companies to enter into Asian markets. Because of the sheer magnitude of Asia, it was felt that the Federal Republic had to necessarily work through the EU in order to increase its political and economic leverage *vis-à-vis* the region.

While the United Kingdom (UK) and France had been traditionally known for their leaning towards Asia resulting from their past involvement in the region, this new German interest was something of a novelty. Following up on Germany, other EU members started to give Asia a higher priority and in 1994 the European Commission released its Communication *EU's New Asia Strategy* (NAS), with the aim to strengthen the Union's economic presence in Asia as well as contribute to the development and consolidation of democracy and the rule of law, and respect for human rights and fundamental freedoms in the region. In a further development of the EU's Asia strategy, the EU and ten East Asian countries established the Asia-Europe Meeting (ASEM) in 1996. Over the years, ASEM has become the most important inter-regional forum for discussion and cooperation between the EU and East Asia. In this context, Chinese and French leaders, in particular, have come to support ASEM because they see it as an additional factor contributing to the emergence of an East Asian bloc independent of Washington and, more generally, to the trend towards the multi-polarisation of the international system. Since the mid-1990s, the NAS and ASEM have provided the broader frameworks within which the EU has developed the policy of constructive engagement towards China.

### *1.3 The EU's policy of constructive engagement towards China*

As discussed in Chapter 4, in the context of the NAS, in July 1995 the European Commission released its Communication *A Long-Term Policy for China-Europe Relations*. The document declared that “the time has come to redefine the EU’s relationship with China, in the spirit of the new Asia strategy”. With the aim to put the EU member states’ relationships with the PRC into a single integrated framework, the Commission declared that relations with China are bound to be a cornerstone in Europe’s external relations, both with Asia and globally. While the analysis concentrates on China’s economic upsurge and the potentialities of its market for European business, the paper lays down a strategy of constructive engagement for integrating China in international society.

Since the mid-1990s, the EU’s policy of constructive engagement has come to define Europe’s approach to China. In essence, constructive engagement stands for Europe’s support for China’s fullest possible involvement in the international arena, whether in the economic, social, political, environmental, security-strategic or military dimensions. The focus of the policy of constructive engagement has been on helping China support its transformation process to become a good citizen of international society, with the underlying belief that this approach would lead, over time, to greater political liberalisation and promotion of human rights.

The policy of constructive engagement puts a lot of emphasis on economic matters, following the emergence of a new discourse on economic security in both the EU and China since the beginning of the 1990s. The advocates of this discourse have propounded the idea that, on the one hand, Europe’s protection of its (relative) welfare position is increasingly linked to China’s development and the capacity for European companies to acquire growing shares of the Chinese market. On the other hand, Chinese policy makers have expressed the idea that China’s economic security and modernisation process would increasingly depend on fostering relations with European countries, in particular for obtaining advance technology that would be more difficult to acquire from the US or Japan. China’s access to modern technology is crucial for sustaining the country’s economic growth, which is one of the three main historical tasks established by Deng Xiaoping as the litmus test for the legitimacy of the post-Mao CCP leadership. As a result of this two-way linkage, EU-China commercial ties have grown impressively in the last years.

Since 2004, the EU-25 is currently China's biggest trading partner and one of its most important foreign investors. Between 2000 and 2004, EU-China trade almost doubled, with exports rising from €25.8 billion to €48 billion and imports growing from €74.4 billion to €126.7 billion. Since 1978, when China started to open up its economy, EU-China trade has increased more than 40-fold to reach around €175 billion in 2004. China trade imbalances are increasingly creating problems with the EU. The Union's trade deficit with China increased from €48.6 billion in 2000 to €78.7 billion in 2004. This is the EU's largest bilateral trade deficit and it almost doubled over the last four years. The Union and China are – so far – quite complementary in the global division of labour. China exports to the EU mainly labour-intensive goods, or mechanical and electrical products with low technology content, while the EU exports to China largely capital-intensive goods, such as steel and chemical products or technology-intensive goods. However, in the last years China's active industrial policy is turning the country into a low-cost competitor in high-skill industries. Consequently, China has started to seriously challenge EU industries that are considered sensitive, in particular the chemical, engineering and the textile sectors. The latter, in particular, has become a contentious issue across Europe, reinforcing the perceived need of protectionist measures against China.

EU member states compete against each other for China's market shares in order to redress the growing bilateral trade deficits and maintain the global competitiveness of their companies. This European scramble for the Chinese market has been skilfully exploited by the Chinese leadership in order to obtain political concessions, usually in the form of silence over sensitive issues pertaining to China's domestic affairs (human rights violations, political liberalisation, Tibet, Xinjiang, etc) or national pride (Taiwan). By giving priority to commercial considerations and by tending to shy away from openly criticising Beijing, the large EU members have been greatly responsible for the Union's overall diminution of critical pressure. This attitude has repeatedly met with criticism from the European Parliament (EP), the smaller EU members (especially the Nordic countries) and NGOs. The EU's approach has also been criticised by the US on the grounds that the large EU members' tendency to adopt an uncritical attitude towards Beijing has not been supportive of the West's efforts to bring about political change in China. The shift towards a more uncritical attitude was manifest most visibly in the decision of the EU to cease supporting a motion against China in the United Nations

Commission on Human Rights (UNCHR). In return for this conciliatory approach, China agreed to re-engage in a dialogue on human rights, a *quid pro quo* imposed most strongly by the more principled Nordic countries.

Since 1998 the EU-China human rights dialogue has been held twice a year. It constitutes the only platform to engage China on sensitive issues and for the channelling of EU concerns directly to the Chinese authorities. Moreover, the Commission supports a number of human rights related co-operation programmes (on village governance, legal co-operation, promotion of women's rights, network on Human Rights Covenants etc.) aimed at Chinese civil society. In sum, it appears that there has been a division of labour in EU foreign policy towards China. While the EU level (i.e. the European Commission) and the more principled EU member states (mainly the Nordic countries) have aimed at engaging Chinese civil society and put human rights and democratisation pressure on Beijing, the large EU members have rather engaged the Chinese state by seeking to maintain good political relations with Chinese leaders in order to boost commercial exchanges.

Overall, Europe's approach is based on the belief that by engaging Beijing in a constructive way at all levels and in all dimensions and by concentrating on supporting China's transformation process, over time the Union would be able to acquire more leverage over political developments in China. It is this belief that sustains – and qualifies – the policy of constructive engagement. To translate this approach into concrete action, in the last decade the European Commission and the EU member states – in particular the Nordic countries - have channelled a considerable amount of resources and energies into projects aimed at supporting China's transformation process. In Chapter 4 we examined the Nordic countries' development policies with China, which stand out among EU member states both in terms of financial commitment and number of projects. Moreover, we also looked at a more sophisticated form of cooperation, namely the UK's support - through top British financial people – to China's banking and financial sector reform. Finally, we examined the growing cooperation projects and sectoral dialogues that the European Commission has launched over the years, with the aim to support China's integration in the international community and promote the country's transition to an open society. Since 2003, this EU's policy of constructive engagement has been widened and deepened to include a significant security-strategic dimension.



#### *1.4 Strategic partnership*

As discussed in Chapter 5, since 2003, the EU and China have upgraded their relations to strategic partnership. Central to this strategic partnership is the idea that relations between the EU and the PRC have gained momentum and acquired a new strategic significance. More significantly, the declaration of strategic partnership in October 2003 was accompanied by two substantial moves: the signature of the agreement allowing China to participate in the Galileo global navigation satellite system and the promise by EU policy makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo imposed on China in the aftermath of the Tiananmen Square crackdown on students.

The development of a security-strategic linkage between the EU and China has increasingly attracted the attention – and concern – of the United States. According to Washington, the above initiatives may contribute to help China's military modernisation and potentially tilt East Asia's strategic balance in Beijing's favour in a situation where there could be future tensions in US-China relations, especially over Taiwan.

The central political and strategic question with regard to China's participation in Galileo is the access to the encrypted signals. China has not been officially denied access to these encrypted signals since Beijing is taking part to the development of the applications of the satellite network. EU officials have stressed that a "security firewall" will be put in place though they recognise that Galileo is part of the development of a security-strategic linkage with China and that as such the final content and mechanism of China's participation in Galileo will be determined by the overall evolution of EU-China political relations.

The EU-China agreement on the joint development of the Galileo satellite system highlights the divergent approaches between the EU and the US towards China's rise and the emerging global space order. Galileo must be seen as the logical extension in the security-strategic dimension of the policy of constructive engagement that has characterised EU foreign policy towards China since the mid-1990s. While both Europe and the US engage economically with Beijing in order to exploit the opportunities offered by its seemingly limitless market, contrary to Washington, the EU does not perceive Beijing as a military threat or as a potential peer competitor that needs to be

contained. Moreover, Galileo reflects the different conception between the EU and the US regarding the use of space and the emerging global space order. In essence, Washington places an emphasis on space power and control, while Europe stresses that the space should be used peacefully. Thus, while the US concentrates on leveraging the space to provide America and its allies an asymmetric military advantage, the Union is more concerned in creating useful – i.e. commercial – space applications for European peoples and industries. For the EU, Sino-European cooperation on space-based technologies is meant to boost commercial activities while the US looks at space from a different angle, i.e. the protection of its global interests and primacy in world affairs.

The Galileo project – like other pan-European aerospace programs such as Airbus and the Ariane launcher – must be seen as part of the development of a strong and independent European aerospace sector in the post-Cold War era. France is the EU member state which has promoted more strongly European autonomy. In this sense, Galileo is part of France's efforts at challenging the existing configuration of power in the international system. Paris has succeeded in influencing the other EU space powers - Germany, Italy and Spain - to establish a security-strategic linkage with Beijing over the use of space. France – along with the Schröder government (1997-2005) – has also been the strongest advocate of the lifting of the EU arms embargo on China.

As discussed in Chapter 6, by the mid-2004 all EU governments had agreed to start discussions on the procedures and criteria for lifting the EU arms embargo on China. However, due to the strong opposition of the US, the passing of the anti-secession law by the National People's Congress in March 2005 (clearly directed at Taiwan), and the lack of any serious progress in Beijing's human rights record and legislation, the EU members have decided to postpone any decision on the lifting. The impasse on the arms embargo, however, has led EU member states to steer EU foreign policy towards China in a new direction. In the aftermath of the official shelving of the arms embargo issue, the EU has established the EU-China strategic dialogue (initiated in December 2005) alongside the EU-US and EU-Japan strategic dialogues on East Asia (initiated in September 2005). These newly established consultative mechanisms serve the purpose to move forwards EU-China relations by taking into account American - and Japanese - perspectives.

For the EU the development of a EU-China security-strategic linkage is meant to upgrade relations with China and to build trust with Beijing. For the Bush administration, however, these European initiatives could help China's military modernisation and potentially tilt East Asia's strategic balance in Beijing's favour in a situation where there could be future tensions in US-China relations, especially over Taiwan. With initiatives like the proposal of lifting the 17-year old arms embargo, argues the US, the EU is disregarding (i) the US' strategic interests in East Asia and (ii) the role of Washington as the ultimate guarantor of regional security.<sup>676</sup>

The establishment of the strategic partnership has revealed profound differences between the EU and the US on how to deal with China's rise. While the EU and its member states do not perceive China as a military threat, some powerful voices in the US argue that China is intent on challenging US' strategic interests in the Asia-Pacific and, as such, Beijing needs to be contained. While Chinese leaders insist that their country is engaged in a "peaceful rise" and "harmonious development", the more conservative elements of the Bush administration argue that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait.<sup>677</sup>

As discussed in Chapter 7, the US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of diplomatic recognition from Taipei to Beijing. On the basis of the Taiwan Relations Act, the US export weapons to the island. The US President, George W. Bush, declared in April 2001 that the US would do "whatever it takes" to defend Taiwan against an attack by mainland China. Washington has recently reminded Beijing that the US has committed itself to reduce progressively arms sales to Taiwan but also to maintain a qualitative advantage in favour of Taipei which, according to the above mentioned MPPRC Report, is currently diminishing due to recent acquisitions by the PLA. Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of the Chinese territory. In March 2005 the

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<sup>676</sup> See: U.S.-China Economic and Security Review Commission, *Symposia on Transatlantic Perspectives on Economic and Security Relations with China*, Washington, 108 Congress, Second Session, Brussels 30 November 2004 and Prague 2 December 2004.

<sup>677</sup> 2004 Report to Congress of the US-China Economic and Security Review Commission. Chapter 8: China's Military Modernization and the Cross-Strait Balance.

Chinese National People's Congress adopted the anti-secession law, which reiterates the "sacred duty" for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Any tension in Cross-Strait relations could presage tensions between Washington and Beijing. In this context, recent European initiatives aimed at establishing a security-strategic linkage with Beijing are impacting on US-China relations. This explains American strong opposition against the lifting of the arms embargo, as well as the request to obtain reassurances from European partners that China will not be allowed to access the encrypted features of the Galileo satellite system. In sum, the recently established strategic partnership, aimed at upgrading the policy of constructive engagement to include a significant security-strategic dimension, has brought up the question of how different the EU and the US' China policy have become in the last years.

## **2. China in transatlantic relations**

There are both similarities and differences between the EU and the US' China policy. With regard to similarities, at the most basic level, the US and the EU share the commitment to see China integrated in international society and become a responsible stakeholder in the global system. Both would like China to be a status quo rather than a revisionist power and believe that by enmeshing Beijing in international institutions they may help ensure this outcome by supporting China's socialisation and acceptance of international norms of behaviour. This approach can be said to have guided both Europe and the US since the late 1970s.

Both the EU and the US want to bind China into international organisations. Moreover, they both have an interest in the improvement of human rights in China. While Washington has tended towards public diplomacy and the tabling of resolutions on China at the UN Human Rights Commission in Geneva, the Europeans (mainly the European Commission and the more principled EU members) have preferred private diplomacy and encouraged China's ratification of – and adherence to – UN human rights covenants. Both the EU and the US support the good governance and the rule of law in China, with the aim to improve respect for human rights, help the smooth functioning of a market economy, and create legal safeguards against an arbitrary and

repressive state. Both the EU and the US would like China to adhere to the Nuclear Non-Proliferation Treaty (NPT), as well as to adhere and fully implement the obligations stemming from WTO membership. In sum, the EU and the US have both an interest in supporting China's integration in the international community and help the country's transformation into an open society.

Notwithstanding the commonalities, there are growing transatlantic differences with regard to China. The first and foremost is the way the EU and the US view China. The EU does not perceive China as a military threat nor as a potential peer competitor. The more conservative American policy makers and scholars, on the contrary, view China mainly through military lens and some American think tanks (in particular, the RAND) have been active in the last decade in putting forward scenarios of China becoming a peer competitor of the US and seriously challenge Washington's dominant position in the Asia-Pacific. In certain conservative quarters of the policy making elite in Washington, China is perceived as the greatest threat to American primacy in world affairs. The latter is a goal repeatedly stated by some powerful and influential conservative think tanks such as the American Enterprise Institute (AEI) and the Project for the New American Century (PNAC).

Europe has not bought into the China's threat discourse coming from Washington. Contrary to Sino-American relations, EU-China ties have continued to improve steadily both in the economic and security-strategic (and even military) dimensions. This policy of engagement with China at all levels and in all dimensions is explained by the fact that, unlike the US, the EU does not have immediate strategic interests in the Asia-Pacific, nor is there a Taiwan question that could trouble EU-China relations. In this context of complete absence of issues that could provoke a conflict between the two sides (as opposed to US-China relations), since 2003 the EU has established a security-strategic linkage with Beijing, on already sound economic bilateral relations – and actually with the intention to boost the latter. Today, the political and security-strategic dimensions in EU-China relations have become – according to European Commission officials – as important as the more traditional economic and commercial ones. While there is a clear separation in the US' China policy between the economic – which has continued to flourish - and the security-strategic and military dimensions – which is the one that poses problems - in the case of

he EU it is precisely the security-strategic dimension that has been fostered in recent years.

In essence, by inviting China to play a prominent role in the development of the Galileo satellite system and by proposing to lift the arms embargo (though the latter is currently shelved), the EU and its member states intend to build trust with China. It is, in other words, the extension in the security-strategic dimension of the policy of constructive engagement that has characterised the EU's China policy in the last decade. On the contrary, the Bush administration appears to be concerned about China's military modernisation and power projection. The US's paramount interest is to avoid that China becomes a peer competitor able to challenge America's dominant position in the Asia-Pacific.

In sum, the way the EU and the US view China is probably the most striking difference between the two and has an impact on their respective China policy. With regard to the EU, the examination of the EU foreign policy towards China of the last decade contained in this study indicates that the EU and its member states have firmly adhered to the arguments in favour of engagement at all levels and across all dimensions. The overriding general objective of the EU's China policy in the last decade has been to promote the fullest possible Chinese involvement in the international arena, whether in the economic, social, political, or security-strategic dimensions. This objective is based on the understanding that in a situation of growing interdependence, the developments in China not only have a far-reaching impact on itself, but also have global and regional implications. As a result, the EU believes that an engagement policy with China at all levels and in all dimensions is conducive to supporting China's integration in the world economy and its transition to an open society. The transformation of China into a good citizen of international society is seen in Europe (and in the US) as a highly strategic objective since a fully integrated China will be a responsible stakeholder in the international system. Furthermore, since China plays an increasingly important role in maintaining regional stability, political developments in China that could affect East Asia's security environment would have a direct detrimental effect on China's – and East Asia's - economic growth and, consequently, on EU exports and FDI in the region, thus impacting directly upon EU's economic interests and security. For all the above reasons, the EU thinks that it is in its interests

(and of the international community as a whole) to engage firmly and fully (i.e. across all dimensions) with Beijing.

The US' China policy, in contrast, is a combination of containment and engagement. While China is an important commercial partner of the US, Beijing is neither a political partner nor a military ally of Washington. Henry Kissinger has characterised the US-China relationship as "beset with ambiguity".<sup>678</sup> In the 2006 Quadrennial Defence Review Report (QDRR) the Department of Defence identifies China as having "the greatest potential to compete with the United States and file disruptive military technologies that could over time offset traditional U.S. military advantages absent U.S. counter strategies".<sup>679</sup> The Pentagon's perception of China as a military threat appears to contrast with assessment by officials of the State Department or the Office of the National Intelligence. Robert Zoellick, currently Deputy Secretary of State, has urged China "to become a responsible stakeholder" in the international system. According to John Negroponte, the Director of National Intelligence, China must be seen rather as a challenge than as an enemy or military threat.

American scholars and policy makers alike can be divided, broadly speaking, in three different schools of thought. One side of this debate points to China's accumulation of military capacity, its emergent economic strength and its increasingly nationalistic and adversarial postures on certain issues – in particular on the Taiwan question. As a consequence, they advocate a firm US (and possibly Western) policy of restricting the projection of such power. The scholars and policy makers in favour of a containment policy are to be mainly found in the Department of Defence and in the more conservative think tanks (American Enterprise Institute/Project for the New American Century, the Heritage Foundation, the Cato Institute), but also within more liberal think tanks (the Brookings Institution and the Center for Strategic and International Studies). To those arguing for such a policy of containment, lenient policies undertaken with the aim of securing strategic partnership with China would merely embolden the Chinese Communist Party (CCP) in its authoritarianism at home, encourage further nationalistic posturing abroad, and, by facilitating the growth of China's trade surplus, provide resources for additional arms development.

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<sup>678</sup> Henry Kissinger, "Conflict is not an option", in *International Herald Tribune*, 9 June 2005, p. 9.

<sup>679</sup> US Department of Defence, *Quadrennial Defence Review Report*, Washington, 6 February 2006, p. 29.

On the other side, there are those who favour an engagement policy vis-à-vis China. The advocates of engagement argue that China is still relatively weak militarily (compared to the US), spending less as a proportion of Gross Domestic Product (GDP) on defence than the US and still handicapped by relatively primitive military hardware based on Soviet technology. Moreover, some scholars argue that the potential of the Chinese market may be overstated and that China is facing so many internal challenges that the Chinese leadership needs a stable and peaceful international environment in order to focus on domestic issues. Among the problems that are presenting a challenge to the current Chinese leadership there are the role of the CCP, political liberalisation, ethnic conflicts, but also the social costs of the reform of the ailing State-Owned Enterprises (SOEs), unemployment, inflation, the growing gap between rich and poor and between the coastal areas and the interior, migration due to inequalities in regional development or to environmental degradation. In sum, for the advocates of engagement, the above problems suggest the need for cooperation with China at the bilateral level as well as in multilateral (i.e. UN, WTO), inter-regional (APEC) and regional bodies (ASEAN Regional Forum). Hence, the insistence of some American scholars and policy makers on a firm policy of engagement toward China. Traditionally, members of this approach are found in the Department of State and the Bureau of the US Trade Representative, as well as within the more liberal think tanks (with some exceptions, as discussed earlier).

For other commentators, the containment versus engagement debate does not fully capture the complexity of the US-China relationship and its consequences for the Asian region. Some scholars currently argue that there could be no question of not engaging with China and supporting China's new regional diplomacy, but that there is equally no good reason for pandering to China and being less critical to its authoritarian regime. These commentators tend to advocate a combination of the stick and the carrot: a firm security posture – especially with regard to any unilateral move by China to take Taiwan by force – but at the same time behaving in a constructive way towards Asia and China, since it if appears that the US are provocative toward Beijing, that might force regional actors to make a stark and unwelcome choice between Beijing and Washington, with the risk to jeopardise US' policy in the region.

Chinese leaders insist that their country is engaged in a “peaceful rise” and “harmonious development”. However, some powerful voices in the US argue that China



is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait. Any tension in Cross-Strait relations could thus presage tensions between Washington and Beijing. In this context, recent European initiatives aimed at establishing a security-strategic linkage with Beijing are impacting on Sino-US relations. This explains the strong opposition of the US against the lifting of the arms embargo and the need to obtain reassurances from European partners that China will not be allowed to access the encrypted features of the Galileo satellite system. The arms embargo issue, in particular, has become a “wake-up” call for the US and has led some American commentators to dub Europe an “irresponsible” player in East Asia. Robert Zoellick, currently US Deputy Secretary of State and himself in favour of a policy of engagement with China, posed the following question in April 2005 with regard to the EU proposal to lift the arms embargo on China: “As Europe becomes a larger player on a global stage, we urge it to consider some of the messages it sends. Why would Europe want to send that symbolic message to this point?”.<sup>680</sup> Zoellick’s remark point out to the question of the emergence of the EU as a global actor, of its pretensions, as well as of its effective capabilities. We will discuss it further in the following – and last – section, before moving to the discussion of the future research agenda.

### **3. China as a test for the emergence of the EU as a global actor**

China is a test for the EU foreign policy and, more generally, for the emergence of the EU as a global actor. As discussed in the introduction, during the Cold War, the role of the European Community was to provide vital economic and military support for the US in its efforts to contain the Soviet Union and in this context it constituted a key part of the Cold War global order. According to Hans Maull, the EU will continue to be a civilian power which, however, does not entail an inability or unwillingness to use military power, but rather it suggests the specific way in which military power is exercised and applied – i.e. towards a civilising of international relations.<sup>681</sup> At the same time, as discussed in Chapters 4 and 5, the EU is also a power able to influence China. Its principal instruments of influence are its economic weight, advanced technology resources, and soft power – mainly in the form of the various development aid and cooperation programs launched by the European Commission and the EU member

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<sup>680</sup> *International Herald Tribune*, 6 April 2005.

<sup>681</sup> Hans Maull, “Europe and the New Balance of Global Order”, in *International Affairs*, Vol. 81, No. 4, 2005, pp. 775-799.

states, in particular the Nordic countries. In the above mentioned article, however, Maull argues that “the EU is not a power in international relations in the traditional sense of the word and it is unlikely to become one any time soon”.<sup>682</sup> As suggested throughout this study, though, in the case of the EU’s China policy the EU and its member states have also pursued actions and displayed behaviours that we would have expect to come from a power in the traditional sense of the word.

As discussed in the central Chapters of this thesis, the EU’s China policy does show elements, today, that can be associated to those of a traditional power. The point here is not that the EU is either a civilian power whose aim is civilising international relations or a power in the more traditional sense of the word which pursues power politics. The examination of the EU foreign policy towards China shows that, today, the Union is both. On certain policy issues the EU does indeed show a distinctive behaviour that we would expect from a civilian-normative or soft power. For instance, we discussed in Chapter 4 the growing number of cooperation projects by the European Commission and the Nordic countries aimed at civilising China according to Western values and at transforming the country into an open society. At the same time, on other issues the EU and its member states pursue policies and initiatives that we would expect to come from a more traditional power. For instance, in the case of China’s participation in the Galileo satellite system discussed in Chapter 5 the EU and some of the large EU members have intentionally sought to cooperate with the PRC in order to counter a perceived American primacy in the aerospace sector. Moreover, the proposal to lift the EU arms embargo on China discussed in Chapter 6 is clearly aimed at taking advantage of the opportunities offered by China’s defence procurement budget, the second largest in the world after the US. The decision of the EU and its member states to establish a security-strategic linkage with China derives from the desire to acquire new markets for the European defence industry and counter American primacy in the defence and aerospace sector.

The existence of both civilian – or soft power - Europe and great power Europe comes from the distinctive type of international actor that the EU is. This dual nature derives from the diversity of the actors involved in the EU foreign policy. We discussed in Chapter 4 that there has been a division of labour in EU foreign policy towards China. While the EU level (i.e. the European Commission) and the more principled EU

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<sup>682</sup> Ibid., p. 793.

member states (mainly the Nordic countries) have been used to engage Chinese civil society and put human rights and democratisation pressure on Beijing, the large EU members have rather engaged the Chinese government by seeking to maintain good political relations with the Chinese leadership in order to boost commercial exchanges. Moreover, as discussed in Chapter 5, the large EU members have pushed more strongly in favour of the establishment of a security-strategic linkage with Beijing.

What does the above say with regard to the emergence of the EU as a global actor and its capabilities here? As discussed above, the EU is indeed an international actor whose policies towards China have started to impact on the US' strategic interests in East Asia. In terms of capabilities, however, we discussed in Chapter 6 that the EU and its member states decided to shelve the proposal to lift the arms embargo following the strong opposition by the US and the internal debate among EU members on China's improvement of its human rights' record and legislation. The main hindrances to Europe's capabilities in world affairs are, thus, both exogenous and endogenous. With regard to the former, the traditional alliance with – and sometimes, dependence from – the US has played a role in the development of the EU's China policy. As discussed in Chapters 5 and 6, Washington strongly opposed the lifting of the arms embargo and requested reassurances from European partners that China will not be allowed to access the encrypted features of the Galileo satellite system.

With regard to the endogenous factors, as discussed in Chapter 1, the weaknesses of Europe's foreign policy making mechanisms are largely responsible for the incapacity of the Union to pursue common policies and speak with a single voice. However, some critics of EU foreign policy may argue that it is precisely because of this complex foreign policy making mechanism that the more principled EU members have been able, for instance, to block an eventual decision in the CFSP framework to start discussions on the lifting of the arms embargo. This tension is likely to persist for the foreseeable future.

The analysis of EU foreign policy towards China in the last decade raises the question of whether the EU is also a strategic international actor. In other words, whether European governments have been willing and able to think “strategically” about their place in the world, their preferred pattern of world order, and their preferred strategic partners. As discussed in Chapter 5, since 2003 it appears that EU policy

makers, both at the EU and national level, have started to think strategically about China. However, it seems that this European strategic approach is the result of the insistence of the Chinese leadership to think about EU-China relations in strategic terms and place the Sino-European strategic partnership within discourses of the emerging global order. China's interest in cultivating a partnership with the EU and, individually, with the large EU members (UK, France, Germany, and Italy) is part of China's attempt to cope with the constraints of American power in the post-Cold War era and to hasten the advent of an international system in which the US would no longer be so dominant. Chinese policy makers and scholars repeatedly stress that Beijing's partnerships with other great powers are both a reflection of the transition to multi-polarity and an arrangement that will accelerate the process.

In this vein, Chinese leaders have repeatedly stated that the strategic partnership with the EU should serve to promote global multilateralism, the democratisation of international relations and what is being referred to as global multipolarisation. In Beijing's view, China and the EU are both on a peaceful rise, i.e., on the way to become global balancing forces pursuing similar international political strategies. Thus, Chinese leaders hope to enlist the EU as one of the emerging poles that, at least in principle, could work with Beijing on fostering a multilateral environment and limit some of the perceived American unilateral attitudes in world affairs. The discourse on multipolarity is shared by some EU policy makers, in particular the French political elite and, to a lesser extent, elements within the European Commission in Brussels. Both China's and France's discourse on multipolarity, however, cannot be seen as power balancing in the classic sense. In the case of China, multipolarity is taking the form of the establishment of strategic partnerships with other great powers within a broader multilateral system based on the United Nations and international law. For French policy makers as well, the notion of multipolarity is not employed for balancing against the US in the classic sense, but rather for meaning a benign multipolar international system whose *modus operandi* is multilateralism.

Thus, it seems that both Chinese and French leaders were willing to think strategically about their place (in the case of French leaders, this place would be both France and Europe) in the world, their preferred pattern of world order, and their preferred strategic partners. As discussed in Chapter 5, EU policy makers have remained vague with regard to the concrete objectives and purpose of the strategic

partnership with China (with the only exception of French leaders). Nonetheless, the EU and its members states have clearly stressed multilateralism as a common ground for the development of the EU-China relationship. Europe's preferred strategic partners, in the same vein, are those countries which, according to the *European Security Strategy*, are committed to an effective multilateral system and to upholding and developing international law and the role of the United Nations. The EU hopes to enlist China among the countries that are committed to an effective multilateralism. The ESS makes also clear that the transatlantic relationship is irreplaceable and that the EU is seeking an effective and balanced partnership with the US. In this lies one of the most crucial challenges ahead for the EU: to accommodate the emerging EU-China strategic partnership – based on multilateralism and largely shared views on global order that try to limit some of the perceived unilateral attitudes of the current Bush administration – with the traditional transatlantic relationship, in a situation characterised by American primacy and its doctrine of pre-emptive strike.

As discussed in Chapter 2, China has a long history of wanting to triangulate between global power centres in order to lessen the strength of the dominant power that appears most threatening to its interests. It was the US in the 1950s and 1960s and the Soviet Union in the 1970s and 1980s, following the Sino-American rapprochement. Moreover, from the mid-1980s onwards, it was also Western Europe's potential role as a new pole in a future multi-polar world, and not only as a bulwark against Soviet hegemony, that attracted Beijing's attention. Since the end of the Cold War, Chinese leaders had come to perceive the post-Cold War environment as a transition process from a bipolar to a multi-polar system of international relations and have argued in favour of a stronger EU as a potential balancer against American primacy. In the declaration of strategic partnership signed in October 2003, Chinese leaders clearly expressed their desire to enlist the EU as one of the emerging poles that, at least in principle, could work with Beijing on fostering a multilateral environment and limit some of the perceived American unilateral attitudes in world affairs.

The discourse on multipolarity is largely shared by the EU core members, in particular after the 2003 US' war against Iraq. However, the UK and the more Atlanticists Central and Eastern European countries are wary of openly challenging Washington by supporting a discourse on multipolarity that, if on one side appears to appease European public opinions disaffected by America's pre-emptive actions is, on

the other side, quite devoid of practical content and meaning. Thus, EU member states have come to agree on a multilateral international system as the preferred pattern of world order and stressed that the EU-China strategic partnership is based on this shared principle.

If the establishment of the EU-China strategic partnership will succeed in building trust with Beijing and further integrate China in international society and, at the same time, advance multilateralism, it will be a success for the EU. Moreover, if Europe convinces Washington's policy makers of the need to consult with Europeans on the West's China policy – with the hope that the more conservative views in Washington who view China as a threat may be lessened by a structured dialogue with the European partners – it will also be a success. With all the contradictions and recurrent setbacks of EU foreign policy, it is the hope of this author that if the EU succeeds in the above tasks – full integration and socialisation of China at all levels and in all dimensions, the lessening of the more US aggressive postures towards Beijing that could lead to mutual misperceptions and misunderstandings, and the advancement of an effective multilateral international system – it will be possible to argue that the EU will have succeeded in emerging as an effective and responsible global actor that aims at civilising international relations. It may be wishful thinking, but this author firmly believes that international politics is as much about reality (largely examined in this study) as it is about utopia.

### **Future research agenda**

#### *(I) The emergence of the EU as a global actor*

Following up on the concluding remarks, there is further scope for research on the international role of the EU and, more generally, on what kind of power the Union is and will be. Recently, Bastian Giegerich and William Wallace have questioned the notion of the EU as a “soft power” by analysing the empirical evidence of the EU's military involvements abroad. In the same vein, the analysis of the security-strategic dimension of EU foreign policy towards China has demonstrated that the EU can also behave in way that we would expect to come from a more traditional power. More work is needed on this area in order to refine our concepts and apply them to the question of

the emergence of Europe as a global actor and of the kind of power that Europe is – and will be.

*(II) Central Eurasia and Russia in EU-China relations*

From a geopolitical perspective, China's economic development, increasingly affect Europe's energy security. Recent developments point to the growing importance attached by EU members to this issue. For instance, the last Russo-German summit took place in the oil-rich Siberia, clearly indicating that securing Russian energy supplies to Europe is one of the main priorities for EU policy makers. In this context, developments in Central Asia, Russia and in China could greatly affect oil supply to Europe and thus impact directly on Europe's economic security and its welfare position. In this context, more research is needed on the consequences that the Central Eurasia and Russia factors could have for the future development of EU-China relations.

*(III) EU-China relations and world order*

The last avenue for future research is more theoretical and – according to this author – probably the most challenging one, i.e. how to explain EU-China relations in the context of growing regionalism, inter-regionalism and American primacy. This research has analysed EU-China relations using a three-level analysis, defined as: bilateral (EU-China), interregional (EU-Asia) and global (mainly transatlantic relations). This approach has remained largely un-theorised due to the empirical nature of this study. But while stock taking is essential - hence the quotation of Gramsci at the beginning of the thesis – it is maintained here that EU-China relations need to become the topic of more theoretical-oriented scholarly works. David Kerr, for instance, has started to contribute to the theorisation of this emerging linkage between states, regions, and world order for the study of EU-China relations. In this vein, more research needs to be developed in this increasingly important and promising area.

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