

**The London School of Economics and Political Science**

*Partnership or Partnerships? An Assessment of China-EU Relations between 2001 and 2013 with Cases Studies on Their Collaborations on Climate Change and Renewable Energy*

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## **Abstract**

This thesis provides an in-depth and detailed examination of China-EU relations between 2001 and 2013. Specifically, it investigates the collaboration on Climate Change and Renewable Energy between China and the European Union. It departs from the conventional academic literature in the field, which has treated Sino-European relations as bilateral ties between Beijing and Brussels, as well as between China and the national capitals of the EU member states. Instead, it studies Sino-European relations by focusing on individual institutions and corporate organisations. To achieve this, this thesis investigates the foreign policy formation and execution process in Beijing. It offers a detailed examination of the relations between elements of the Chinese Communist Party, as the ultimate decision maker, the Chinese governmental institutions and the Chinese companies involved in renewable and climate sectors. It analyses the extent to which changes in foreign policy priorities and the growing numbers of players involved in Beijing's foreign policy making process have altered China's EU policy. It also investigates individual actors on the European side. In particular, it focuses on whether the European actors recognise changes in China's foreign policy agenda as well as whether they have responded effectively to shifts in the institutional balance of power in Beijing. It uses Sino-European collaborations on Climate Change and Renewable Energy as case studies to answer the key research question "To what extent are China-EU relations pre-dominantly determined by the interests of a diverse range of foreign policy actors?" It thus identifies who shapes the bargaining process; on which policy each actor bargains with, and the outcomes of the relevant bargaining process. The thesis was conducted using qualitative research methods, especially a large number of in-depth interviews, many of them with members of the commercial and political elite, and drawing the secondary sources to corroborate the interview results.

*To My Parents Chu Rongying and Yu Zhanhai*

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## List of Abbreviations

BP	British Petroleum
BPD	Barrel Per Day
BPM	Bureaucratic Politics Model
CAAC	China Civil Aviation Authority
CBDR	Common but Differentiated Responsibilities
CERs	Certified Emission Reductions
CCP	The Chinese Communist Party
CCS	Carbon Capture and Storage
CDM	Clean Development Mechanism
CDO	Central Department of Organisation
CFALSG	Central Foreign Affairs Leading Small Group
CGNPC	China Guangdong Nuclear Company
CHN	China Huang Neng Group
CHNRC	China Hua Neng Renewable Company
CIC	China Investment Corp
CMA	Central Metrology Agency
CMC	Central Military Commission of the People's Liberation Army
CNNC	China National Nuclear Company
CNNTC	China National Nuclear Technology Company
CNOOC	China National Offshore Oil Company
COSTIND	China National Defence Commission of Science and Industry
CSFP	Common Foreign and Security Policy
DG Clima	Directorate-General for Climate Action
EADS	European Aeronautic Defence and Space Company
EC	European Commission
EEAS	European External Action Services
EFSF	European Financial Stability Fund
EP	European Parliament
EU	European Union
FAM	Fragmented Authoritarian Model
FDIs	Foreign Direct Investments
FP	Foreign Policy
FPA	Foreign Policy Analysis
GHG	Greenhouse Gas
GIZ	German International Cooperation Agency
GPL	The Government Procurement Law

IMF	International Monetary Fund
IPRs	Intellectual Property Rights
LSG	Leading Small Group
LVRT	Low Volta Rod Through
MES	Market Economy Status
MFA	Ministry of Foreign Affairs of the PRC
MIIT	Ministry of Industry and Information Technology
MNCs	Multi-national Companies
MOF	Ministry of Finance of the PRC
MOFCOM	Ministry of Commerce of the PRC
MOST	Ministry of Science and Technology
MS	Member States
NCCCC	National Climate Change Coordination Committee
NDRC	The National Development and Reformation Commission
NEA	National Energy Agency
NZEC	Near Zero Emission Coal
ODIs	Outward Direct Investments
PBOC	The People's Bank of China
PLA	The People's Liberation Army
PP	Public Procurement
RMB	Renminbi (the Chinese currency)
ROI	Return On Investment
SASAC	State Owned Assets Supervision and Administration Commission
SCP	Standing Committee of Politburo of the Central Committee of the Chinese Communist Party
SEPA	State Environmental Protection Agency
SGCC	Sino-German Climate Change Programme
SMZs	Small to Medium Enterprises
SOA	State Oceanic Administration
SOEs	State Owned Enterprises
SP	Strategic Partnership
SWF	Sovereign Wealth Fund
TCEs	Tons of Standard Coal Equivalents
UNFCCC	United Nations Framework of Convention on Climate Change
WTO	World Trade Organisation

## **Chapter One: Introduction:**

### **Introduction**

This thesis will provide an in-depth and detailed assessment of China-EU relations between 2001 and 2013. Specifically, this thesis will investigate collaborations on climate change and renewable energy between China and the EU to answer the main research question “to what extent China-EU relations are pre-dominantly determined by the interests of a diverse range of foreign policy actors?”

By doing so, the research aims to address the shortcomings of the existing literature, which has predominately assumed China to be a monolithic and coherent actor when engaging with the EU. By adopting a Chinese perspective, this thesis will contribute to the current debate on Chinese foreign policy towards the EU, a subject which has not been fully explored in the European academia.

It will depart from the conventional academic literature in the field, which has treated Sino-European relations as a combination of bilateral ties between Beijing and Brussels and between China and the national capitals of the EU member states (MS). Instead, this thesis will focus on elements of the Chinese Communist Party (CCP), individual Chinese and European institutions, and corporate organisations from China and Europe.

To achieve this detailed examination, the thesis will provide a hypothesis as “the developments of China-EU relations are not only determined by the political willingness of the two sides; but also determined mostly by shifts in priorities in their foreign policy agenda and the outcomes of the bargaining process involved by relevant actors”.

In order to test this hypothesis, the thesis will investigate the foreign policy formation and execution process in Beijing. It will examine the extent to which shifts in foreign policy priorities and the growing number of players involved in Beijing's foreign policymaking process have altered China's EU policy.

It will also examine individual institutional and corporate actors from the European side. It will assess whether the European actors recognise changes in Beijing's foreign policy agenda and whether they have responded effectively to the shifts in both policy agenda and institutional balance of power in China's external affairs decision-making mechanism.

This thesis will draw on case studies from the Sino-European collaborations on Climate Change (CC) and Renewable Energy (RE) to observe and analyse this 'actor-oriented' foreign policy formation and execution process.

There are three main reasons why this thesis focuses its empirical investigation on China-EU collaboration on CC and RE. Firstly, China and the EU have highlighted cooperation on these areas as a key component of their so-called "Comprehensive Strategic Partnership".

Combating climate change and carbon emissions have become some of the highest priorities for the Chinese leadership. This is an area where the EU is able to claim it has championed the global climate change regime. The EU intends to draw on its foreign policymaking capacity to encourage and influence China to participation in global climate diplomacy.

Secondly, due to the nature of environmental diplomacy, it intertwines into a wide array of policy domains such as energy, transport, economics and foreign policy. It is therefore an

area where different institutional actors compete for greater influence and shape the policy outcome. It will provide a perfect analytical scenario for the researcher who wishes to produce an “actor-oriented” foreign policy analysis account.

Last but not least, CC and RE are two areas where political and business interests are heavily overlapped. This process of interaction has been a particular striking feature of China-EU relations, as economic ties are the backbone of their partnership. Using these case studies allows the author to further investigate the interplay between politics and business under the framework of Sino-European relations. Despite the importance of this interplay, it is an area has largely been overlooked by the existing literature.

By testing the hypothesis, this thesis will identify who shapes the bargaining process; on which policy each actor bargains with and the outcomes of relevant bargaining process. Given the opaque nature of the Chinese foreign policy decision-making process, this thesis will employ qualitative research methods, with in-depth elite interviews, triangulation of information amongst media sources and official documents widely utilised throughout each chapter.

With a strong focus on individual foreign policy actors, both institutional or corporate, this thesis will adopt a process-oriented Foreign Policy Analysis to examine China-EU relations. In particular, it will draw on the existing literature of Bureaucratic Politics Model (BPM) and Fragmented Authoritarian Model (FAM) to interpret the subject. Throughout the thesis, each chapter will demonstrate many compelling reasons to utilise BPM and FAM to analyse Sino-European relations. Unlike some existing literature, this thesis does not take a holistic approach to analyse their partnership with IR grand theories. Instead, it aims to prove that

each individual participant in their partnerships plays a vital role in determining the outcomes of those partnerships.

Beyond the proposed theoretical approach, this thesis will also make a good attempt to enrich the studies of China-EU relations from several empirical perspectives. It aims to provide a detailed examination of the relations between elements of the Chinese Communist Party (CCP), as the ultimate decision maker, and Chinese government institutions. By examining CCP-government relations, it will also reflect the changes in the CCP's domestic priorities and how such changes will largely impact upon the shifts in China's external affairs agenda.

This thesis will not only constrain its research scope to the Party-government relationship. It will also investigate the interactions between the CCP and State Owned Enterprises (SOEs), and the bargaining process between central governmental departments and SOEs when they come to deciding certain collaboration projects with the EU. It will demonstrate the extent to which SOEs utilise their own expertise to shape the collaboration agenda between Beijing, national capitals of MS and Brussels. It will also pay great attention to relations between the provincial government and large private owned enterprises (POEs).

This pair of relationships is a new subject of detailed academic research in regards to the Sino-European relations and Chinese foreign policy in general. None of the current literature in the field has focused upon this particular partnership. Given the ever increasing direct investments in Europe by Chinese POEs, their activities and economic well-being will gradually become a source of influence on Beijing's overall foreign policy agenda.

Meanwhile, this thesis will also examine the EU's policy making process on its climate diplomacy towards China. Specifically, it will investigate EU institutions, the MS and the European corporate sector's responses towards an equally fragmented and complex policy making process in China. It intends to illuminate that China-EU relations are better described as multilateral partnerships, and their relations are being shaped by many equally powerful foreign actors.

Beyond this introduction, the introductory chapter will firstly analyse the existing literature to examine what has been written and identify what remain under-studied aspects of China-EU relations. It will then outline the analytical framework of the thesis and explain the importance in this thesis of utilising both BPM and FAM to investigate Sino-European relations. This chapter will then explain the significance of studying the collaborations on CC and RE between China and Europe, and how such studies will contribute to current research on Sino-European relations in general. Finally, it will present the research methodology for this thesis.

## **Section 1.1: Literature review on China-EU relations**

China-EU relations have been relatively understudied in comparison to Sino-US relations. Since China's accession to the WTO in 2001, growing numbers of IR scholars and China experts have begun to focus on the development of relations between China and Europe. By 2003, China and the EU declared their "Comprehensive Strategic Partnership", which triggered increasing interest among academics.

The reason why I refer to "Europe" instead of "the EU" is because existing scholarly works have specifically focused on China's bilateral relations between large member states (MS), as in such articles as Eberhard Sandschneider's, "China's Diplomatic Relations with the States of Europe" in 2002 and the recent Joern-Carsten Gottwald article on "Europe and China: Convergence, Politicisation and Assertiveness" in 2009, which concentrated on the impact of the financial crisis upon China's relations with large MS, and Ireland (Gottwald, 2009; Sandschneider, 2002). There is also an overwhelmingly array of articles assessing China's relations with Brussels.

However, as Michael Yahuda pointed out in one of his earliest China-EU articles, any comprehensive observations on China-EU relations need to consider both the role of Brussels and policy inputs by the national capitals of MS. This type of multi-actor analysis "would make the study of the China-Europe relation[s] a compelling case to [re-] examine China's relations with some of the most well-established regional organisations" (Yahuda, 1994: 24). Such views are also echoed by Feng Zhongping, who is one of the most prominent experts on China-Europe relations in Beijing (Feng, 1998: 2).



According to my literature survey, the current literature on China-EU relations has given overwhelmingly strong emphasis to the outcomes or policy results of their relations. Yet, there has been very limited scholarly works focusing on the process of formulating either China's EU policy, or the EU's China policy. Therefore, this thesis intends to fill the literature gap by instigating a focus on the process of foreign policy formulation. In particular, this thesis will investigate the Chinese foreign policy making process from a position which is in contrast to the conventional wisdom that assumes China is a monolithic entity; and that its foreign policy making is a straight forward top down system.

The current literature on China-EU relations focuses on two key questions. Firstly, should the EU be considered exclusively as a civilian/normative power when it engages with China? Secondly, does the China-EU strategic partnership, declared in 2003, have much validity?

This thesis will be investigating the existing literature on China-EU collaboration on climate change (CC) and renewable energy (RE). There are two relevant academic articles devoted to this specific topic. The first is by David Scott, "Environmental issues as a strategic key in EU-China relations", which was published in 2009 (Scott, 2009). The second was written by Jonathan Holslag, "China's Scepticism of Clean Energy Champion Europe" (Holslag, 2010). In addition, a substantial part of a chapter in a book written by Wang Bo, "Bilateral security relations between China and Europe" deals with this topic. They reveal several technological details and programmes supported by the European Union to China. They have also examined the achievements of China-EU

collaborations so far, and have indicated the obstacles the two sides have encountered. But all three authors have paid little attention to the roles of European and Chinese companies, as well as European national governments in China-EU cooperation.

## **1. Strategic Partnership Debate literature review**

Current literature has also challenged the validity of China and the EU establishing a strategic partnership. Scholars have attempted to address two questions: firstly, what China and the EU mean by a strategic partnership; and secondly, what policy instruments both sides have utilised to achieve a strategic partnership? In doing so, the current literature has examined official documents and actions taken by both sides to understand what happened operationally to establish and preserve a strategic partnership.

Yet there is not any clear definition of what “a strategic partnership” represents. This concept can be draw from my discussions with Professor Shaun Breslin and James Moran, the then director at the Commission DG Relex East Asia unit. A strategic partnership requires both parties to have: transparently defined common interests and objectives; these objectives must be long-term, multidimensional with a tangible operational plan; they need to have a global vision and distinctiveness that cannot be achieved with third parties. The existing literature has examined the objectives and practices within the “China-EU Strategic Partnership”. Their conclusion is that the declaration of a strategic partnership has not translated into a substantial action plan. Both Beijing and Brussels have few clearly defined common objectives. They have also shown serious mutual misunderstandings and have taken few concrete actions to establish a genuine strategic partnership.

Most scholars in the field have paid great attention to official papers. They carefully observe words such as multilateralism, shared values, and democracy, and how such critical terms have been interpreted differently in official documents from both sides. Some scholars, such as William Callahan has made qualitative assessments on the various usages of these words, which revealed different views over the meaning of “strategic partnership.” In September 2003, the EU's China policy paper, namely , “A Maturing Partnership-Shared Interests and Challenges in EU-China Relations”. It suggests a comprehensive international role for the EU and China as “the EU and China have a clear interest in working together as strategic partners on international scene to promote sustainable development, peace and stability” (EC, 2003: 7-9). However, most scholars focus on analysing the paragraph below from the EU's China paper:

*“The stability and development of China itself is a key concern to the EU... the EU has a major political and economic stake in supporting China's successful transition to a stable, prosperous and open country that fully embrace democracy, free market principles and the rule of law. It should do its utmost to support China's transition and reform process. China should exploit to the full the EU's experience of successfully adapting the socio-economic system of the formerly socialist access countries in Eastern Europe” (Ibid: 13)*

They suggest that the EU exhibits “complacency to assume that China's economic development will be accompanied by parallel political liberalisation, converging to the European norms of political governance” (Armstrong and Chen, 2010: 162). Within a month, China's State Council responded with “The PRC, China's Europe Policy Paper” in October 2003. This has also paralleled with China crafting its “Peaceful Rising” strategy in autumn 2003. As Callahan argues, “talk of strategic partnership aids the EU's project of crafting the image of Europe as a civilian power; and it helps the PRC to construct a view of China as non-hegemonic superpower, those new relations reaffirm each side's image of itself and the other” (Callahan, 2007: 785). While the Commission's paper stressed “positive shared values” with China, the PRC paper insisted, “There is no fundamental

conflict of interest between China and the EU and neither side poses a threat to the other” (State Council, 2003: 3).

Callahan carefully observes how Beijing engages with the EC Paper by “reflecting and refracting the EC formulations in ways that nudge EU-China relations towards China's policy priorities” (Callahan, 2007: 787). He and others notice the word “multilateralism” being used differently. For the EU, effective multilateralism is not meant to imply multi-polar balancing. Former DG Relex Commissioner Benita Ferrero-Walder was clear when he suggested that “it is not the number of poles which counts. Our vision on multilateralism is a world governed by rules created and monitored by multilateral institutions” (Ferrero Walder, 2005).

China's vision on multilateralism applies to the trade and economic only, the PRC document suggests that “the trend towards world multi-polarity and economic globalisation is developing amid twist and turns” (MFA, 2003:21). Narramore argues, “China's approach to multilateralism falls far short of the EU style experiments in pooling sovereignty and regulating affairs of MS” (Narramore, 2008: 97). Related to the word “Democracy”, China emphasises that it “respects diversity in the world and promotes democracy” (Ibid: 24). It alters the EU's meaning in regards to domestic reforms to “safeguarding national sovereignty” (Ibid). From these qualitative analyses of official documents, a careful examination shows that these documents are carefully ambitious and analogous to the “future perfect verb tense” (Callahan, 2007: 790). The two sides are still unclear about what their common interests are and what they should do to improve mutual understanding.

Scholars have also conducted quantitative analyses on China and the EU's official documents to understand the validity of the strategic partnership. Jonathan Holslag employed a statistical methodology to seek: areas of mutual interests; numbers of priorities in which both sides have cooperated; the degree of dispersion of priorities over different areas of interests to measure the scope of the partnership. He found “a statement highlights 8.3 joint 'interests', 'needs' and 'necessities', whereas it flags the need for 'dialogue' and 'exchanges' 28.2 times, often even in areas where common interests were not clarified” (Holslag, 2011: 296). He then counted all 186 clauses of two official documents and calculated by dividing all clauses into five sectors. The result of dispersion is “45.3 percent related to the economic sector and with only 8.6 percent to the rule of law sector” (Ibid). Besides the calculations, Holslag also observed different usages of words to describe these five sectors. The trade and economic sector tended to be settled with clear policy objectives, “the wording in international security and policy clause remains limited to 'observing' and 'welcoming' rather than cooperation is agreed” (Ibid: 298). The quantitative perspective therefore also demonstrates a clear gap between the two declarations and how it is translated into substantial policy objectives.

## **2. China-EU Economics Relations literature review**

Apart from examining official documents, the existing literature also evaluates a strategic partnership in practice. Such scholarly work assesses the policies implemented and the actions taken by both sides to establish, and to maintain, this strategic partnership. It investigates areas from trade relations to global financial regulations, and from arms embargoes to human rights dialogues. Most analyses conclude that the EU and China have failed to establish a strategic partnership. The EU aims to “encourage China’s economic and social reforms and its integration into global economy” (EC 2003: 3, 4).

However, Brussels still rejects granting China's Market Economy Status (MES). As strategic partners, both sides have not achieved a clear understanding of their common strategic purposes or shared security interests. The EU and its MS "have no discernable impact on the strategic and institutional balance of the Asia-Pacific" (Godemont 2006: 56). Nor do they have direct interests in regional security.

It is economic ties that primarily determine China-EU relations. China is the EU's second largest trading partner. The EU has also becoming a major source of foreign direct investment (FDI) to China, as well as a popular investment destination for Chinese companies. Brussels and its MS are very enthusiastic about the promise of the vast Chinese market. While, from China's perspective, being granted a MES by the EU has both direct economic benefit and strong political symbolism.

The existing literature mainly focuses on the EU's refusal to grant China's Market Economy Status (MES), which is one of the major obstacles preventing both sides from becoming strategic partners in economic terms. Scholars such as, Mathieu Remond and Chen Zhimin devote either a whole journal article or a substantial part of a book chapter to discussing the issue (Remond, 2007; Chen & Armstrong, 2010). They indicate that the EU's refusal is principally due to the large trade deficit between the Union and China; and the EU is attempting to use MES as bargaining leverage when it discusses disputes with Beijing over the increasing barriers for European companies to enter Chinese market.

The EU continues to ignore the enormous economic progress China has made since introducing market economy reforms in 1978, and instead the EU continues to emphasize that their refusal is "a purely technical manner, that is in the framework of EU's anti-

dumping policy, China does not yet fulfil the necessary requirements to be granted the status” (Remond 2007: 346).

The exported-oriented Chinese economy is a crucial reason why the EU still rejects China's MES. As Stephen Green suggests, “China's exports are much more diverse and concentrated in manufactured goods, which is a profile that threatens European firms much more” (Green, 2004) . Without accepting China's MES, the EU Commission can launch anti-dumping cases against Chinese companies with relevant ease, than in a similar case with a company from a state that has already become a market economy.

Brussels also suggests that the Chinese government intervenes too much to prohibit European companies from operating in China. In addition to this, a lack of transparency and weak corporate governance contribute to the reason why China is not categorised as a market economy. The Commission has used four main criteria to exclude China from a designation as a market economy. They are: the “level of governmental intervention; implementation of transparent company law; effective property right protection; and transparent financial sector with adequate supervision” (EC 2004: 6).

For those who are familiar with the structure and characteristics of the Chinese economy, it is impossible to reduce the level or to eliminate state control in sectors such as banking, energy and utilities. China suspects that the EU has deliberately set up these four criteria in order to bargain with the Chinese government to gain broader market access. This is particularly the case after the 2007 global financial crisis. According to a survey I conducted before I began research for this thesis, 53% of the 207 European companies

operating in China surveyed were concerned about uncertainty in the business environment and the ongoing regulatory unpredictability (Roland Berger, 2010: 5). European optimism in the overall economic climate has been dampened dramatically by concerns about regulatory interference. We now have to ask the question: in whose benefit is the EU making such decisions? The current academic literature provides us with little related to Chinese governmental interference with European direct investments as well as government regulations on "the level of local content". The author will offer a detailed examination on the extent to which non-market oriented barriers have undermined Sino-European trade relations in Chapter Three.

### **3. China-EU Political Relations literature Review**

According to the criteria used to determine strategic partners, the partnership should be multi-dimensional. This part examines the current literature that focuses on political/security issues between China and the EU. The arms embargo is probably the single biggest obstacle to China-EU relations. The existing literature extensively discusses the failure of the EU to lift the arms embargo. Scholars such as Nicola Casarini, Chen Zhimin, Terry Narramore and Axel Berkofsky concentrate on two points related to lifting the arms embargo. Firstly, the refusal to lift arms the embargo is deemed to be political discrimination towards China and which rejects China's great power status. This originates from the lingering victimisation sentiment widely acknowledged within Chinese FP analysis (Berkofsky, 2006; Casarini, 2010; Chen&Amstrong, 2010; Narramore, 2008).

Secondly, the failure of the EU to agree to a lifting of the arms embargo "reveals a complex, multi-level bargain over interests at domestic, regional and international levels"



(Naramore 2008: 98). Within the Union, Brussels had to deal with the disputes over this proposal amongst the 28 MS. These divisions displayed the EU's inability to speak as a single voice. At the global level, the EU faced intense pressure from Washington which sought to maintain its own strategic interests and hegemonic status in the Asia-Pacific region. More importantly, they helped the Chinese to understand that the EU was not capable of being a strategic partner with which to challenge US hegemony at both the regional and global level. The "new strategic axis" (Scott 2007: 204, Tombaugh 2004: 192) is therefore non-existent.

Lifting the arms embargo would be "a political act necessary for moving beyond Cold War thinking" (Casarini 2010: 123). It means whilst China has achieved great economic and political transformations, is ready to return to the international community and to receive equal treatment. European leaders concluded that the lifting would be mainly be a "symbolic gesture" (Ibid: 127) to show that the EU and its MS were keen to develop amicable relations with China and to deepen the economic ties of the two sides. The EU and its MS have no intention of exploiting the huge potential of the Chinese defence market. However, while it is true that China's defence market is vast, it remains unclear how much the European defence sector could gain from military procurement by the PLA.

Scholars have also analysed the role that the US plays in this so-called China-EU strategic partnership. David Shambaugh suggests that the EU-China axis was a joint effort to "constrain American's power and hegemony" (Shambaugh 2005: 246). The key problem with this interpretation is that the EU does not play a vital role in the Asia-Pacific region. Some even suggest that the EU has an incentive to free ride on the US security umbrella

in the region in order to ensure its economic interests in China and other Asian countries<sup>1</sup>. (Archick et al 2005: 4-11, Grimmett and Papademetriou 2005: 9-10, Sandschneider 2006: 45, Tang 2005: 319, Casarini 2010: 131-135, Narramore 2008: 100)

Internally, the EU MS dispute whether to lift the arms embargo. The decision has to be made by all MS at the European Council under the Common Foreign and Security Policy pillar. The European Council in 2003 reached unanimity to open the discussion on the proposal to lift the embargo. Initially, countries that strongly emphasise normative values, such as Netherlands and Denmark, had some serious doubts on lifting arms embargos. Yet, they decided not to break the consensus amongst other MS in order to avoid any market entry refusal and commercial reprisal from Beijing.

By 2005, the Council finally rejected the proposal to lift arms embargos to China. One of major reasons for such a lengthy discussion and eventual refusal is due to strong oppositions from the US and even stronger opposition from newly admitted East European MS.

Brussels found it very difficult to overcome the internal divisions and the security interests of the US were not easily challenged. Perhaps, then, the China-EU strategic partnership is just wishful thinking, which does not go beyond rhetoric from both sides. The Chinese government is disappointed by the inability of the EU to be an effective global actor on political/security issues. The Chinese have therefore learnt a stern lesson that “the EU does not need to be taken seriously as a foreign and security policy actor with the influence and capabilities to threaten regional security” (Berkofsky 2006: 108).

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<sup>1</sup> Discussions were made with several scholars at Salzburg Global Seminar Session 476 in December 2010.

Yet as one scholar contended, one must not overlook the existing strategic collaborations between China and the EU. For example, “Sino-European cooperation in Galileo, the European satellite system alternative to the American GPS, is still viewed by Beijing as a major element of their strategic partnership” (Casarini, 2010; 192). Such detailed and valuable cooperation between the two sides should not be ignored in studies of China-EU relations.

#### **4. Climate Change Literature Review**

China-EU collaborations on CC and developing renewable energy have emerged as a new topic of interest to scholars. However, given this is a new topic, few journal articles and book chapters have yet been written. From the bibliographic survey, I have found fewer than twenty journal articles which are fully focused on this topic published between 2010 and 2015. A handful of detailed assessments on the topic have been made by top think tanks. In addition, a substantial part of a book chapter written by Wang Bo addresses this topic. Scholars specialising in China-EU relations such as Nicola Casarini, Chen Zhimin, John Armstrong, and others have written short paragraphs within book chapters and journal articles stating the importance and developments of this collaboration (Armstrong & Chen, 2010; Casarini, 2010).

All existing works have assessed the achievements and addressed the obstacles of collaborations that have already occurred. However, there are two crucial aspects of China-EU CC partnerships which have not been thoroughly examined by the current literature. Firstly, almost all existing works treat China as a monolithic and unitary entity that conducts its climate diplomacy with the EU based on rational choice and careful policy

implementation. Very few scholars noticed that the complexities of decision making in Beijing's foreign policy could undermine the prospects of further CC collaborations. Therefore, this thesis intends to make a modest contribution to disentangle this particular and yet crucial decision making process.

Secondly, the existing literature lacks a thorough assessment of the roles of European and Chinese companies in collaborative partnerships. Unlike the areas of traditional military security collaborations, climate diplomacy allows wider participations from corporate sectors and civil societies in the agenda setting process and in even shaping policy outcomes. The author aims to fill the literature gap by examining the extent to which both Chinese and European companies determine the substances of their CC and RE collaborations and how corporate actors interact with the government institutions to shape the Sino-European CC partnership.

Based on the literature survey, the existing literature attempts to answer three key questions; firstly, whether China and the EU have established the so-called 'strategic partnership' on CC; secondly, to what extent will the EU and its MS benefit economically from engagements with China in developing renewable energy; and last but not least, to what extent China's increasing awareness and development of renewable energy is a result of the EU and its MS' engagements?

Most scholars concur that the success of numerous technical collaborations do not substantiate the so-called China-EU strategic partnership on CC (Holslag 2010; Lee, 2012, 2013; Romano, 2010:17, 22; Scott, 2009; Torney, 2012, 2013, 2014). They argue the EU and its MS face a dilemma between advancing commercial interests and crafting the Union's

image of being a clean energy champion which would require it to teach China technical know-how.

Some scholars, such as Romano and Casarini, suggest that the Sino-European CC partnership departs from the conventional military security cooperation, and shifts to focus on transnational challenges that go beyond traditional military threats (Casarini, 2009, Romano, 2010: 12). The two sides have instead focused on the “soft sides of security”, which include combating global CC. (Balies and Wetter, 2007: 178).

The literature acknowledges that the lack of Intellectual Property Rights protection in the Chinese renewable market has become a major obstacle preventing further CC collaborations between China the EU. They also doubt that the EU will be willing to transfer technology to China and thereby sacrifice its short-term commercial interests (Holslag, 2009:225; Lee, 2012: 24; Romano, 2010: 17). Brussels and its MS are frustrated by the ever-growing protectionism within the Chinese domestic market. The Chinese government procurement policy requires State owned enterprises (SOEs), which are the major consumers of European renewable equipments, to purchase products that have a certain percentage of local content. This policy barrier has made European renewable manufacturers less competitive when they export renewable equipment to China.

Nevertheless, China has rapidly developed its own renewable energy sector. This may lead to the disappearance of the “teacher-pupil” relationship between the EU and China or, indeed, even a reversal (Lee, 2012: 31). Such tremendous progress made in China's own renewable sector has resulted in its European counterparts becoming less attractive in the global market. As both Holslag and Scott suggest, "there is a rising tension between European commercial

interests and environmental concerns with the move of China from a consumer market to a key competitor with international reach" (Ibid; Scott 2009 325).

In particular, Holslag, Romano and Runge-Metzger analyse the different approaches to IPRs protection and technology transfer between Beijing and Brussels. They argue that China and the EU do not share the same view of technological cooperation. While China encourages a “centrally-planned” approach, including a single fund and a single executive body at the multilateral level capable of directing international technology policy and focusing heavily on IPR, the EU still relies on a “decentralised” approach, namely preferring the market and market-based mechanisms to promote technology transfers (Holslag 2010; Romano:2010; Runge-Metzger, 2010).

As one scholar observes, the commercial gains from providing technology transfers to China remain at a modest level. "For each hundred Euros of exported clean energy goods, the EU spent about 95 Euros in energy-related aid projects" (Holslag 2010: 122). Brussels believes that it should protect its technology through ensuring that IPR is valued as "a tradable good which China has massive foreign reserve to pay for rather than being given free through charity and environmental-friendly generosity" (Holslag 2010: 116). However, it seems that this so-called "tradable good" is becoming a major obstacle preventing a deepening collaboration between the two sides.

The existing literature supplies a large amount of detail on recent collaboration projects developed under the China-EU CC Partnership. Those scholarly works by Holslag, Scott, Romano and Torney list in chronological order when and how these collaborations have evolved, and also the amount of funding provided by Brussels and EU MS (Holslag, 2010;

Scott, 2009; Romano, 2010; Torney 2013). According to Holslag's research, "between 2000 and 2008, MS collectively spent 238 mn Euros on renewable energy related projects in China" (Holslag 2010: 120). The major contributors were Germany, Spain, Denmark and the UK, all of which had well-established renewable energy sectors.

Despite numerous projects and sufficient high expenditure on climate collaboration with China, the literature questions whether the EU will be able to wield its "soft power" to become a global champion in addressing CC and be at the forefront of developing clean energy technology given its internal disputes over carbon emission reduction targets (Holslag 2010: 115; Lee, 2012: 27; Romano, 2010:17, 22; Runge-Metzger, 2010; Torney, 2013; Ibid, 2014: 129).

Romano contends that the Sino-European CC partnership remains as "an Asymmetrical Bilateralism" which derives from various characteristics of overall China-EU relations (Romano, 2010: 1). She argues that the partnership between Beijing and Brussels involves a nation-state and a confederation of nation-states with some significant divisions amongst member states. Such disparity offers China a choice of dealing with the EU directly, or dealing with individual member states according to Beijing's own preferences. As can be seen in other aspects of Sino-European relations, China has often adopted a "divide and rule" approach for the purpose of achieving its own policy objectives. Such an approach can only undermine Brussels' external image and the prospects to speak with one voice.

Noticeably, other scholars such as Holslag, Lee and Torney also echoed the view of Romano (Holslag, 2010; Lee, 2012; Torney, 2014), concurring that the lack of horizontal and vertical

policy integration is a major predicament for the EU in attempting to demonstrate its global leadership on CC, as well as pursuing further collaborations with China.

In addition to lack of policy integration, some authors also argue that the EU lacks “institutional capacity” to understand the complexities of the decision-making process in China’s climate diplomacy (Lee, 2012; Torney, 2013, 2014). They disagree with Romano’s view of China as a monolithic and unitary state, where policy has always been conducted with a top-down approach. As Lee points out, “assumptions of a monolithic China that always acts rationally can be misleading, as China’s consensual decision making system has to balance a wide range of domestic, sometimes conflicted, vested interests” (Lee, 2012: 30).

Torney conducted several in-depth interviews in Beijing and Brussels and concludes that the EU has little institutional and personal capacity in engaging with an equally complex decision-making mechanism on climate diplomacy in Beijing (Torney, 2013, 2014). Such incapacity has therefore become another hindrance to pursuing their collaborations and upgrading their collaborations to a more strategic level.

Several authors hint at the complexities of decision-making system in Beijing in relation to its climate diplomacy agenda. Yet, none of the authors have so far conducted a thorough analysis of the policymaking process of China’s climate diplomacy towards the EU. Nor did they identify who are the vital stakeholders that shape the final policy outcomes. Therefore, this thesis will fill this literature gap by offering a comprehensive assessment of the particular decision-making process of China's climate diplomacy towards the EU.



Another noticeable literature gap is the lack of thorough assessments of the roles of both Chinese and European companies in determining the outcomes of the Sino-European CC and RE collaborations. As discussed in the introduction, climate diplomacy has had an expansive nature involving both state and non-state actors. In particular, climate technology innovation and IPRs protections are twin areas where relevant companies have played an indispensable role, in both China and the EU.

Therefore, one should not ignore the interactions between companies and relevant governments as well as the impact those companies generate on the climate diplomacy agenda amongst Beijing, Brussels and national capitals of related MS. By studying their collaborations, scholars could examine the extent to which either Chinese companies or European companies influence overall collaboration plans. It is in this sector that commercial interests have become closely intertwined with EUFP objectives. The pressure and persuasion from these companies on Brussels and Beijing should not be ignored.

According to the author's literature survey, scholars seldom refer to the role of companies in determining the Sino-European climate diplomacy agenda, even if some of them do so with very minimum references to secondary academic literature. They make their analyses based on primary literature research, such as official documents as well as media sources. It is an indication of how little this area has been studied so far. As a result, Chapters Five and Six attempt to add to the modest existing literature by discussing the interaction between each government institution and their corresponding corporate actor in facilitating the Sino-European collaborations.

In addition, one must admit it is very difficult to assess the roles that companies and national governments have played unless the author is either a practitioner in this area, or has closely worked with these companies and national governments. The author is a junior researcher on this topic, and so will be able to fill in some of these literature gaps as a result of her previous professional experience working with a large number of European utility conglomerates and some of the most prominent Chinese energy SOEs.

To conclude, this section has reviewed the existing literature on China-EU relations. The literature agrees that Beijing and Brussels remain unclear on their concrete objectives and purposed partnership. Neither side is sure which policies and actions to take to establish and maintain this strategic partnership. Economic ties are the backbone of China-EU relations. But Brussels' refusal to grant China Market Economy Status, and increasing economic disputes, have frustrated both sides.

In the political/security sphere, scholars have discussed extensively why the EU is unable to overcome its internal divisions and external pressures on its arms embargo. The strong opposition from the US on lifting arms embargo to China shows that the EU cannot challenge US supremacy in the region. Ultimately, both China and the EU have to readjust their strategic outlook towards each other.

Within the limited scholarly works on China-EU collaboration on CC and RE, this thesis aims to make an important contribution to an emerging field.

## **Section 1.2 The Analytical Framework and the Study of China-EU Relations**

This section aims to provide a concise and coherent analytical framework to the thesis. One can argue that the studies of Sino-EU relations are the examinations of relations between Chinese foreign policy (FP) actors and their equivalent European counterparts. However, this thesis does not want to offer a scholarly work that observes and analyses the traditional bilateral state to state relations. Neither does it aim to treat China as a unitary actor seeking to develop relations with the fragmented European Union (EU) nor its member states (MS) as the current literature has.

Instead, this thesis aims to provide some insights into Beijing's foreign policy (FP) making process and to investigate the Sino-EU relations from a very different angle. This analytical perspective will help to understand the key research question 'to what extent Sino-EU relations are multilateral partnerships that involve many equally powerful actors which shape the outcomes'.

This thesis will retain its focus to individual foreign policy actors inside the Chinese foreign policy decision-making process. Prior to outline the analytical framework, this section will provide a brief schematic overview of the respective roles of the different institutions and ministries in China's foreign policy to the EU. This could give some illustration for the later chapters.

Like other domains of Chinese foreign policy, China's European policy making is no less straight forward. As pointed out in the previous section, when the CCP leadership only sets

the broader policy agenda, each relevant ministries are asked to provide policy proposals and potential solutions to certain issues between China and the other countries and regions.

For the China-EU relations, the Ministry of Foreign Affairs (MFA) and the Ministry of Commerce (MOFCOM) are twin traditional FP actors that deal with China's external affairs with the EU. The MFA

The thesis will therefore analyse the Sino-EU relations from four broad perspectives. Firstly, it aims to disentangle the relations between the Chinese Communist Party (CCP) as the decision maker, and the various FP actors which include bureaucratic and corporate actors. Secondly, this thesis will investigate the bargaining process amongst various actors when they try to shape the decision outcomes. Thirdly, it will seek to explore the extent to which Climate Change is one of the highest priorities to the Party, and has triggered policy changes and institutional reshuffles of Chinese FP making. Last but not least, it will observe and investigate how Brussels and the MS have managed to adapt and to respond to such changes occurring in the Chinese FP making process.

Meanwhile, this thesis will pay great attention to the FP making process in China, and to a smaller extent in the EU. Within the above four perspectives, this thesis will seek to explore the main drivers of Chinese FP and the domestic sources that have induced changes in Beijing's FP agenda. This thesis will also divide China into three analytical units. These are: the Chinese Communist Party (CCP); the Chinese governmental institutions at both the central and provincial levels; and Chinese companies (regardless of their ownership). Based on these three analytical units and four broad analytical perspectives, I will explore seven

pairs of relations, with case studies on Sino-EU collaborations in Climate Change (CC) and Renewable Energy (RE) throughout this thesis. These seven pairs of relations include:

- 1) the relations between the CCP and central governmental institutions;
- 2) between provincial authorities and large private companies;
- 3) between central governmental agencies and large SOEs;
- 4) amongst various central governmental institutions
- 5) between the EU institutions and the Chinese central governmental institutions
- 6) between the EU member states and the Chinese central governmental institutions
- 7) between the European companies and the Chinese central governmental institutions

For the last four pairs of relations, I will only focus on the institutions at a central governmental level due to the restrictive length of the thesis. These seven pairs of relations are not static, nor are they isolated from each other. The shifts in one pair of relations will inevitably cause significant changes to the other pairs of relationships.

Beyond this introduction, this section will begin to outline the analytical framework, and then it will explain how these four analytical perspectives are related to one other. This thesis will also offer some preliminary findings to test the analytical framework.

In recent years, there has been a trend of studying and perceiving China as a decentralised and fragmented state, rather than viewing the state through the conventional view of China as a unitary and centralised actor. A number of scholars, such as Shaun Breslin, Wang Jisi and Jean Garrison have written and asked, “who represents China” (Breslin, 2009; Wang, 2011; Garrison 2009)? As a result, the Fragmented Authoritarianism Model (FAM) has gained popularity within the academic community that analyses China's political system. As

Kenneth Lieberthal defined in 1992, "FAM argues that authority below the very peak of the Chinese political system is fragmented and disjointed" (Lieberthal, 1992: 8).

A process of decentralisation in decision making has occurred since the 1979 Economic Reforms in China. As a result, there has been no single bureaucratic body that has supreme authority over the others when it comes to making certain decisions. Bureaucracies and other actors have utilised their expertises to gain access to the highest level of the Party elites, namely, members of the Standing Committee of the Politburo (SCP), to shape policy outcomes according to their individual interests. FAM has been widely debated when scholars study the process of China's macro-economic policy making. As discussed in this thesis's literature reviews, scholars such as Linda Jakobson and David Lampton, have applied FAM to analyse Chinese Foreign Policy in recent years (Jakobson & Knox, 2010; Lampton, 2006). However, there is a dearth of studies of Sino-EU relations which use the bureaucratic politics model and the FAM. By utilising the bureaucratic politics model and the FAM it is to be hoped that this thesis will contribute to our understanding of the field.

The FAM has focused on changes in the power distribution and bargaining process amongst the various stakeholders when it comes to making certain policies. Given the nature of the Chinese political system, the Chinese Communist Party has performed an omnipresent role, in every aspect, in all kinds of policy making. Therefore, it is also of heightened importance to examine the relationships between the Party as the ultimate decision maker and the various institutional and corporate actors in the process of determining Chinese FP.

Based on research conducted for this thesis, the relationship between the Party and various actors are neither static, nor top-down . Rather, the Party has given authority to different

institutions to provide information to assist decision making as well as to implement policies. Each institution has subsequently managed to utilise their expertise to assist decision making to extend their influence in the Party further.

The case studies selected for this thesis will be used to explain the relations between the Party and various actors which involved in the Sino-EU collaborations on Climate Change (CC), and Renewable Energy (RE). These two policy domains have been given the highest priorities in the CCP. They are also both dominating China's domestic and foreign policy agendas. As will be explained in later chapters, the CCP's growing legitimacy has shifted from its ideology to its problem solving capacity. Environmental politics have become one the most prominent and most pressing test cases for the CCP's problem solving skills.

Like any other policy making processes in China, members of the SCP and the State Council generally set key strategic guidelines or long-term policy goals, however, more specific policy measures are mostly made and implemented by the various governmental agencies and corporate organisations. As a result, there are competing stakeholders with vested interests ready to play bureaucratic politics.

In the context of China's environmental policy, and its collaborations with the EU, the actual policy outcomes and areas of collaborations are the results of a balancing of interests, and bargaining, amongst a number of stakeholders. This thesis will examine how bureaucratic and corporate actors in China have managed to translate the Party's broad policy guidelines into a specific set of policy measures which fit with their own individual interests.

Related to the Sino-European relations, China's EU policy covers a wide array of policy domains as can be seen in the most recent "EU-China 2020 Strategic Agenda for Cooperation" from the traditional sphere of trade and investments to newly emerged urbanisation, climate change collaboration and legal collaboration (EEAs, 2013). This broader policy spectrum has provided a myriad of opportunities to the relevant government departments in Beijing to offer their own expertise to shape the agenda of China's EU policy. In some occasions, overlapping policy responsibilities and conflicts in departmental interests have become frequent occurrences. It is therefore subject to the CCP leadership to decide which policy options it will adopt.

For example, both NDRC and MOST are main stakeholders and agenda setters for China's Climate diplomacy to the EU. The former is to ensure the overall coherence of China's climate policy in line with the industrial and energy policies while the latter is to oversee the scientific rationales and developments of China's climate technologies. Based on my own preliminary research, conflicts often arise between two departments when the EU initiate major CC collaboration projects with China. The NDRC would almost certainly take in charge of budget and the contents of the collaborations. Yet, the MOST would demonstrate its expertise and deep knowhow on the climate technologies to compete for the dominance of the collaborations from the Chinese side. As a result, both the NDRC and the MOST would intensively lobby the Party leadership to ensure their own departmental agenda being represented. The author shall discuss the particular bureaucratic rift with more examples at the Chapter Four.

Besides setting broad policy priorities, the Party can determine the survival of any particular institutions. The Party has often created a new bureaucratic framework, or assigned, and



redistributed, responsibilities and budgetary powers to the existing agencies. However, such a restructuring process has not occurred on a regular basis. Rather, it is a reshuffle driven by issues and policy priorities. More often than not, an existing bureaucratic agency often challenges the authority of newly established organisations which may share competencies and budgetary powers. The Party will “award” or “punish” the challengers according to the situation and policy domains.

For example, the Sino-EU solar panel dispute has helped one ministry, in this case, the MOFCOM to restore its power while at the same time, undermined the authority of several others, such as the MFA and the NDRC. A similar case can be argued on the China-EU joint developments on civil nuclear technologies. The joint developments have been a result of an intensive campaign, from the China Guang Dong Nuclear Company (CGNPC), to one member of the SCP rather than representing China's own national nuclear renaissance.

However, one must admit that assessing the relations between the Party and the various organisations is not a straightforward process. Gaining access to the Senior Party members and ministers has become almost impossible. In the later chapters this thesis has drawn mostly from interviews with officials, business practitioners and academics that are very close to two SCP members and one minister.

The second perspective this thesis will analyse is the bargaining process amongst the various actors when it comes to determining China-EU collaboration on CC and RE. Throughout the later chapters, this thesis will search for the origins of the bargaining and explore the reasons why the bargaining arises at almost every level of the Chinese political system. In the context of China-EU collaborations, the later chapters will pay great attention to which institutions

are participating in the bargaining and how their involvement in policy formation has determined the outcomes of collaborations.

One of the most obvious examples to demonstrate the institutional bargaining process is China's erratic and inconsistent policy stances at the 2009 Copenhagen UNFCCC Climate Change Summit. As a number of scholars pointed out, one of the major reasons why the Chinese delegation refused to commit any further carbon reduction was "due to lack of coordination amongst various institutional actors involved in climate negotiations" (Cornard, 2011; Torney, 2014). In addition, the Party leadership has not set a clear framework on who was the most powerful department in charge of China's climate diplomacy agenda. As a result, China's inconsistent behaviour caused much controversy with the EU who intended to collaborate with Beijing and therefore demonstrate itself as a global leader for combating CC.

According to the initial research for this thesis, the bargaining process within the Chinese political system often arises in three different ways: first, it occurs within the Chinese bureaucratic system in the forms of central governmental versus provincial governments, as well as amongst the different central governmental agencies; secondly, it arises between the central governmental institutions and the large State Owned Enterprises (SOEs); thirdly it takes place between provincial governments and the large private companies. The following Chapter Four, Five and Six will explore those three bargaining processes to a significant extent by using case studies from the China-EU CC and RE collaborations.

The first bargaining scenario takes place amongst the various governmental institutions at different levels. Due to the length restriction, this thesis will only focus on the institutional bargaining process at the central government level. As argued previously, the Party has

defined the bureaucratic status of each institution/actor, and granted the designated authority for producing specific policy measures, to each institution. The authority that is given by the Party has often been coupled with responsibilities and budgetary powers. However, certain policy domains have only recently emerged; for example, curbing carbon emissions and developing RE are shared by different departments. As a result, different bureaucratic units and stakeholders have to find ways to retain their share of power. Therefore, a bargaining process “involves negotiation over resources among units that effectively have mutual veto power” (Lieberthal, 1992:9). Depending on their standpoints, each stakeholder will always make specific policies that can extend their own political influence over the ultimate decision maker, or satisfy their own departmental interests.

In the case of China’s developments in RE, for some, RE is a development concern, for others, an environmental concern, for others still, an access to technology and intellectual property rights issue. As Jean Garrison rightfully pointed out, “each bureaucratic perspective carries with it different policy prescriptions” (Garrison, 2009: 26). This in turn has made the whole policy making process more complex, with frequent inter-departmental bargaining occurring. An intensive bargaining process, and shared policy competencies, encourage a search for consensus amongst the various institutions in order to initiate the major policy measures they have debated. “A consensus requires extensive and often elaborate deals to be struck through various types of bargaining stratagem” (Lampton, 1992: 23).

In Chapter Four, this thesis will examine the roles between the NDRC and the National Energy Bureau when it comes to implementing RE policies and hold a different position when collaborate with the EU. These two institutions have held different, and even

contradictory, opinions on China's RE development, because of each department's political influence and financial resources.

The second way in which bargaining occurs is between central governmental agencies and SOEs in China. Their bargaining generates a substantial impact on China's collaborations with the EU, as well as China's overall energy policy making. As Erica Downs suggested, "bureaucratic politics is obvious in the failed re-organisation of the energy apparatus" (Downs, 2006:235). This particular type of bargaining will be examined in Chapter Five.

In the case of Sino-EU RE collaboration, some of the energy SOEs that have little experience in developing RE are dominant players in China's traditional fossil fuels sector. They are far less likely to implement the central governmental agencies' policy on developing RE, but rather find a way of making deals with the governmental departments to "escape" from policy implementation. More importantly, some of the energy SOEs hold the same political ranking as the major energy-oriented governmental agencies within the CCP. They have every reason to refuse to implement policy measures that may harm their business interests. There is a constant tension between China's political priority in the energy sector and the need to generate a greener and energy-efficient economy.

In Chapter Five, this thesis will illustrate how some SOEs have managed to combine the CCP's policy priorities and utilise their own industrial expertise to collaborate with the EU on several flagship RE projects. They act as useful information providers and policy implementers to further accelerate Sino-European collaborations on renewable energy, and therefore have become indispensable actors which deserve more detailed examinations in this thesis.

The last way in which bargaining takes place is at the provincial level, unlike the traditional, SOEs dominated fossil fuels sector. China's RE sector has encouraged the participation of private entrepreneurs and as a result most of the large RE equipments manufacturers in China are privately owned by individuals. This particular bargaining process takes place between the large private RE equipment producers and provincial governments.

On the one hand, the provincial authorities implement RE policies from Beijing and also have the fiscal power to offer subsidies in searching for potential investors to boost their provincial GDP and local employments. On the other hand, private entrepreneurs seek to gain more governmental subsidies and greater tax preferential treatments from their provincial governments. So in an ideal situation, private companies and provincial authorities should formulate a perfect demand and supply relationship. However in reality, disputes arise frequently because there are competing interests between the provincial level, which needs to follow the central government's policy guidance to keep RE equipment prices below the market level, and private companies who push for more profits and greater sales volumes with increased market prices.

In case of the Sino-EU solar panel dispute, one of the world's largest solar panel manufacturers, Suntech, was a main victim of the dispute and went bankrupt. One of the major reasons the dispute triggered its bankruptcy was because Suntech followed the Jiangsu Provincial Government's advice to reduce its solar panel prices to a level that were made below its actual production cost. While Suntech might aspire to see a rationalisation in solar panel pricing that is determined by the market, but the provincial government distort the price to reap its own political benefit. Moreover, private entrepreneurs have far less political

resources, compared to SOEs, to ensure their voices are being heard by the Party leadership. They have no alternative to but to follow the provincial government's decision even if such decisions will harm their business.

The third perspective that I would like to analyse throughout this thesis is the domestic sources of Chinese FP. This thesis aims to explain the extent to which shifts in domestic politics have led to changes in Chinese FP. Studying the Sino-EU collaborations serves as a perfect test case to illustrate how the changes in Chinese domestic energy and environmental policies have resulted in changes to China's climate diplomacy. This thesis intends explore the reasons why China's domestic climate change policy shifts, as well as who drives the changes in the field.

While China's astronomical growth is an economic miracle, its corresponding growth in energy use and recurring shortages show China's inability to address its energy security adequately. According to the IEA, "China's domestic oil production will reduce to 24 million barrel per day (BPD) by 2030 rather than the 32 million BPD the IEA projected in 2006" (IEA 2012). Such a reduction leaves a shortfall to be addressed by imports. This lack of supply has resulted in a domestic campaign highlighting energy efficiency and seeking to develop alternative sources of energy. The Sino-EU collaborations on CC and RE are driven by China's needs to tackle carbon emissions and diversify its energy consumption away from fossil fuels. Their collaborations are not driven "by the EU's success in promoting its 'normative power' of sustainability" as some scholars argued (Youngs, 2011: 3, Holslag, 2011:297). Rather, "it is out of necessity for national survival"<sup>2</sup>.

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<sup>2</sup> Interviews with Professor Pan Jiahua at Chinese Academy of Social Sciences, August 2012

The 2005 Renewable Energy Law set a goal to “generate 15% of China’s energy from the RE sector, which would be up from the current 8%” (NDRC 2012). The Party Leadership has shifted its position from a deep suspicion towards climate change to embracing the ideas of RE expansion and curbing carbon emissions. Moreover, the CC and RE sectors are largely driven by technological advancements and innovations. Developing cutting-edge RE technologies have coincided with China’s self-innovation campaign. The nature of RE technologies has enabled both the SOEs and private companies to join a process of innovation. The self-innovation campaign aims to accelerate the economic restructuring process in China. Such a process will help China to transform from a low value-added exports oriented economy into an innovative technology driven economy. As a result, collaborating with the EU seems to be a natural choice for China.

During the collaborations, several disputes have arisen between Beijing and Brussels due to various factors. Their disputes can also be interpreted as the consequences of changes in Chinese domestic policy measures in the field of CC and RE. For example, China’s suspension of the coal to oil projects has severely damaged several British and German companies’ corporate interests. One reason to explain such a suspension is because the Chinese authorities realised the coal liquefaction technologies is neither as environmental friendly nor geographically feasible in China as the Europeans claimed. Similar arguments can be made about the EU’s complainants of China’s discrimination against European RE products during the process of governmental procurements. This is largely due to the fact that the quality of China’s RE products has significantly improved in the last five years, and the Chinese authorities have made good efforts to protect their newly formed RE sector. These domestic sources that generate an impact on Sino-EU collaborations will be examined throughout the later chapters.

The last perspective this thesis will analyse is the responses to changes in China from the EU and its MS. Most of this thesis will focus on the process of making Chinese FP and explore the changes in Beijing's FP agenda. But, it is also crucial to investigate responses from the EU when it comes to engaging with China. This thesis, throughout chapter six and seven, will examine aspects such as, how the EU and its MS understand China; whether the EU has succeeded in adapting to changes in priorities in China's domestic politics and foreign relations; whether the EU and its MS have managed to disentangle the relations between the Chinese Party Leadership and the core Chinese institutions.

The EU is renowned for its complex bureaucratic system and is now facing a partner which has established equally intricate bureaucracies. By exploring those aspects, this thesis aims to answer the ultimate research question as to whether their collaborations and the overall China-EU relations are a bilateral partnership or multilateral partnerships.

In this thesis, the analytical units from the Chinese side are the Party, the Chinese governmental agencies and the large Chinese corporate organisations. Equally in regards to the EU, the analytical units consists of the EU institutions in Brussels; the Member States (MS); and the European conglomerates that participate in the Sino-EU collaborations. Similar to the investigations into the policy making processes of Chinese FP, I will analyse the domestic sources and the main drivers of the EU and MS' FPs towards China. It is also of heightened importance to understand changes in the EU, and MS' FPs, against the backdrop of the prolonged sovereign debt crisis. Given the significance of the European corporate sector within their collaborations, I will also examine their corporate activities during their collaborations with Chinese partners. However, the European companies are mostly detached



from their respective governments in terms of corporate governance. Their corporate independence has generated different models of collaborations than when compared to their Chinese counterparts.

According to initial findings, the EU institutions in Brussels have largely failed to understand and adapt to changes in China's domestic and foreign policy priorities. Their misunderstandings have almost triggered a trade war between the two sides, and generated an ever stronger sense of hostility between Beijing and Brussels. The MS have been presented with a mixed picture. Some MS have seized the opportunities to establish or restore their sound economic ties with China, whilst others have developed fluctuating partnerships with Beijing. The European corporate sector has certainly grasped the opportunities to expand their business operation in the Middle Kingdom, even though they have made many complainants about the tough business climate in China.

In the context of Sino-EU collaborations, China has entered two relatively new policy fields and has lacked the appropriate experience to integrate new sectors into the existing economy, namely, Climate Change technologies and Renewable Energy. The European companies treat China's lack of experience as a unique opportunity to set foot into China's vast domestic market. For example, the NDRC, the chief executive on China's energy policy, has even consulted Vestas, the Danish Wind Energy giant, when drafting "*the PRC's Wind Energy Equipment Manufacture Standard*" in 2009<sup>3</sup>. To this extent, most European companies' collaborations in China can be deemed as being successful. However, as China's RE sector has grown rapidly in the last three years, achieving greater business success via collaboration for European companies will only become harder.

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<sup>3</sup> Interviews with governmental relations team at VESTAS' China, August 2012

In conclusion, this chapter has outlined the analytical framework of this thesis and offered some preliminary findings. Overall, this thesis will give a strong emphasis on the study of the policy making process; the relations between decision maker and the various FP actors, as well as the bargaining process amongst FP actors. Therefore, it is of heightened importance to adopt the actor-oriented and the process-oriented approaches from the existing literature on Foreign Policy Analysis. This thesis will explain and analyse the feasibility of these two approaches in the next section.

### **Section 1.3 Foreign Policy Analysis (FPA) and the study of China-EU relations**

Given the intricate nature of China-EU relations, using just the mainstream theories of International Relations, such as Realism, Liberalism and Constructivism, is insufficient to explain the complexities of their partnerships. Instead, this thesis will employ selected Foreign Policy Analysis (FPA) approaches together with some grand IR theories to explain Sino-EU relations. As discussed previously, this thesis aims to analyse Sino-EU relations from a bureaucratic politics perspective. The main analytical units consist of each individual FP actor rather than a state or an organisation as a whole. Therefore, it will adopt an actor-oriented approach to analyse the motivations and behaviour of each FP actor in its attempts to shape China-EU relations.

The Bureaucratic Politics Model (BPM) is an actor-oriented approach that has been widely debated and utilised amongst IR academics. Scholars often employ the BPM to analyse the foreign policies of liberal democracies. However, this thesis aims to challenge the prevalent view and to demonstrate that the BPM is by no means limited to a certain category of political system. It is possessed with great explanatory value when it is used to examine foreign policies regardless of the type of regime.

The main focus of this thesis will be individual foreign policy actors in the Chinese foreign policy decision-making process. This section will provide a brief schematic overview of the respective roles of the different institutions and ministries in China's foreign policymaking towards the EU, to illustrate the importance of the actors analysed throughout this thesis.

Like any other domain of Beijing's foreign policy, China's EU policymaking is not a straightforward process. As pointed out in the previous section, while the CCP leadership sets

broader policy agenda, each relevant ministry is asked to provide policy proposals and potential solutions to existing issues between China and other regions and countries.

For China-EU relations, the Ministry of Foreign Affairs (MFA) and Ministry of Commerce (MOFCOM) are twin traditional FP actors that deal with China's external affairs with the EU. The MFA mostly executes bilateral and multilateral relations on political issues, while the MOFCOM retains primary position on trade policy with the EU and its MS. When there is a dispute arising between the two departments, as this thesis shows in Chapter Two, the Central Small Leading Group of the External Affairs, led by the President, will meet resolve the dispute and reach the consensus.

In recent years, several key institutions not traditionally belonging to the decision-making process of China's foreign policy have also gradually emerged as powerful players in making China's EU policy. First and foremost, the National Development and Reformation Commission (NDRC), is responsible for ensuring the overall coherence of Chinese macro-economic and industrial policy. It stands in higher bureaucratic status than both the MOFCOM and the MFA. While the NDRC has little experience in foreign affairs it participates in almost all China's foreign economic policymaking.

As argued, economic relations between China and the EU remain the backbone of their partnership. This provides institutions such as the People's Bank of China (PBOC) and the Ministry of Finance (MOF) with crucial roles in dictating China's financial collaborations with the EU. Both are highly regarded and mostly trusted by the CCP leadership, as Chapter Two will illustrate through their important contribution to China's participation in resolving the European Sovereign Debt Crisis.

The other institution that has come into prominence is the State Owned-Assets Supervision and Administration Commission (SASAC). It regulates overseas direct investments of Chinese State Owned Enterprises. More importantly, it holds the authority to approve Chinese SOEs' investments in Europe and worldwide.

The roles of Chinese SOEs as vehicles to initiate investments have also come to prominence in recent years. The strangest yet crucial feature of the SOEs is their bureaucratic status both within the Party and amongst the central governmental apparatus. By having a full ministry status, they place themselves in the same position to the MFA, the MOFCOM and some other ministries. As a result, when a conflict of interests occurs, SOEs have the ability to bypass ministries and ensure their voices and preferences are heard directly by the CCP's top leadership.

Given the above complex institutional setting, this section aims to explore the potential of using "the BPM approach" of FPA throughout this thesis to interpret the China-EU relations. As argued in the previous section, this thesis will focus on the policymaking process of Chinese FP and Beijing's climate diplomacy. Therefore, it will also adopt the so-called "Process Approach" of FPA in order to observe the changes and domestic sources of Chinese FP.

As referred to above, China-EU relations are dominated by the interactions amongst various state and non-state actors. It is therefore crucial to focus on what those actors have done either to strengthen or to distort China-EU relations. It is also very useful to analyse the

motivations of each actor during the process of determining China's policy towards the EU and vice versa.

This thesis will also utilise the bureaucratic politics model (BPM), which is an actor-oriented FPA approach, to explain how China's EU policy, as well as Brussels' China, policy are made. The BPM suggests that "different institutional settings means officials and politicians view FP issues through different prisms, resulting in distinctively different views" (Neustadt, 1970: 2).

The conventional rational choice model is based on decision makers adopting the most optimal policy proposal in a particular situation. However, according to Graham Allison, "the rational policy model may be useful; it neglects the role of the bureaucracy in determining FP. Each bureaucracy manipulates FP in the direction that corresponds to its particular interests, bureaucratic considerations may override national interests" (Allison, 1969: 690). Similarly, scholars such as Chris Alden and Amnon Aran, echoed Allison's ideas, "Whilst the rational policy model accounts for the interaction between states in terms of a competition between two purposive individuals, the BPM explanation focuses primarily on the political process internal to each state" (Alden and Aran, 2011: 38). The BPM can therefore explain the domestic sources of one state's foreign policy and the causes and processes of bureaucratic rifts.

One can argue that the BPM is largely applicable to liberal democracies with multi-party systems to satisfy the electorates' interests. Therefore, there are numerous interest groups across the whole political spectrum, which are making many attempts to shape the FP according to their desired outcomes. China, as an authoritarian state, is conventionally

perceived as monolithic, and therefore does not have interest groups which could oppose or influence decisions made by the Standing Committee of the Politburo (SCP).

However, the phenomenon of bureaucratic politics, described by Graham Allison and Morton Halperin has not restricted its application to a particular political system, and vested interest groups do play a significant part across through the Chinese political system. “Whilst the rules of game might play out very differently in a democratic elected government, the fundamental characteristics of bureaucratic competition remain the same regardless of the type of government” (Allison, 1968: Halperin 1974).

The relevance of BPM to interpreting Chinese political system are twofold. Firstly, almost every domestic or external affairs decision made are based on a desire to achieve a consensus amongst the seven or nine members of the SCP, even if such consensus is sometimes merely an illusion. This consensus seeking model has provided a unique opportunity to those potential interests groups seeking to influence the opinions of SCP members. Those three bargaining scenarios as I referred at the last section have often occurred in a process of consensus seeking amongst interests groups. These interests groups maybe located both inside and outside of the formal FP making process. They mainly consist of governmental institutions, Chinese companies and even some foreign corporate organisations to a smaller extent. They attempt to formulate Chinese FP based on their departmental preferences and corporate interests respectively. More importantly, none of current nine members<sup>4</sup> of the SCP have much experience in FP making. This in turn has provided relevant Chinese FP actors more channels and alternatives in which to shape China's FP agenda.

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<sup>4</sup> It was nine members at SCP by between Nov 2007 and Nov 2012, and is now reduced to seven

Secondly, Chinese FP has increased in scope and content which has created fertile ground for the various stakeholders and interests groups to compete to shape the policy agenda via various channels. In the case of renewable energy developments, only a few central governmental departments have sufficient experience and expertise. The Ministry of Science and Technology (MOST) is the front-runner for China's scientific innovation policy and has never become a formal participant in the Chinese FP making process. Impressively, it has managed to exercise its limited competence in science to extend its impact on final FP outcomes. Its role as an institutional partner for China's international collaborations has also helped it to become an important, if not formidable, actor in China's FP making. Moreover, both governmental institutions and non-state actors have constantly lobbied the decision making body to ensure their interests are being represented. The following chapters will provide detailed analysis on how the BPM can be used to explain China's EU policy.

This thesis will also adopt the "Process" approach of FPA to study relations between actors and the ultimate decision maker. The Process approach aims to explore the actual process of FP decision-making rather than its final outcomes. For scholars who prefer to use the Process approach such as Valerie Hudson and Laura Neack, they assert that to study a country's FP is to examine what FP actors are actually doing when participating in the dynamic process of making decisions. As Laura Neack suggested, FPA "needs to consider how certain goals arise and why certain behaviour results. Our emphasis will be on determining these factors and the process by which policy (statement and behaviour) is made" (Neack, 2003:26).

The Process Approach to FPA will not only focus on a single decision, but a series of decisions taken with reference to a particular situation. To this extent, one can search for sources and motivations of changes within a series of FP decisions. For example, by using the



Process approach, one can interpret the reasons why China has gradually increased its market entry barriers to European companies when they are investing in China. The higher market entry barriers in China have become one of the major obstacles within China-EU relations. Mounting market entry barriers have largely reflected changes in China's EU policy. At the beginning of the Century, China eagerly searched for sources from which to acquire cutting edge technologies to upgrade its outdated industrial sector. Direct investments from Europe has served as a vehicle to achieve China's own objective. Whereas now, the Chinese industrial sector has now almost completed its "catch-up" and intends to become a fully-fledged competitor to the Europeans. As a result, the Chinese government has tactically set up higher barriers to protect its home grown enterprises. In this context, using the Process approach will allow one to examine why and how changes are made, and the extent to which these changes affect overall China-EU relations.

By using the Process Approach to FPA, the state is no longer seen as a unitary actor in international politics. "States are not conceived as unitary actors but rather as an institutional structure within which, and on behalf of which, individual decision makers act" (Carlsanes 2008:89). The state consists of a number of institutions and organisations performing certain domestic functions and participating in the FP making process. These actors influence the final FP decision-making through a process of problem recognition and proposals of possible solutions. This particular approach can appropriately be applied to analysing China-EU relations.

The reasons which justify this approach are twofold: firstly, the EU is *a sui generis* entity with characteristics of both a state and an international organisation. There are a number of different EU institutions and national governmental agencies sharing EUFP decision making

power. Making the EU's China policy is no exception to the rule, with the involvement of both Brussels and member states (MS). Secondly, the scope of Chinese foreign policy has expanded enormously in the past eleven years. As a result, actors who were traditionally located outside the formal FP making process have participated in Beijing's FP decision making. Therefore, one can conclude that the studies of China-EU relations are essentially assessments of interactions, competitions and collaboration amongst various actors from both China and Europe. In regards to China-EU relations, actors are the governmental institutions in Beijing, Brussels as well as each individual EU member states (MS), corporate actors including Chinese SOEs, Chinese private companies and European firms.

In conclusion, examining China-EU relations is far too complex to rely upon the grand IR theories or any one particular FPA approach alone. Instead of exclusively focusing on the outcomes of FPs as the Policy approach does, it is of vital importance to assess the origins and the series of changes within the FP making process. Therefore, the Process approach of FPA has served as an appropriate tool to unfold the changes and dynamics of one state's FP. Given the large numbers of equally powerful actors involved in the Sino-EU relations, an actor-oriented approach, such as the BPM, can produce ample food for thought for the studies of China-EU relations. By utilising the BPM, this thesis will explore the origins of a particular set of FP agendas from China, the EU and its MS. It will examine the nuances of the relations between those interest groups and the Party. It will also help to analyse intricate relations and bargaining processes amongst various institutional and corporate actors. In doing so, it will test the main hypothesis of this thesis, which suggested that China-EU relations are multilateral ones and determined by various equally important FP actors.

## **Section 1.4: An Overview of China-EU collaboration on climate change and Renewable energy**

This section will offer an overview of China-EU climate change (CC) and renewable energy (RE) collaboration. It aims to provide a foundation for examining Sino-EU collaborations on CC and RE in the later chapters. This thesis argues that their collaborations are multilateral in nature, and takes place at the EU, national and regional levels. It will firstly explain the importance of studying this topic, and then depict the current literature gap. It will explore what are motivations to collaborate from both the Chinese and European perspectives. It will also identify persistent challenges that undermine the prospect of further strengthening their collaborations.

Collaborations on climate change and renewable energy are of heightened importance to China and the EU. The two sides can achieve concrete results and benefit from closer collaborations both economically and politically. Their collaborations only began in 2005 and progressed at a modest level. According to my previous literature review, there is a dearth of secondary literature in this area. There are only eight academic journal articles, three think tank policy papers and one book chapter written on this topic. The reasons are twofold: firstly, it is still a recent phenomenon; secondly, studying this area requires good understanding of renewable technology as well as knowledge of the current trends on carbon trading market and the RE sector. Conducting research on this topic requires researchers to have the right amount of knowledge and first hand working experience within this sector. This thesis does not wish to dismiss the existing literature and attempt to create a brand new piece of research. Rather, it aims to elaborate on research from what scholars have written so far and to bring vibrancy to academic debates on the topic.

From a Chinese perspective, collaborating with the EU will benefit China both domestically and externally. Soaring energy demand, achieving industrial upgrades and crafting a positive international image are the key drivers of collaboration from Beijing's mindset. Domestically, China's rapid economic growth has created a soaring demand on fossil fuels such as coal and crude oil, which have been vital sources of electricity and heating generation since the 1950s. The enormous consumption of coal has resulted in an excessive amount of Green House Gas emissions and pollution. Since the early 1990s, China has started to experience major side effects in the wake of its economic boom. It has become, since 1995, a net importer of crude oil. Its limited domestic oil outputs have made China heavily reliant on imports, and therefore it is very vulnerable to oil price fluctuations which unwillingly involve China in international conflicts in oil-rich, but dangerous, areas in order to secure its supply. As a result, developing a sizeable renewable sector would partly resolve the above challenges.

The CC and RE sectors are largely driven by technological advancements and innovations. RE technologies aim to generate cheaper, cleaner and more effective alternatives when compared to traditional fossil fuels consumptions. To this extent, developing cutting-edge RE technologies has coincided with China's self-innovation campaign. The nature of RE technologies has enabled both States Owned Enterprises (SOEs) and private companies to join a process of innovation. As observed by many scholars, "prior to 2005, technology transfers from the EU had been a critical source of technological capacity in renewable developments in China" (Berger et al, 2013). Chinese companies had often signed license agreements with its European partners in order to obtain some of the core RE technologies. Obtaining such technologies had established a solid foundation for further innovations in the Chinese RE industry. During this period, technology transfers had been organised through a

mechanism of foreign direct investments (FDIs), trade and issuing licensing agreements by European governments and firms.

From a Chinese FP making perspective, developing renewable technology will help China to craft a positive international image. Beijing's recent involvements in the UNFCCC have been substantially shaped by its desire to be an active stakeholder within this framework and to reinforce its leadership role in advocating for developing countries. Like China's other engagements with multilateral institutions, China's main objective in the international climate change arena was to maintain an international environment that would not disrupt its domestic development.

However, as some scholars have observed "China found itself caught between a contradictory role of being both an advocate to developing countries and a major climate culprit" (Messiner and Cornad, 2012: 18). Beijing had rapidly implemented CC and RE projects at home even as it resisted binding commitments abroad. As a result, climate change negotiation has become a main source of persistent tension between China, the EU and other pro-climate change advocates. Beijing believed that emphasise on developing renewable energy would exhibit its efforts to curb carbon emissions and would be acknowledged by the rest of the world.

Increasing in renewable power installation could be an effective way for China to seek international recognition in the global climate change regime and thereby ease international pressure on China to commit to obligatory carbon reduction targets.

Developing renewable energy could also reduce the possibilities for China to become involved in unnecessary international conflicts. China has attempted to secure its access to international supplies of energy and natural resources, to fuel its industrial development.

However, as late comers, Chinese energy companies have to focus on resource-rich countries or regions where their Western competitors have not already established mature business operations. As a result, Chinese energy firms have to venture to the most politically unstable and dangerous regions worldwide. Their economic stakes have then been placed in jeopardy by violent internal political upheavals and territorial disputes in their hosting states.

From a European point of view, the EU aims to become “a policy shaper rather than a policy taker in international environmental affairs, generating policy agenda rather simply responding to policy imperatives” (Lenschow 2004: 143). Both the EU and China are among the worlds largest oil importers as well as Carbon emitters. Establishing successful collaborative partnerships with China will increase the EU’s credentials as a valuable global actor. The two sides established their strategic partnerships on climate change at their high-level bilateral summit in September 2005. They outlined six areas of cooperation: 1) Energy efficiency and renewable energy; 2) Clean coal; 3) Methane recovery and use; 4) Carbon capture and storage (CCS); 5) Hydrogen and fuel cells; and 6) Power generation and transmission.

Both sides have achieved some concrete results in terms of financial and scientific collaborations compared to other areas of China-EU relations. They have financed cutting-edge scientific projects with several prestigious research institutes at various locations in China and Europe. The Commission and “the European Investment Bank funded a total 645 million Euros to clean energy project collaborations with China” (Holslag, 2010: 120). More importantly, Brussels and its MS also have perceived the Chinese RE market to have huge economic potential. Between 2002 and 2008, the cumulative EU exports to China of renewable energy equipments already reached a rather impressive level, with “a total value of

92.5 million Euros” (Ibid). Further to RE equipments sales, the European companies have also had the opportunity to export RE installation and follow-up maintenance products.

However, their collaborations have been more problematic than they expected. This was largely because their cooperation has encountered persistent obstacles generated by the Chinese government, Brussels and by the EU MS. Chinese and European governments and corporate actors play equally important roles in the collaborative relations. This multi-actors process has resulted in the emergence of incoherence to the overall China-EU collaborations on CC and RE. Domestic environmental policy making and climate diplomacy have a typically expansive quality that goes beyond the strict responsibilities of any particular institution or national government.

As some scholars have argued, this mixed nature coupled with an “Inter-sectoral character of environmental policy can make policy makers deliberation quite extensive and often difficult” (Vogel 2006: 90, Sbragia 1996: 244-246). Setting environmental diplomacy agenda involves trade, energy, taxation, transport, finance and scientific research. As a result, the intricate nature of environmental diplomacy has had a major impact upon both China and the EU’s competence to coordinate various actors in their collaboration process. It therefore depends on “the location of internal competence and granting of external recognition” within their respective policy-making process (Vogel 2006: 93).

Meanwhile, the Chinese hold a very different attitude towards compliance with obligatory carbon reductions which have been enthusiastically promoted by the Union at the UNFCCC. Beijing has largely disagreed with the EU’s stance to set compulsory emission targets for developing countries. The reasons for China’s resistance are threefold: firstly, the West

should be responsible for current environmental damage; secondly, China has the right to tackle more pressing issues such as hunger and poverty alleviation, and China should receive more funding and technological assistances to collaborate with the EU and other developed countries in a multi-lateral framework of CC. Thirdly and equally important, tackling climate change and setting carbon reduction targets are seen as China's domestic affairs. The EU and other climate advocates have no right to intervene in the domestic affairs of another country.

The current literature on the Sino-European climate and renewable collaborations overlooks the impact of those states', and non-state actors generated in the collaboration process, while exclusively focusing on the collaboration at the China-EU level. From a Chinese perspective, environmental policy and FP making have gone hand in hand since environmental diplomacy became a part of the Chinese FP agenda in the early 1990s. There are a number of governmental institutions competing to shape China's CC and RE policies. The traditional FP making and implementation institutions, such as the MFA, have only played a minor role in facilitating China's multi-lateral climate change negotiations. Instead, institutions that are in charge of economic and industrial policies have become key players in formulating China's climate diplomacy agenda, and dictate China's CC and RE collaborations with the EU.

Apart from governmental institutions, Chinese firms have also played an indispensable part in either promoting or prohibiting collaborations according to their commercial interests. They have performed simultaneously the roles of policy formulator and policy implementer. This is largely because some of the Chinese firms are semi-independent from the government. They have become vehicles to implement RE policies made by the government. They are also operating as corporate organisations, which have commercial interests to pursue, like their European peers. Therefore, they have attempted to influence the



government's policy agenda for their own benefits. This thesis will explore the roles played by each of the Chinese actors in collaborations with the Union in Chapters 4 and 5.

From a European perspective, their collaborations have also become problematic. This is largely because EU FP has been perceived as inconsistent since the European Union's creation. In the case of China-EU collaborations, horizontal and vertical inconsistencies have co-existed from the beginning of collaboration in 2005. Horizontal inconsistency refers to policy dis-coordination among various European institutions. Environmental policy has traditionally been a competence of the Commission therefore; the DG Clima should have enjoyed ultimate freedom to set the EU's environmental policy agenda from both domestic perspective and external domain.

However, the DG Clima is not able to establish its exclusive competence during the EU's climate diplomacy agenda setting process. Brussels' climate policy agenda is shaped by various other equally important European institutions' engagements in the EU' environmental diplomacy. A constant process of bargaining and turf wars has occurred frequently amongst European institutions. To this extent, the outcomes of European domestic environmental policy and its climate diplomacy are not always in accordance with what the Union is trying to promote. Part of Chapters 6 will exhibit how China-EU collaborations on CC and RE have been constrained by this horizontal inconsistency in Brussels.

Vertical Inconsistency in comparison, it is the incoherence taking place between the decisions of the European Union and the decisions of its MS. There is little coordination between Brussels and each capital of the MS on what is the best way to cooperate with China on CC and RE. The EU Commission and MS realise that pursuing renewable energy cooperation

with China will add invaluable assets into Sino-EU relations. It will also raise the international profile of the Union as a champion to tackle global warming. However, the EU finds it very hard to present a unified vision that convinces China on areas of CC and RE. Vertical inconsistency has inevitably occurred when it comes to choosing the best ways to collaborate with China.

At the EU level, Brussels and China are very keen to see collaborations on CC and RE taking place whilst MS dispute with DG Clima on the extent of collaboration with their Chinese partners. For example, there is a strong fear in Germany that its unique clean coal technology is being copied by Chinese. While Denmark has always been reluctant to show installation methods of off-shore wind turbines to their Chinese customers. Chapter 6 of the thesis will also unfold the so-called “Vertical Inconsistency” between the MS and the EU when they come to collaborating with China.

One cannot deny the vital importance of European companies in shaping the collaborations. They treat China's ever growing RE sector as another enormous economic opportunity. Major European utility/energy conglomerates have either sold their RE equipment or set up joint ventures with Chinese energy SOEs to develop the latest RE technologies. However, their collaborations have exhibited some of the recurring disputes between China and the Union, such as market entry and involuntary technology transfers. Throughout the years of their collaborations, many European energy conglomerates have expressed their frustration to both the governmental departments and their business partners in China through the relevant EU institutions or their respective national governments. They have filed complains of receiving unfair treatment in the domestic market by the Chinese government, and they have also

suffered from frequent Intellectual Property Rights violations while delivering technology transfers to their Chinese business partners.

Unlike relations between the Chinese government and its firms, European firms have not performed “policy implementation” roles in their collaborations with the Chinese. Their collaborations with China are largely determined by economic interests and the market. They have considered the European institutions, both in Brussels and in their respective countries, as their agents who merely represent their economic interests. On some occasions, European firms and governmental institutions are also in dispute as they disagree with each other about which are the optimal collaborative practices with China. Their disputes in turn have also further distorted the EU’s environmental diplomacy agenda. In addition, European companies have generated a significant impact upon China’s RE policy making as the Chinese RE sector is still developing in its very early stage. This thesis will also explore the complex relations between European companies and governmental actors from both China and the EU in Chapter 6.

As argued above, the study of China-EU relations cannot exclusively concentrate on the China-EU level as the current literature has outlined. Rather, it should also retain a focus to a multi-level of analysis, which can affect decision making process of all parties involved in the collaboration. This thesis will explore the intricate nature of their collaborations in the following chapters.

## **Section 1.5: Research Design for the Thesis**

This section aims to provide the research design framework for this thesis. It will firstly outline the hypotheses that will be tested in the thesis. It will then indicate the methods that the thesis will adopt to collect the research data and give the reasons why these specific methods are being employed. It will also outline the levels of analysis of the research project.

A research design is “the plan, the structure and the strategy of investigation, so conceived as to obtain answers to research questions or problems” (Kerlinger 1986: 4). It is the point “where questions raised in theoretical or policy debates are converted into feasible research projects and research programs that provide answers to those questions”(Hakim 2000: 24). In order to conduct a research project, the author will have to identify hypotheses for the thesis. In this thesis, they are:

- 1) China-EU relations cannot be exclusively interpreted in light of a Sino-EU bilateral partnership which only involves the interactions between Beijing and Brussels. Rather, China-EU relations are a series of multilateral partnerships, which involve Chinese and the EU bureaucratic institutions, national capitals of EU MS and corporate actors. They are all playing equally important roles in this multilateral relationship.
- 2) Both Chinese bureaucratic actors and their European counterparts have built up their own centre of gravity in their attempts to shape the overall Sino-EU climate change (CC) and renewable energy (RE) collaborations. On the one hand, these actors are pursuing the policy agenda or collaboration strategies that have been crafted or approved by the respective decision makers. On the other hand, these actors have mobilised their own expertise or formed alliances with other stakeholders to exert influence upon the policy choices by the ultimate FP decision making entities.

In order to test the above hypotheses, this project will apply an inductive approach to link IR theories with empirical evidence within overall China-EU relations. Realists, Liberals and Constructivists ideas have all been utilised by policy makers from Beijing, Brussels and the national capitals of MS. Given the nature of this topic, it is not driven by quantitative data collection; rather it is concentrated on analysing the discourse. This thesis will therefore employ a qualitative approach to conduct this research. In doing so, this thesis will use the case study design in chapter four, five, six to test the hypotheses. According to some political scientists, “Case studies enable researcher to focus on a particular policy area and study it in depth” (Burham et al 2004: 53). While both qualitative and quantitative data can be utilised in this method, this thesis will utilise more qualitative data in order to evaluate the process and possible outcomes of China-EU collaboration.

After identifying the models of research design, the author will have to decide what kind of data she will collect in order to fulfil the requirements of the research model. As mentioned earlier, collaboration between China and the EU on CC and RE is a recent phenomenon in the development of Sino-EU relations. It has not been as widely studied as other elements of China-EU relations. Primary, or first-hand, data is best to facilitate the requirements of this research. As suggested by some scholars, Primary data “consists only of evidence that was actually part of, or produced by, the event in questions” (Lichtman and French 1978: 18).

To collect primary data, the best approach is to conduct interviews. Due to the opaqueness of the Chinese policy making process, the author believes that semi-structured interviews are deemed to be most appropriate with which to obtain the required data. The author will conduct semi-structured elite interviews with decision makers and practitioners who have extensively worked in this area. The author will draw on contacts from her previous

consulting projects as well as contacts from several of her participations in think-tank conferences. The author believes these interviewees will provide invaluable insights into the current developments on China-EU collaboration; as well as asserting visible, and invisible, barriers that prohibit collaboration from proceeding further.

Despite the limited amounts of secondary data available in this area, the author will still need to consult them. Referring to secondary data, as a number of scholars have asserted, consists of “other evidence relating to and produced related to the event” (Ibid: 19). The secondary data will allow the author to “verify and confirm (up to a certain extent) the consistency of the information and data collected” (Burham et al 2004: 179). This thesis will draw secondary data mainly from official documents and analyses written by scholars and up to date media sources. In addition, this thesis will examine the roles of European conglomerates in facilitating or undermining collaboration between China and the EU. The annual reports from publicly listed conglomerates will become an important secondary source from which to understand the subject, even though they are not written for the purpose of academic discussion.

Given the complexities of the Chinese FP making process and the hybrid nature of the EU, this thesis will conduct analyses at three levels in order to fully comprehend China-EU relations and their collaboration on CC and RE.

- 1) China-EU level: This thesis will evaluate how decisions are made and implemented by the Chinese governmental departments and their EU counterparts affect the overall collaboration on CC and RE. This thesis will also assess to what extent the outcomes of their collaborations are shaped by either their individual bureaucratic preference or corporate interests.

- 2) China-EU-EU MS level: This thesis will examine to what extent the policy preferences of the MS will determine the outcomes of China-EU collaboration. At this level, the thesis will assess how individual MS interact with China either to enhance or to distort their bilateral collaborations. This thesis will also consider how the individual MS' own interests have undermined the overall coherence of the EU's policy agenda on Sino-EU CC and RE collaborations.
- 3) The European institutions and the Chinese provincial governments' level: At this level, their collaborations have mostly reversed into a major source of bitter disputes between China and the EU. This is largely due to the Chinese provincial government's own authority to dictate its local renewable energy industry without consideration of China's overall renewable development strategy and the international demand and supply of the renewable equipment. At the provincial level, this thesis will turn the focal point to the relations between the large private owned enterprises and their respective governments in the wake of the Sino-European solar panel dispute.

The purpose of presenting the different levels of analysis is to test the hypothesis that "China-EU collaborations on CC and their overall relations are not bilateral but multilateral partnerships with various layers, and therefore they must be considered from different actors' points of views.

## **Chapter One Conclusion:**

In conclusion, this chapter has outlined and reviewed the shortcomings of the current literature on China-EU relations, which have predominately concentrated on both China and the EU as monolithic and coherent actors in their engagements with each other. Instead, this thesis will adopt the Process Approach of Foreign Policy Analysis to disentangle the relations amongst main protagonists of China-EU relations.

With a focus on various foreign policy actors in this thesis, the author believes that the Bureaucratic Politics Model and the related Fragmented Authoritarian model are also equipped with significant explanatory values when they are used to examine the foreign policies of non-democratic regimes, such as China. While China and the EU have undergone a dramatic transformation in recent years, their common interests in climate change and promoting renewable energy have emerged as a new area for scholarly debates.

However, there is a dearth of secondary literature in this area. The existing literature has mainly focused on collaborations at the China-EU level without assessing the cooperation made by individual governmental institutions and corporate actors from China, the EU and member states. This thesis aims to fill the literature gaps by examining the roles of the relevant actors in shaping the overall collaborations in the following Chapters; Four, Five and Six. The thesis has also outlined the level of analysis and research methodology that will be used in the thesis.



## **Chapter Two: Not quite a strategic partnership: An Assessment of China's EU Policy between 2001 and 2013**

### **Introduction:**

This chapter examines the developments in China's EU policy between 2001 and 2013. Both China and the EU have consistently emphasised the importance of their diplomatic relations, and have made serious efforts to maintain sound economic ties. In 2001, China's WTO membership marked as a historical milestone in China's return to the international community. Its successful application for WTO membership was thanks to the substantial help from the EU and individual member states (MS). The two sides then enjoyed a relatively short honey-moon period and before suffering bitterness by the end of 2008. In the past three years, their relations have again been revived against the backdrop of the global financial crisis and lingering sovereign debt crisis within the Eurozone.

During these twelve years, China's engagements with the Union have largely reflected its rapid economic growth as well as a major political ideology shift amongst the decision makers in Beijing. The main aim was to have amicable relations with both the EU and individual members, and to accelerate China's own economic modernisation through the absorbing of advanced technologies and industrial expertise, from the EU. Despite having strong commercial ties, their relations were no less problematic than China's relations with the other great powers. With the ups and downs of China-EU relations, both Beijing and Brussels were disenchanted by what they could offer to each other in order to establish a so-called "strategic partnership". China recognised that the EU had a long way to go before it could become a credible player in the international arena. As a result, China shifted its strategy from dealing with Brussels to strengthening its bilateral ties with MS.

China's EU policy has exhibited distinctive characteristics in its foreign policy (FP) agenda, such as a staunch belief in safe guarding national sovereignty and resentments of past humiliations. Its economic engagements with the Continent have largely been intertwined with specific political agendas such as the "One China policy". Policy makers in Beijing believe that smooth political ties are the prerequisites of further economic collaboration. China has begun to flex its economic muscle to achieve political goals. In other words, China never hesitates to practice economic statecraft, either in conventional or non-conventional forms, when engaged with the EU and individual MS, as has already been argued in Chapter 1,.

Practising economic statecraft requires a number of actors involved in both the FP making and implementation processes. There are no shortage of numbers of actors participating in China's EU policy making and implementation. The evolving nature of China's EU strategy has reflected the expanding scope and numbers of players participating in the policy-making process. These actors are either semi-autonomous or autonomous, and have built up their own centre of gravity in their attempts to shape Beijing's EU policy agenda. On the one hand, these actors are pursuing economic statecraft under the remit of Beijing's careful executions of its EU policy. On the other hand, these actors have mobilised their own expertise or have formed alliances with other stakeholders to exert influence upon the Standing Committee of the Politburo (PSC), which is the ultimate FP decision making body in Beijing. This chapter will seek to explore the dynamics and the conflicts amongst these two groups of actors, either semi-autonomous or autonomous, when they comes to influence the policy making process as a whole.

This chapter will firstly provide an overview of China's EU policy by searching for its origins and objectives in Section 2.1. It also aims to provide an insight into, and the identity of the main protagonists of the Sino-EU relationship in the past 11 years. In section 2.2 this chapter will then identify who are the actors currently participating in the formulation of China's EU strategy as well as who is implementing that strategy. It will attempt to unfold these actors' relationship with decision makers, in other words, the relations between the bureaucratic/governmental actors and the ultimate decision-making entity. Finally, in section 2.3 this chapter will explore the roles played by the corporate sector in China's EU policy making process. In doing so, this thesis will answer one of key research questions, to what extent these FP actors have shaped China's EU policy making.

## **Section 2.1: An Overview of China's EU Policy between 2001 and 2013**

This section aims to provide an insight into China's EU policy in the past eleven years. It seeks to explore sources of Beijing's EU policy agenda, and to search for correlations between China's foreign policy (FP) objectives and China's engagements with the EU and the individual member states (MS). It will explain the reasons why China has largely failed to establish "a strategic partnership" with the European Union.

This section will also reflect the increase in scope and the complexities of China's EU policy as China has re-emerged as a global power. This evolving nature has provided fertile ground for various Chinese FP actors competing to shape the policy process. This section will pave the way to examine how these competitions and conflicts between the Chinese FP actors have played out in formulating China's EU strategy in the next section. This section will firstly examine the objectives of Chinese FP, and then search for correlations between China's FP goals and China's EU policy. By depicting the main challenges to China-EU relations, this section will also assess to what extent China's EU policy has actually created, rather than eliminated, persistent obstacles to further strengthening Sino-EU relations.

China's FP objectives have been mostly inspired by its core national interests, which are: 1) To prioritise economic developments over political pluralism as a function of reinforcing the Chinese Communist Party's legitimacy with the People;

2) To maintain social stability across different provinces through a reduction in income inequality by promoting further sustainable economic growth

3) To safeguard the absolute leadership of the Chinese Communist Party (CCP)

4) To safeguard territorial integrity and national sovereignty through a policy of zero-tolerance towards separatists unrest in Tibet and Xinjiang, and the secession of Taiwan. Chinese President Hu Jintao summarised these reasons by stating that China's diplomacy must safeguard the interests of sovereignty, security and development (Hu, 2009).

Therefore, Chinese FP has always served the interests of domestic politics, which is first and foremost to create a stable external environment in order to help China's own economic developments and to acquire advanced technologies to modernise the country. More importantly, the ultimate objective of Beijing's FP is to sustain the absolute leadership of the Party. Facilitating continuous economic growth has been, and will continue to be, the vital source of the CCP's modern day legitimacy.

China's FP has defensive and inward looking objectives based on its core national interests. Such ideas were initiated by Deng Xiaoping who stated that China should be "Keeping a low profile in international affairs and focusing on domestic economic development" (Wang, 2011: 159)<sup>5</sup>. China's active engagements with Europe, the US and other advanced industrial states have served this purpose well. Under certain circumstances, Chinese leaders had to make some compromising choices to not antagonise the US in order to cultivate a relatively peaceful environment to allow its economy to flourish in the 1990s, just as Japan did in the 1950s. For example, China had been very reluctant to take any military actions against the US even when cross-strait relations were at a very low point in the late 1990s. From the late 1990s onwards, China became a net importer of crude oil and other raw materials from resource-rich states. Therefore, it has been crucial for China to maintain sound relations with

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<sup>5</sup> I am using the official translation from MFA here, which is different from commonly known as "Bidding times and hiding capabilities".

African and Latin American countries to secure China's energy supply to support and accelerate further economic growth.

Chinese FP agenda is driven by three considerations: the economy, world order and regional security considerations. In the case of Sino-EU relations, economic considerations have been placed at the centre of China's EU policy. Developing strong economic ties with the EU and its MS reflected changes both in Chinese domestic politics and international affairs.

Domestically, China has deepened its market reform and restructured significantly the state controlled economy since the late 1990s. A large number of non-performing and debt-ridden SOEs were ordered to be shut by the central government. The Chinese economy very much needed to be sustained by profit-driven and exported-oriented private entrepreneurs. Joining the WTO became a realistic option as it would revitalise the Chinese economy even further. The EU's support was important to China's successful application. A willingness to join the WTO became a necessity, as it would help to integrate China into the world economy. For the Chinese government, "the WTO membership was an economic opportunity and a challenge for the Chinese companies (People's Daily, 2001)".

Externally, China has always admired highly innovative industries and cutting-edge technologies from the EU and the US. It considers both continents to be vital sources of obtaining desired expertise and knowledge. However, it is more difficult to acquire them from the US given its various tariff restrictions and non-tariff barriers. By engaging with the EU and its MS, China has benefited from extensive research and development agreements with its European counterparts. Since the mid-1990s, the EU had enjoyed a long period of economic boom; and Chinese manufacturers had experienced soaring demands for their

manufacturing products thanks to the relatively low value of the RMB. The Union became a vital export market for China. The boom had enriched a large number of private entrepreneurs and secured a considerable portion of employment in China. This sound economic growth further legitimised the Chinese Communist Party (CCP) regime.

Despite having close economic ties, China-EU commercial relations have become rather problematic. The EU's refusal to grant China Market Economy Status (MES) is one of the recurring obstacles that have not been overcome by the two sides in the past twelve years. Brussels refused to grant China a MES based on a lack of transparency and the heavy governmental intervention in economic and trade policies.

The rejection was also considered a political humiliation by decision makers in Beijing. They argued that the granting of the Status would be a benefit for the Sino-EU strategic partnership both economically and politically. They realised that the refusal was principally due to three reasons; 1) a large trade deficit between the Union and China; 2) the Chinese government's market intervention is not fully in line with what the EU consider as a market economy; 3) the EU, in particular the European Commission, attempted to use MES to leverage more bargaining power in order to resolve trade disputes and market entry barriers that disadvantage European companies.

However, the MES is of exclusive competence of the Commission. It continues to emphasise that the refusal is "a purely technical matter, that is within the framework of EU's anti-dumping policy, China has not yet fulfilled the necessary requirements to be granted the status" (Remond 2007: 346). Chinese officials criticised what was perceived as the arrogance of the EU and accused the Union of being self-interested in prohibiting Chinese products

from entering the EU. They had been frustrated by the Europeans' reluctance and also confused by the indecisiveness of Brussels.

In response to the EU's rejection, China started to stretch its economic muscle and conducted several forms of economic statecraft in order to create potential opportunities for the granting of MES. Beijing took both positive and negative measures simultaneously to facilitate their engagement with the EU and the individual MS. However, its "carrot" and "stick" strategy has not been successful.

In terms of punitive measures or "sticks", China began to set higher market entry barriers to European firms, which either wished to continue operating in China or to commence greenfield investments. The Ministry of Commerce in Beijing (MOFCOM) also sets quotas on certain products to cut off the European companies' supply chains. For example, Beijing had limited the export of the rare earth minerals which consists of a category of 17 elements that are found in an array of hi-tech products. China has mainly exported rare earths to the EU and the US, which are widely used in manufacturing solar panels, wind turbines and smart phones. China accounted for more than 90% of global production of such materials by the end of 2012. Beijing has tightened supplies repeatedly over the past four years, but this measure was not as effective as expected. The quotas set by MOFCOM have not been exhausted by foreign buyers since 2010. The sharp price increase caused by Beijing has increased investments in production elsewhere that may with time break China's near-monopoly over the supply of rare earths. In addition, the MOFCOM's tough stance on imposing rare earth quota has caused constant tensions between the MFA, the MOFCOM and the Ministries of Technology and Information as well as among other related governmental entities. This thesis will discuss the sources of their conflicts in the next section.



Besides negative measures being taken, China had also offered “carrots” to certain MS to improve their bilateral relations. This in turn has created a greater propensity for those MS lobbying the Commission when the EU comes to deciding on China's MES in Brussels. Those countries were mainly from members at the EU’s southern periphery.

Between 2002 and 2008, representatives from Italy and Spain were the main advocates in refusing to grant China a MES inside the Commission. As the sovereign debt crisis lingered, debt-ridden Southern and Eastern European members have treated China as “a complement or even an alternative to European or IMF loans” (Godement and Plenser, 2011: 8). China made purchases of governmental bonds as a sign of reassurance and trust. For example, China agreed to buy Spanish governmental bond with a value of over 1 billion Euros during Vice Premier Li Keqiang’s visit in 2011.

However, China’s “carrots” seemed to have received little in return. It has even placed Beijing in a difficult situation as these investments in a troublesome Euro bonds market could jeopardise China's vast foreign reserves. At least 20% of China’s foreign reserves were deposited into the Euro bond market and China has become the largest trading partner of the EU. Therefore, the Euro sovereign debt crisis was just as much a crisis for China, and saving the Euro was also vital for China.

Even so, China became very hesitant in increasing its holdings in a problematic, or even insolvent, bond market as Chinese state-owned financial institutions would receive little return on investments. Yet, the Chinese officials had finally decided to increase the amount of

Euro bonds via European Financial Stability Fund (EFSF)<sup>6</sup> (Reuter, 2012b). They would not make any further attempts to exchange a favoured decision for China's MES by purchasing more insolvent bonds.<sup>7</sup> To this extent, China and the EU's economic relations had largely remained turbulent even if China had utilised both "carrots" and "sticks" to engage with the European Union. The two sides have not been able to overcome obstacles of MES refusals and trade disputes during the past twelve years.

Between 2001 and 2012, China experienced an unprecedented transition to become an emerging economic giant and a global power in waiting. It had therefore eagerly searched for a new international identity and recognition. China's neighbours have feared that China's was ultimately a threat to their national interests. In 2003, the Peaceful Rise discourse was issued, debated and utilised by Beijing in order to reassure its neighbours and the rest of world.

The Chinese government realised that the "Peaceful Rise" discourse seemed to share commonality with what Brussels promoted as "a normative/civilian power" (Song, 2010: 772). The EU could be a natural partner to China in the international community. According to Zheng Bijian, the architect of China's Peaceful Rise discourse, "A peaceful rising China does not have fundamental conflicts with an integrated EU. We share so many commonalities with the EU, in particular we all agree that international politics is based on a multilateral framework and the pursuit for general public good" (Zheng 2006).

The EU Commission's China paper also stated that "China and the EU share positive and common values" (EC 2003). However, this "commonality" was a cogitative mistake from both sides. The most obvious example is their different perception on "multilateralism".

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<sup>6</sup> EFSF is replaced by European Stability Mechanism

<sup>7</sup> Interviews with officials at Ministry of Finance and MFA in Beijing, Aug 2012

Multilateralism, for Europeans, is a defining principle of organising the world politics and a core element of constructing the “normative power” of the EU. Multilateral cooperation should solve most transnational problems and even some hard security issues.

While for China, multilateralism is “a continuation of realpolitik by other means (Holslag, 2011: 295). It is a “tool and tactic” with which China can advance its own interests (Shambaugh, 2011: 19). Chinese officials perceived that encouraging China’s participation in multilateral institutions was in fact a trap to contain the rise of China. It could undermine China’s ambition to restore its great power status. It should not be considered as a regular mechanism to solve global issues. Their different perceptions of “common values” had caused more frustrations than further enhancement of their relations on several occasions.

In the case of climate change, the fundamental division of multilateralism between Beijing and Brussels was the driving force that caused China to oppose the EU’s stance on an international climate change regime. Chinese officials viewed that tackling climate change and carbon emissions should be resolved by an individual country according to their different situations whereas the EU contended that environmental issues were transnational in nature and should be resolved via binding rules from international organisations. This thesis will offer an in-depth discussion on the division between China and the EU on climate change issues in Chapters 4, 5 and 6.

Chinese FP makers have a long tradition of assuming that “Multilateralism” was equivalent to “Multi-polarity”<sup>8</sup>. They view the world as consisting of different poles under a US hegemony, and China has to make alliances with other poles to challenge US supremacy.

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8 Interviews with a senior official at IDCPC, Sep 2012

Given the EU's rising profile in international politics, Chinese FP makers assumed "establishing an alliance with the EU could undermine US dominance, and was a viable option"(Wu 2004).

However, some European China analysts suggested that "forming an alliance against the US was a naive idea and this was elaborated by Chinese scholars. Establishing an alliance with one country does not necessarily intend to oppose another partner<sup>9</sup>". The EU and the US actually share many more common values, such as embracing liberal democracy, respecting the rule of law and universal human rights, than China does with Brussels.

Beijing's misunderstanding of the EU has brought severe consequences to its relations with the Union. Between 2003 and 2006, Chinese officials were rather optimistic about overcoming one of the perennial obstacles of Sino-EU relations, namely, the arms embargo. The EU's arms embargo to China was imposed immediately after the 1989 Tian'anmen incident to condemn China's lack of respect for democracy and individual human rights. Economic sanctions, or embargo, were one of the conventional forms of economic statecraft that the EU had practised when it engaged with China.

Since China joined the WTO, the Chinese government made great achievements in improving the living standards of ordinary Chinese people. Meanwhile, both China and the EU declared an intention to establish a "strategic partnership" with one other. Therefore, lifting the arms embargo was seen as a natural step to strengthening their partnership according to Chinese and some European officials' views.

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<sup>9</sup> Interview with Dr Gudrun Wacker at SWP, Berlin, Nov 2011

Moreover, France and Germany were governed by leaders with a “pro-China” attitude during that period. Despite the UK’s closer relations with the US, the Labour government was also in favour of the lifting of the arms embargo. Some Chinese FP makers argued that the “arms embargo could be lifted without any hesitation by the end of 2005” (Ibid).

Unfortunately, Beijing had under-estimated the US’ influence on Brussels on this occasion. The White House had openly stated that the US opposed the EU’s proposal to lift the arms embargo on China. Chinese officials had mistakenly concluded if German, French and British reached agreements, the EU 25<sup>10</sup> as a whole must form unanimity.

Agreements though had not been achieved amongst the 25 EU members<sup>11</sup>. In addition, with the enlargement of the EU in 2005, former Eastern Communist countries were admitted such as Poland and Hungary, which had expressed suspicious and negative views about the CCP. This has further increased the difficulties in lifting the arms embargo. Since then, Chinese officials have almost given up the hope to lift the embargo from Brussels<sup>12</sup>. The failure to reach an agreement marked a turning point for Sino-EU relations. Beijing finally realised the impotence of EU formulating a unified China policy, and it was disenchanted by what the EU could offer to China. To this extent, China shifted its focuses back to engagements with individual MS, which would certainly benefit China economically. This in turn may add to China’s economic and political leverage to Brussels.

Apart from these two persistent obstacles, China has been in dispute with the EU on other normative issues, such as China’s human rights records and China’s political reforms. This

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<sup>11</sup> In time of the event, there were 25 member states in the EU

<sup>12</sup> Confirmed by a senior official at MFA, August 2012

was largely driven by sources of Chinese FP, namely, the revival of nationalism and the safe guarding of territorial integrity and national sovereignty. These sources have profoundly shaped China's FP as well as its international identity. Needless to say, China's EU policy has also been determined and further complicated by these sources.

A strong sense of nationalism is a product of contemporary Chinese history. China was ruled as a semi-colonised state either by Japanese or by Western major powers until 1945. The CCP government gained its legitimacy through fighting foreign invasions. Consequently, being independent from any foreign influence was echoed by both the elite and ordinary Chinese. The Chinese government has utilised nationalism as an effective instrument to unite the country as well as to achieve the goals of its FP.

The 2008 Beijing Olympics was a historical and symbolic moment for China. Most Chinese firmly believed that their country had finally achieved the status of a great power in the global arena and their past humiliation was withering away following one global sporting event. Yet, Chinese willingness to show its national strength was challenged by the EU and some MS. The President of the European Parliament openly called for the European leaders to boycott the opening ceremony of Olympics as a sign of protest against China's heavy crackdown on Tibetan riots in March 2008. This gesture had brought a disastrous impact on Sino-EU relations. Europeans' vociferous criticism had enraged both the Chinese elites and the public. Chinese has always resented Europeans telling them what to do and believed that Europeans were "jealous of China's economic success and played a conspiracy against the Chinese people" (Xinhua, 2008). To a great extent nationalism is a formidable force in Chinese FP which has clearly been overlooked and misunderstood by the Europeans. Their complacency on how they can shape what is happening in China should be abandoned.

Nationalism has also created an attachment to state sovereignty. Beijing and Brussels hold very different, even contradictory views on national sovereignty. There was “a conceptual gap on sovereignty between China and the EU, which breeds misunderstanding and disputes” (Pan, 2010: 235).

State sovereignty by the CCP’s understanding consists of territorial integrity and independence from external interference in domestic affairs. It was non-transferable and absolute. Whereas in Europe maintaining state sovereignty was not a key component of FP for both Brussels and its MS. EU members have pooled their sovereignty and joined the European Union. They view sovereignty as a matter of accountability, which means a government must be accountable to the people it governs. The role of the state is to protect the economic well-being, basic human rights and physical security of its population. Accountability is the main source of governing legitimacy of a state. Accordingly, Europeans emphasised the protection of human rights as a key function of a state, and contended that the role of sovereignty in international politics was diminishing and linked to authoritarianism.

Their different understanding of state sovereignty has caused bitter disputes between Beijing and Brussels as well as having distorted China’s relations with some MS. This was exhibited in China’s policies on Tibet and on human rights. From the CCP’s perspective, to keep Tibet within the PRC’s territory is to safeguard national sovereignty. The Tibet issue was also under the domain of domestic politics. According to the Chinese government’s understanding, “what the Dalai Lama, the exiled Tibetan spiritual leader, wanted to have is the independence of Tibet and some parts of China’s western provinces. Obtaining more religious freedom

from the CCP government was just an excuse by him to win more support from the Europeans and the Americans” (Xinhua, 2014a)

Whereas the Europeans treat Tibet as a human rights issue and suggested China should allow the granting of more religious freedom to Tibetans in order to legitimise China’s sovereignty in the region. Beijing denounced the EU and its MS for interfering in its domestic politics and undermining China’s national sovereignty. It accused the Europeans of ignoring what China has achieved in improving the Tibetans’ living conditions, and instead of only focused on what China did not obtain.

To conclude, China’s EU policy is representative of the fundamental characteristics of Chinese FP. China is a country with “dual identity”, combining a developing country reality with great power ambitions. Therefore, this particular identity has created “issue-oriented national interests, which can easily conflict with the type of value-based relationship most preferred by the EU” (Zhang 2009: 123). It has been of little surprise that Beijing’s EU policy has largely failed to overcome two of the biggest obstacles, which are obtaining MES and lifting the arms embargo. These strains show no sign of abating, and illustrate that closer bilateral trade ties alone cannot achieve a strategic partnership as both sides have expected. To no extent did Beijing and Brussels share “common values” as they both declared.

Over the years, China’s EU policy has changed according to its core national interests. These changes have induced a large number of FP actors to become involved in formulating policy. The next section will shift the focus to the actual policy process and the way these actors are engaging in the process.



## **Section 2.2: The Bureaucratic Actors in China's Foreign Policy Making Process and their impact on China's EU policy making**

No analysis of a country's foreign policy (FP) can be conducted without a comprehensive understanding of the FP formulation process. The analyses of China's EU policy and overall Chinese FP are not exempt from this logic. This section will observe the expanding scope and the number of players involved in China's EU policy making. It will also seek to explore the reasons why the Chinese FP making has undergone a process of institutionalisation and pluralisation.

By using the Bureaucratic Politics Model (BPM), it aims to disentangle relations between bureaucratic actors and the ultimate decision-making body in Beijing. Through examining the policy process, it will also demonstrate to the extent to which these institutions have conducted economic statecraft on behalf of the Chinese government.

This section will firstly offer reasons as to why China should not be treated as a monolithic entity when the Chinese government comes to formulating its FP. It will then identify how the main ministries or governmental institutions are participating in the policy process. Finally, it will assess the extent to which these bureaucratic actors have shaped China's EU policy agenda. Due to the restrictive length, this section will dedicate its discussions to the intricate relations between governmental institutions and the ultimate decision-making body. The next section will exclusively focus on the extent to which the Chinese corporate sector has influenced China's EU policy.

FP actors are "institutions and individuals who have the power to make FP decisions, and are formally part of the FP formulation process, or seek to influence FP" (Jakobson and Knox, 2010:2). According to this definition, any institution or individual that fulfils such criteria is

considered as a FP actor. This definition has not restricted FP actors to exclusively being from government ministries and institutions. Influential non-state actors are also seen as active FP actors in the Chinese FP making process. But this section will exclusively focus on governmental institutions.

In the past twelve years, IR scholars and some China experts shared a view that China is no longer a monolithic FP player in international politics (Ibid, Lampton 2008, Wang 2011). Beijing's FP formulation has become increasingly diversified and pluralistic compared to the one of Mao and Deng's era. There have been fierce debates on who makes Chinese FP and why there has been a proliferation of institutions participating in Chinese FP making process. The answers to the above questions are far from clear amongst IR scholars. However, what remains unchanged is the ultimate decision making power of the Standing Committee of Politburo (SCP).

The main reason for such changes is due to the expanding scope and increasing complexities of Chinese FP. Beijing's FP has evolved from simply maintaining amicable relations with its neighbours and other great powers to developing a longer term strategy with Africa and Latin America. Given its unprecedented economic growth, China is seen as an engine of recovery against the backdrop of a global financial crisis. As a result, Chinese FP has incorporated what are traditionally considered as "low politics" domains such as economics, global financial institutional reform, climate change and foreign aid as integral parts of its FP. China has become an indispensable member of the international community organising international politics. The idea of "Tao Guang Yang Hui" or keeping a lower profile is "a necessary component of Beijing's foreign policy, it is also insufficient" (Wang, 2011: 76). Therefore

the FP making process has become more diversified and resulted in more detailed division of labour for each participant within the process.

Changing the CCP leadership has also contributed to institutionalisation and diversification of the Chinese FP making process. The CCP leadership has evolved from what Charles Hermann defined as “a predominant leader” during Mao and Deng’s era to “a single collective group”, which currently consists of nine members at the PSC who was headed by Hu Jintao (Hermann, 1981: 363). As many China experts observed, “Hu paid greater attention to formal institutions in policy making, laying a greater emphasis on proactive and pragmatic diplomacy and collaborates more closely with Premier Wen Jiabao” (Lai 2010: 37, Bachman 2003: 116). Such an opinion was also echoed by senior members at the MFA and the MOFCOM. “Since China joined the WTO, Chinese FP making process has become institutionalised and required professional knowledge in specific policy domains such as complex financial deals and carbon trading market from diplomats at all levels”<sup>13</sup>. As a result, there has been a surge of various government institutions and non-state actors participating in both policy making and implementation processes.

Moreover, the PSC under Hu’s leadership was very much in favour of consensus building when they had discussed both domestic politics and FP. President Hu had always emphasised reaching consensus amongst the other eight members of the PSC even if occasionally the consensus was merely an illusion. Therefore, the importance of consensus building within the PSC has encouraged institutions and actors both inside and outside the official FP making mechanism to find ways to influence the views of the PSC members.

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13 Interviews with senior members at MFA and MOFCOM in Beijing, August 2012

However, this process of institutionalisation has not undermined the ultimate decision-making power of the SCP. The SCP is the ultimate decision making body of both domestic policies and external affairs in China. It deliberates on the most important matters. In particular, it takes critical decisions on external affairs that relate to national sovereignty, territorial integrity and potential military conflicts as well as shifting FP orientations. As a senior Chinese diplomat pointed out, “issues within the domain of ‘High Politics’ will only be decided by the SCP. Other policies such as climate change, energy security, trade and international aids will be ranked by the SCP members according to their perceived importance. The higher such an issue ranks, the more likely the related policy is decided by the SCP members within a very short period of time.

According to my interviews with diplomats at MFA, “governmental departments will only provide choices of policies for reference to the SCP members”<sup>14</sup>. Therefore, it is overly simplistic to conclude that one particular governmental department or non-state actor prevails in Beijing’s FP making process. Moreover, the SCP members are overloaded with other important domestic policy decisions to be made. FP has always been of secondary importance compared to the discussions on domestic issues during SCP members’ weekly meetings.

As a result, most Chinese FP decisions were taken by members of CCP Central Foreign Affairs Leading Small Group (CFALSG). Under the SCP, the CFALSG together with the PLA Central Military Commission (CMC) are two equally important agencies in handling matters related to Chinese FP. These two agencies are responsible for reporting policy proposals on external affairs for approval or objection to the SCP. In the case of China’s EU

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<sup>14</sup> Interview with a very senior Chinese diplomat at MFA

policy, the PLA CMC plays only a small role as most of China's EU policy agenda are primarily economically focused.

Apart from the SCP, actors that participate in Chinese FP making process have a relatively clear division of labour. Ministries such as the MFA, MOFCOM and the International Department of the CCP (IDCPC) manage the daily business of China's external affairs. They also submit policy proposals or strategic options to the CFALSG and the SCP members and carry out research accordingly.

Submissions of policy proposals offer a myriad of opportunities to these ministries in an attempt to shape the final FP outcomes. Despite the ultimate decision making power laying with the SCP, Chinese FP making process has encouraged participation of various ministries and institutions through their supplies of policy proposals. The relevant institutions have therefore retained a level of autonomy through the proposal submission process. In other words, they are semi-autonomous bureaucratic actors.

On the one hand, they carry out and follow the policies made by the SCP. On the other hand, they mobilise their expertise and resources in attempts to shape the Chinese FP agenda according to their own preferences. They have strived to create their own centres of gravity and shape the decision making process. According to several interviews conducted with diplomats at the MFA and the IDCPC<sup>15</sup>, they suggested that most policy proposals have been carefully drafted and extensively discussed in relevant "Divisions" and "Bureaus"<sup>16</sup> before the CFALSG members' meetings taking place. Ministers of the relevant departments finally have to present those proposals to the CFALSG. In most cases, the CFALSG members do not

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<sup>15</sup> Interviews with diplomats at MFA, MOFCOM and IDCPC in Aug 2012 and Nov 2012 in Beijing and Brussels respectively

<sup>16</sup> Division is written as "处 Chu", "Bureau" is written as "局 Ju"

object to proposals provided by relevant institutions unless there are major disagreements amongst the CFALSG members.

Related to China's EU policy, the China-EU high-level political dialogues are co-organised by the MFA and the IDCPC on the Chinese side. These dialogues are one of the most important mechanisms of policy exchanges between Beijing and Brussels. The scope and contents of such dialogues are mostly researched and prepared by the European Bureau of the MFA and the EU bureau of the IDCPC. According to several interviews with senior staff members at both institutions, "CFASLG members have never rejected any contents or proposals for the policy dialogues since they were established in 2003"<sup>17</sup>. More often than not, the CFASLG members who participated in the China-EU dialogue had only added a few minor comments based on what the MFA and the IDCPC provided.

For example, China-EU policy exchanges on healthcare reform had never been part of the dialogue as it was beyond the scope of foreign policy. However, in 2006, the EU bureau of the IDCPC included a discussion on European health care reforms and believed it would become one of key areas for further China-EU collaboration. The IDCPC submitted the potential dialogue proposals for the CFASLG's approval, which was disagreed with by the MFA based on the position that health care was not an area of concern for China's foreign policy. Ultimately, the CFALSG fully agreed that the health care issue had been a sector of immediate concern for both China and Europe. Therefore, policy exchanges in this domain became a core component of the dialogue in years to come.

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<sup>17</sup> Interviews with MFA AND IDCPC staff members, August 2012, Beijing

The MFA of the PRC has traditionally dealt with Sino-EU political relations and bilateral relations with the EU MS. In recent years, given the increasing weight of economic issues in FP making, the Ministry of Commerce (MOFCOM), the People's Bank of China (PBOC), the National Development, Reformation Commission (NDRC) and the Ministry of Finance (MOF) have become the main institutions involved in setting China's EU policy agenda together with the MFA. All these institutions have strongly challenged the status of the MFA as "chief FP executive. Some of the domains of China's EU policy overlap, which have inevitably resulted in competition amongst the different governmental departments. "One of the MFA's major roles is to translate broad policy guidelines or long-term goals into practical policy choices and implementation plans" (Lai, 2010: 145).

However, as argued above, China's expanding international role and the growing complexities of global issues have resulted in a flourishing of all sorts of Chinese FP making entities. Policy domains that are exclusively run by the MFA have declined significantly. The MFA must often rely on other entities for expertise, or even compete with other institutions for influence.

As pointed out in the previous section, the EU's refusal to grant China status as a MES has been a chronic obstacle in China-EU relations. Issues related to trade and foreign direct investments have been mainly dealt by the MOFCOM. Issues related to MES and trade with the EU have caused a major bureaucratic rift between the MFA and the MOFCOM. Given the importance of China-EU trade relations, the MFA had also performed an important role in setting the negotiation agenda and facilitating actual negotiations between the two sides in 2005.

Due to a lack of trade and economic expertise, the MFA has been marginalised during the China-EU trade disputes and negotiations in regards to MES by the MOFCOM between 2005 and 2008. The clashes between the MFA and the MOFCOM on how China should engage with the EU had become almost a daily routine rather than a rare occurrence. They disputed the extent to which China should eliminate certain market barriers to allow European companies to enter the Chinese market. They were also in disagreement about whether China should set retributive quotas on certain European imports. Quotas and market entry barriers have been part of the reasons why the EU has refused to grant China MES status.

Setting quotas as quantitative restrictions on exports and imports is one of the negative sanction instruments when a state conducts economic statecraft. China has become increasingly accustomed to doing so when it comes to dealing with the EU and the US, though it has not been at all effective. The MOFCOM had been the main agent of the Chinese government and placed itself at the centre of China's tactics to conduct such statecraft. Given Brussels' tougher stance on Chinese exports, Beijing began to explore similar negative measures to disadvantage the EU.

In 2005, the MOFCOM had launched a textile war against the EU Commission in response to Brussels setting retributive duties on 10 different types of Chinese textile exports. During the CFALSG meeting in May 2005, the MFA criticised the MOFCOM's by saying the action was "careless and did not consider the bigger picture of Sino-EU relations", whereas the then Minister of the MOFCOM, Bo Xilai contended that the "MFA had zero knowledge of international trade"<sup>18</sup>. Externally, the MOFCOM had persistently pressed the EU Commission on withdrawing the retributive duties for textile and was determined to resolve

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<sup>18</sup> Interviews with MOFCOM officials who participated in that CFALSG meeting, Nov 2012, Brussels



issues related to MES between 2005 and 2006. Internally, the MOFCOM prevailed over the debate on whether China should set quotas on European textile imports.

Since China joined the WTO in 2001, the MOFCOM's competence and power has expanded significantly. It has become "one of the indispensable institutions for making Chinese foreign economic policy"<sup>19</sup>. Two former ministers of the MOFCOM have even been elevated to the position of vice premiers between 2001 and 2007. One of key responsibilities for the MOFCOM is to boost China's trade volume. It has played a vital part in promoting China to become the world's largest trade partner with the EU. It preferred to depreciate the Chinese currency RMB in order to further expand China's trade volume with other key partners, including the European Union. This in turn would benefit the MOFCOM as a governmental department both financially and politically.

Economically, a larger trade volume had been synonymous with a bigger departmental budget in the subsequent financial years to come. The budgetary increase would also trigger the political success of key officials of the MOFCOM and the ministry as whole. Senior diplomats at the MOFCOM have been promoted to higher political rankings much quicker than any other central governmental departments in Beijing<sup>20</sup>. The MOFCOM's jurisdictions have been extended to include oversight of China's outward direct investments, which previously belonged to the NDRC.

However, MOFCOM has not enjoyed many victories over a very long period of time. It has been at odds with the People's Bank of China (PBOC), China's central bank over issues on

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<sup>19</sup> Interviews with ECIPE fellow, Brussels April 2011

<sup>20</sup> Interviews with officials at IDCPC, September 2012

how China shall ‘rescue’ the Euro in order to avoid massive losses to its own economy. Since 2009, the EU has suffered from a double economic recession, triggered by the global financial crisis and the sovereign debt crisis. Such crises have weakened European consumer demands for Chinese exports. China was also asked by the EU to offer financial assistance. The MOFCOM suggested to the SCP members that China should offer direct financial assistance to the nearly bankrupted Southern European members immediately to ‘rescue’ the Euro. In doing so, they would avoid a massive decline in Chinese exports and the collapse of Chinese manufacturers whose main customers were from the EU.

The most significant player in formulating China’s monetary policy, the PBOC, held a contrasting position to the MOFCOM. The PBOC has been dictating China’s domestic monetary policy and its growing importance in the Chinese FP making process mirrors China’s growing impact on foreign economies and world financial markets. The PBOC has the authority of managing RMB exchange rates and China’s vast foreign currency reserves. These functions placed the PBOC in “a unique and powerful position” (Jackbson and Knox, 2010: 11).

The PBOC did not object to the idea of “saving the Euro” on the grounds of China’s own economic interests. Rather, as several scholars point out the Chinese leadership under consistent advice from the PBOC, have always supported the Eurozone for political reasons, viewing it as a step towards the creation of multipolar currency order with RMB alongside the dollar and the Euro (Otero-Iglesias, 2012: 2,3; Ryan, 2014:5).

Against the background of the Eurozone sovereign debt crisis, the PBOC challenged the MOCFOM’s idea of offering direct financial assistance to individual MS. Rather, it preferred

to contribute to the European Financial Stability Fund (EFSF) or to deposit China's financial assistance at other international financial institutions. The PBOC was very cautious in increasing its holdings in a troubled, or even insolvent, bond market. The monetary policy management committee of the PBOC has always been prudent. It has not "committed to a further increase in holdings of European governmental bonds rather via increasing contributions to the EFSF" (Reuter, 2011; Yu, 2011). Meanwhile, it began to expand the usage of the RMB as a settlement currency in London, aimed at diversifying the holdings of the US Treasury bond and European sovereign bonds.

In February 2012, Chinese and EU leaders hosted their annual summit. The governor of the PBOC Zhou Xiaochuan pledged that "China will always adhere to the principle of holding assets of EU sovereign debts through the IMF or EFSF" (Bloomberg, 2012a; Reuter 2012b). Such a statement implied that the SCP had already adopted the PBOC's proposal of contributing to the EFSF and would refuse to offer direct financial assistance as the MOFCOM proposed. The SCP realised that the MOFCOM's proposal of offering direct financial assistance to nearly bankrupted Southern European members would receive little in return. As a result, the MOFCOM did not manage to prevail in the debate on whether China should 'save the Euro'.

China's EU policy was no longer a quest for synergy between "China's Peaceful Development" and the "normative Power of Europe". Instead, the Chinese government emphasised its economic ties with the EU. Apart from increasing bilateral/multilateral trade and investments, the Chinese government has also expanded the scope and volume of government procurement as well as collaboration to develop renewable energy with the EU and individual members. As a result, governmental institutions that are not traditionally seen

as external affairs related departments also joined this bureaucratic land-rush. They have widely participated in this multi-actors led policy-making process and shaped the agenda.

For example, the NDRC, and the Ministry of Science and Technology (MOST) are departments that have mostly been responsible for domestic innovation policies. Between 2009 and 2013, both departments have played vital roles in determining China's climate change policy as well as establishing Sino-EU low carbon zone partnership. Due to their lack of experience in foreign policy making, they have created more obstacles and generated a negative impact on China's EU policy, rather than using their expertise to enhance relations. This thesis will discuss the roles that the NDRC and MOST played in Sino-EU relations to a greater extent in Chapter 4 and 5.

To conclude, competition between the relevant stakeholders or bureaucratic actors has been prevalent and fierce during China's EU policy process. These bureaucratic actors are semi-autonomous and have built up their own centre of gravity to influence China's EU policy agenda according to their own desired outcomes. As has been argued in this section, there was no single bureaucratic actor that prevailed over every single policy debate. Rather, it had largely depended on specific issues and the external environments of that period. As China-EU relations are becoming more complex, the number of actors and the scope of the policy will only continue to expand to a greater extent.

In particular, the dynamics of Sino-EU relations have shifted from "pupil-teacher" relations to "buyer-seller" relations. Chinese firms began to play an indispensable part in the change of focus in China's EU policy agenda. They have made ever greater efforts to incorporate their specific corporate strategies into China's EU policy agenda. As a result, they comprised a key

interest group, which has actively interacted with the government. This in turn may alter China's EU policy agenda. I will continue to examine the roles that Chinese firms play in the China-EU relations in the next section.

### **Section 2.3: Chinese Corporate actors in China's Foreign Policy Making Process and Their Impact on China's EU Policy**

As argued in the previous section, the scope of Chinese foreign policy has expanded enormously, with its economic aspects being given equal weight to Beijing's geo-political concerns. As a result, Chinese firms have become an indispensable part of China's foreign policy making process. In 2000, the Chinese government launched a national campaign to encourage Chinese firms to 'Go Global', part of a strategy to increase China's competitiveness and help rebalance China's export-oriented growth model, as well as gaining political capital overseas (People's Daily, 2008). Since then Chinese companies have acquired natural resources and purchased sophisticated technologies from their business partners and competitors.

In the context of China-EU relations, the national campaign of “Going Global” has certainly influenced China’s EU policy to a great extent. This is largely due to Chinese companies’ active engagements in the EU. Their overseas activities in the continent have further complicated China’s EU policy making process.

This section will firstly examine the overall relations between Chinese bureaucratic actors and corporate players participating in China’s FP process. Then it will use examples of Chinese firms’ engagements in the EU and individual MS to illustrate how the corporate sector has determined China’s EU policy agenda.

Chinese companies have become formidable sources for shaping their country’s FP regardless of their ownerships. Their attempts to influence policies are mainly determined by their nature as corporate organisations, which is profit-maximising. They are not simply subsuming their interests and preferences to Beijing. Instead, they have mobilised their expertise and resources to influence the views of the SCP members according to their own desired outcomes.

Chinese companies who have been equipped with this enormous power are the Sovereign Wealth Fund, large State Owned Enterprises (SOEs) and a handful of extremely successful private companies. They often have direct contacts with members of the SCP to ensure their voices are heard either by contacting them through regular meeting channels or having private conversations on certain issues.

The China National Offshore Oil Company’s (CNOOC) project of joint oil exploration near

the South China Sea with the Vietnamese and Philippines National oil companies in 2005 is the best example to illustrate what was just asserted above. In 2005, “the Chairman of CNOOC, Mr Fu Chenyu, initiated the discussion with his Vietnamese and Philippines’ counterparts to jointly explore the potential oil fields near the South China Sea” (SASAC, 2005). Between 2001 and 2007, China had maintained relatively amicable relations with its South East Asian (SEA) neighbours. Joint explorations would benefit all three companies both economically and politically.

From an economic perspective, oil-fields near the South China Sea were mostly explored and operated by the US and British oil giants, such as Chevron and British Gas. Chinese oil companies had only acted as services providers to their western business partners until this joint project commenced. As some media argued, “joint explorations with other SEA neighbours would break the dominance of western companies and profit the CNOOC from the market expansion” (Bloomberg 2005). The area near the South China Sea had been geopolitically critical to all countries who border on the South China Sea. Joint explorations would allow China to place its own foot in this oil-rich, yet contested water. In November 2006, the CNOOC had long discussions with officials from the MFA and the State Assets Supervision Commission (SASAC), which “regulates the activities of SOEs” (SASAC web).

However, the MFA objected to the proposal based on the grounds that the “CNOOC’s project was overly complicated and could potentially antagonise Sino-US relations”<sup>21</sup>. The CNOOC managed to arrange a meeting with Premier Wen JiaBao, who has a geology background, and knows the oil industry very well. Wen offered his full approval to the CNOOC together with another SCP member, Zhou Yongkang, who used to be the Chairman of the China National

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21 Interviews with a CNOOC senior management team member who participated in the meeting



Petroleum Company (CNPC) before his tenure at SCP (Reuters, 2013). As a result, the consensus in favour of carrying out the project was reached amongst the nine PSC members. The MFA was ordered to give all diplomatic and administrative support to facilitate the project. The CNOOC's project finally "began in early 2006" (Bloomberg, 2005). It was the first and the last project in which China collaborated with the SEA states. It had become a key part of the success of China's relations with SEA states, before their relations deteriorated from 2009. This example illustrated how the powerful SOEs, like the CNOOC, could by-pass governmental institutions to influence the final decision-making in China's FP.

Competition between bureaucratic actors and the corporate sector were as pervasive as to cooperation between these two groups. Chinese companies have formed alliances with governmental entities in order to influence the SCP's decisions during the policy making process. Companies collaborate with governmental institutions by either a bottom-up or top-down approach.

For a bottom-up approach, it usually takes place at a policy agenda setting stage. Companies lobby relevant ministries/departments to ensure their concerns/preferences are incorporated as part of the policy proposals, which are then submitted to the SCP. Corporate interests will thereby be represented once the SCP approves certain proposals from relevant ministries. Therefore, bureaucratic entities have sometimes become agents of those companies.

For example, Huawei, the world largest telecom provider, participated in China's EU policy making through the "bottom-up" approach outlined above. Huawei, one of the largest private publicly listed companies in China, has achieved great success in the European market through providing telecom products, with their sale prices 20% lower than its competitors.

As some media observed, “because of Huawei’s success in the European market, its European competitors accused it of being subsidised by the Chinese government” (WSJ 2011). In early 2011, they “requested the EU Trade Commission to launch an ‘anti-subsidy’ investigation to examine whether Huawei had received state subsidies when it sold telecom products to the European market” (Ibid). Based on the WTO agreements China signed, the Chinese government should not allow the provision of subsidies on exports such as textile and telecoms equipments.

The MOFCOM contested the Commission’s accusation and insisted that Beijing did not offer any subsidies to Huawei. Instead, according to the MOFCOM’s study, “the EU gave significant subsidies to its telecom companies in violation of WTO rules” (China Economic Review, 2011). In addition, Huawei pointed out that the Commission did not only accuse Huawei, more importantly, Brussels wanted to file a complaint about China breaching the WTO agreement.

After several rounds of hard lobbying to relevant officials in the MOFCOM, Huawei convinced them to negotiate on its behalf and asked them to discuss the case during the China-EU High Level Economic Dialogue in Beijing in July 2012. Ultimately, the then State Councilor Dai Bingguo reassured the Trade Commission that “the Chinese government had not provided any forms of subsidies to Huawei and other telecom manufacturers, and requested Brussels to withdraw the complaint from the WTO” (Caixin, 2012). To this extent, Huawei managed to form an alliance with the MOFCOM and utilised the ministry as its agent to influence China’s EU policy agenda

For a top-down approach, it is most likely to happen in the policy implementation process. Governmental institutions implement certain policies that require having companies playing a part, such as the campaign of “Going Global”. In so doing, government institutions will achieve implementation targets that are set by the SCP. As established by the former Chinese President Jiang Zemin, “targets fulfilled by the relevant governmental institutions will be taken into account of each institution’s annual assessment” (People’s Daily, 2008). Related governmental officials are often rewarded with promotions if their achievements are seen as outstanding. Those companies that follow the policy may benefit economically or make substantial losses financially from complying with specific policies.

China’s “going global” strategy is the best example to illustrate this “top-down” approach between bureaucratic actors and the corporate sector in Chinese FP process. For Chinese firms, following the “Going Global” policy will ultimately increase their exposure to mature market economies, allowing them to learn sophisticated management skills and to create long-lasting brand value for their products. These intangible assets are abundant in developed countries but relatively scarce in China, and their development by Chinese firms will boost sales volumes and profits. Moreover, those companies that invest themselves in the opportunities of global expansion will reap the benefits in competitive advantage over other Chinese firms both in the domestic market and abroad.

From the Chinese governmental institutions’ view, Chinese firms ‘Going Global’ may be considered a better alternative than holding governmental bonds. As pointed in the previous section, China faces a dilemma of whether to follow its economic interests as the EU’s largest trading partner and increase its holdings of Euro-denominated bonds, with the consequent risks that increasing its holdings will only further trap Beijing in this troubled monetary

union. Or on the other hand, reduce Chinese exposure by reducing its holdings, which will certainly have the effect of alienating political allies and more importantly threaten vital sources for the import of advanced technologies.

The China Investment Corp. (CIC), China's own SWF provides us with an excellent example to help illustrate its complicated relations with the governmental department when it acts as a vehicle to carry out China's "Going Global" strategy. SWFs are investment vehicles set up by governments to better utilise large savings. "The CIC was set up in 2007 by the Chinese government" as an investment institution tasked with generating higher returns on China's \$3200 billion of foreign reserves than those offered by the US Treasury (Sovereign Wealth Fund Centre Data). The CIC's formidable size, "with a \$200 billion seed fund and later \$400 billion under its management", has attracted unprecedented attention around the world (Ibid). It has collaborated with other bureaucratic institutions such as the MOFCOM and the China National Development Bank.

Meanwhile, The CIC has often opposed policy proposals initiated by the governmental departments causing bureaucratic rifts with them. This is because the CIC perceives that certain policies adopted by the government could pose strong obstacles to its own business developments. Following these inappropriate policy mandates will result in a potential threat to the CIC's own survival.

For example, "one of requirements of the SOEs which invest abroad is to submit their annual Profit and Loss Sheets to the SCP and SASAC"<sup>22</sup>. SOEs that have made reasonable profits will be encouraged to continue their business while those who made grave losses have to

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<sup>22</sup> Interviews with the former deputy director at Bank of China, HK Branch, January 2012, London

explain the reasons why they have failed their overseas business operations. However, due to the nature of the CIC's investments, it is impossible to make any profit at the infant stage of investments. As a result, despite the CIC being established under the approval of the SCP, it was frequently criticised by the SCP due to some of its loss-making portfolios.

As media observed, "The CIC has been particularly active in Europe and Africa, to the extent that it has become a representative of the Chinese government in conducting its economic statecraft" (EconoMonitor, 2013). Around the world, the CIC is paying particular attention to the types of industries they want to invest in, and measure their returns on investments over a three to five years cycle. The CIC has concentrated on industries such as civil aviation, civil nuclear technology, bio-tech, infrastructure, oil and gas.

In the financial year 2009-2010, the average Return on Investment (ROI) for "the CIC's portfolios was around 11%, with a focus on high-technology portfolios in Europe" (Ibid). In 2011, the CIC seized opportunities to invest in European infrastructure portfolios, mostly in the form of equity purchases rather than directly managing the targeted companies, with the former being easier for the CIC to handle. This is because directly managing the targeted companies would require related industrial expertise, which the CIC often lacks.

Moreover, investing in infrastructure programmes provides local employment opportunities, which the CIC hopes will help, mollify any hostility to its investments within the countries involved. "CIC's 8.6% equity purchase of Thames Water in January 2012" was the best example to reveal its investment strategy (BBC, 2012a). The CIC has been particularly active in the UK since its market is more open to foreign investment than comparable economies on the continent.

The CIC's activities in Europe are mostly based on commercial merit, and focused like any other private investor on profit maximisation and risk avoidance. However, its opaque management structure and its direct links with the CCP have caused great discomfort and at times outright hostility in hosting countries. The then Chairman of the CIC, "Lou Jiwei, and most of its senior management, are directly appointed and assessed by the CCP's Department of Organisation", and its investments are the subject of significant public political scrutiny (Brodsgaard, 2012: 215).

For example, the CIC's very first investment, in the Blackstone Corporation, a US private equity firm, made a huge paper loss and was much criticized domestically, resulting in the State Council ordering the CIC to withdraw from the investment, turning a 'paper loss' into a 'real loss' of \$1.9 billion (CIC, 2011: 21). Based on interviews, "Mr Lou was subsequently asked by the CCP Department of Organisation to explain the reasons for the loss during his annual performance assessment meeting"<sup>23</sup>. Thus the CIC's close ties with both the government and the Party have distorted its portfolio management and may undermine the CIC's foundational goal of better utilising China's foreign reserves.

Despite the political difficulties that Chinese firms face, the biggest obstacle to their 'Going Global' plan is that they are not equipped with the sufficient management skills to take on complex and long-term investments abroad. Their often unsuccessful overseas operations, particularly in Europe, have done more harm than good to China-EU relations.

Many Chinese firms have enough cash to acquire European companies, but have lacked the

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<sup>23</sup> Ibid

confidence and experience to deal with the challenges involved. Such hurdles co-exist at both the initial acquisition process and at the actual business operation stage. Most of the senior management teams of Chinese companies which invest abroad are equipped with industrial expertise, but not the necessary management skills and general market knowledge. They are unfamiliar with the market environments of the investment destinations and have little understanding of their end-customers in the EU States.

Chinese firms sometimes naively assume that smooth bilateral political relations between China and their European investing destination states will automatically produce a good business environments, and believe they can therefore conduct 'business as usual' in those countries as they would in China. This of course is far from the reality. Most Chinese firms have had difficulties dealing both with local labour unions in their investment destinations, and with respect to the cultural differences of local employees. Independent organised labour is a relatively new concept in China. China's All Labour Union is affiliated to the CCP, whereas unions in continental Europe are often formidable forces in salary and welfare negotiations with their employers. Chinese companies have believed that simply retaining local labour forces following an acquisition will be sufficient to maintain good industrial relations, and are not accustomed to labour unions asking for salary increases or going on strike.

For example, TCL's acquisition of a French Television manufacturer Thomson in 2004 indicated the enormous and unprecedented challenges that this company, China's largest Television manufacturer, faced. TCL retained most of Thomson's employees after the initial acquisition (TCL Case studies Zhejiang University EMBA course reading, 2007). Within six months of operation, TCL management team realised the inefficiency of the local French

labour force and therefore took a chance to encourage under-performing local French employees to leave the company. However, the French workers organised a three months long strike and sued because the TCL did not abide the French Labour Law by pressuring them into accepting redundancy. The French government finally made inquiries into the incident and asked the TCL to withdraw its business unit from France, in 2006, because of TCL's ignorance of French Labour Law. During the French President Jacques Chirac's visit to Beijing, "the TCL's incident became an issue of discussion between Beijing and Paris" (People's Daily, 2007).

To conclude, whilst Chinese companies have become a significant group of actors in shaping China's EU policy, their business activities in Europe deserve more nuanced analysis. Despite their sheer size and cash heavy account, Chinese companies are short of global business exposure. Some of their operations have even undermined Sino-EU relations. Moreover, their competition and collaboration with the Chinese government has constrained their ability to become leading players in their European investment destinations.



## **Conclusion for Chapter Two:**

In conclusion, China has treated its relations with the EU and individual MS with great importance. But, it has largely failed to establish a truly strategic partnership as Beijing expected. Its EU policy has embodied the fundamental characteristics of China's FP. Some of them are in contradiction to what the EU has promoted around the world. China has been disappointed by Brussels' impotency in removing two chronic obstacles to enhance their relations, namely: China's MES and the arms embargo. China has since completely given up the naive idea of building a Sino-EU alliance hedging against the US's prominence in international politics.

To a great extent, China's EU policy has also reflected the expanding scope and number of actors in participating in China's FP process. Besides the traditional FP actors such as the MFA and the MOFCOM, a number of new FP actors have made a great debut in the international stage and generated a substantial impact on deciding China's EU policy agenda. During the past eleven years, most of these actors have enjoyed temporary victories, which were largely dependent on where their expertise was required by the SCP. However, the ultimate decision power of deciding China's EU policy has been retained in the hands of the SCP. The next chapter will shift the focus to Europe. It will identify the actors who make Brussels' China policy and assess the extent to which the policy has been manipulated by the MS. It will also observe how conflicts amongst different institutions in Brussels as well as between the EU and the MS have been played out when they tried to formulate a coherent China policy in the past eleven years.

### **Chapter 3: Disjointed Partnerships: The Development of EU's China Policy between 2001 and 2013**

#### **Introduction:**

This chapter aims to explore the developments of the EU's overall China strategy in the past twelve years. These developments represented a significant shift in Brussels from an almost exclusive inward focus on its own integration to a consideration of the EU's relations with the other major powers in international affairs.

More importantly, the formulation of an overall EU China strategy was driven by the growing economic significance of China to the Union. By pursuing this strategy, Brussels shifted its China policy from constructive engagements to establishing a comprehensive strategic partnership (SP). It was aimed at encouraging China to further integrate into the world economy, which would ultimately induce political reform within in the country. Both constructive engagements and establishing the SP could be interpreted as the EU utilising a form of economic statecraft, namely economic inducement or "structural linkage", to persuade China to further liberalise its economy (Mastanduno, 1999: 292).

As can be referenced in the EU-China 2020 Strategic Cooperation agenda, the EU and China cooperate on four major fronts, namely: "Peace and Security; Prosperity; Sustainable Development; People to People Exchanges" (EEAs, 2013). This thesis assess China-EU relations in "Prosperity and Sustainable Development" field.

The preliminary findings suggest the EU has enjoyed some successes and suffered from some failures in addressing these two subjects with China. The cause of their failures are threefold: firstly, there has been a deep misunderstanding by the EU of China's role in the world as a global emerging power.

Secondly, there has been a failure by the EU to recognise China's own strategic priorities in external affairs, and the domestic priorities that drive Beijing's views of the EU as a reliable and credible partner. As was argued in the previous chapter, this failure to appreciate China's own FP objectives has caused recurring obstacles to improvements in their relationship. And thirdly, there have been inconsistencies within the EU'S China policy formulation process. These inconsistencies simultaneously occur across various EU institutions, and between Brussels and individual member states (MS).

Moreover, the European corporate sector's intensive lobbying of European bureaucratic actors has undermined a move towards a positive direction for China-EU relations. European companies' active engagement with Chinese bureaucratic actors, which have shaped some of China's EU policy agenda, have also further complicated Sino-EU relations.

This chapter will provide an examination of the aforementioned failures in three sections, each based on the different group of FP actors. The first section will start to assess the roles and inconsistencies amongst European institutions when they come to deciding Brussels' China strategy. It will also explain the reasons why the "civilian power or normative power" model of pursuing their China policy has largely failed. The second section will turn the focal point to the individual MS and assess their different types of policies towards China. More importantly it will depict, and examine, the divisions and conflicts between the overall China strategy from the EU and MS' own China priorities. The final section shifts the focus to the European corporate sector. By examining European companies' engagements with both European and Chinese institutional actors, it will assess to what extent the European corporate sector has affected the EU's China policy agenda, as well as to what extent both

European and Chinese governmental institutions have acted as agents on behalf the European firms.

### **Section 3.1: The Developments of the EU's China policy and power shifts among EU institutions**

This section will provide an examination of the EU's overall China policy in the past twelve years. It will focus primarily on the EU's role *sui generis* in projecting its foreign policy (FP) through EU institutions including the Commission, the European Parliament (EP) and the recently established European External Action Services (EEAs).

This section aims to challenge the prevalent view that the "EU's China policy would be best served by actively increasing the strength of its normative rhetoric as part of a broader value-based diplomatic effort" (Youngs, 2010:2). Instead, it argues that the EU's normative engagements with China have largely failed because the EU has misunderstood China and its core national interests. No progress can be made without seeking overlapping interests between the two sides.

More importantly, the EU is not a monolithic actor. Its complex institutional settings have provided fertile ground for bureaucratic turf wars and resulted in policy incoherence, which has caused frustration in the Chinese government.

This section will firstly explain why the EU has failed to pursue a normative-oriented China strategy. It will then assess the roles of EU bureaucratic institutions in making a China policy and disentangle their conflicts and compromises, which have caused an institutional incoherence and failure to deliver an effective policy.

The nature of the EU as a FP making entity has been widely contested amongst policy practitioners and academics alike. One of the widely accepted concepts is of the "EU as a

normative power”, proposed by Ian Manners, (Manners 2002:238). This term attempts to “avoid the civilian and military dichotomy in favour of a focus upon the ideational impact of the EU’s international identity” (Bretherton and Vogler, 2006:42; Manners, Ibid). He outlines five core values of the EU as a normative power; peace; liberty, democracy; the rule of law and respects for human rights. Based on these five core values, Manners then devises four subsidiary values; social solidarity, anti-discrimination, sustainable development and good governance, which are translated into the guiding principles of domestic and FP making of the EU and its MS. The establishment, and development, of the EU are based on these values and principles, which are accepted and practised by the 28 MS.

Therefore, the Union expects to “export” this model to third countries when it comes to setting its FP agenda. Hazel Smith nicely summarises the essence of the EUFP, which is “the capacity to make and implement policy abroad that promote[s] the domestic values and interests and policies of the EU” (Smith, H 2002: 8).

At the beginning of New Millennium, the EU had enjoyed an optimism that was a result of the process of globalisation. This process would enable the EU to reach out to the world with their unique historic experience as a global normative power. Some scholars who have studied European FP echoed the idea of the EU as a normative power, asserting that the normative element is one of the key features of the power possessed by the EU. “This influence resides in the EU’s capacity to shape positive perceptions of key values that other states then internalise, enabling these ideas to become constituent elements within international relations”(Manners, 2002: 239; Mattlin, 2009: 96; Men, 2011: 7; Geeraerts, 2011: 58).

As a result, China-EU relations have provide an excellent case study for the EU on its normative value oriented FP. Most parts of the EU's China policy are derived from the rationale behind the concept of normative power. This sense of normative power has not only expressed through general political norms such as respects of human rights and the Rule of Law. Rather, the EU intends to act as norm-setting entity on both political and economic fronts.

The establishment of economic norms within a market-driven economy, including regulated bilateral trade, seems to have become the ultimate aim for EU engagement with China. Whilst political norms are still central to EU foreign policy, “the EU has largely failed to engage with China on various aspects of political norms” (Crooke, 2013: 640).

Since the late 1990s, the EU and its MS have used a method of non-confrontational engagements towards China with the ambition of encouraging China's participation in the world economy; the so-called “Constructive Engagements”. In doing so, the EU had offered its strong support for China to join the WTO in 2001. Some officials in Brussels, such as Romano Prodi and Javier Solana, assumed that China's deepening economic reform would automatically create a ‘spill-over’ effect and extend reforms into the Chinese political system. This in turn would induce China to embrace liberal democracy, the rule of law and a respect for universal human rights. In doing so, the linkage would eventually produce a political transformation leading to desirable changes within China.

Meanwhile, there had been a sea change in the notion of ‘security’ in international politics. According to Emma Rothschild, the concept of security was “extended from military to political, economic or human security, which is a horizontal extension” (Rothschild, 1995:

54). The prominence of economic security has inspired the EU's China policy. Therefore, the EU upgraded its "constructive engagements" strategy to establish "a comprehensive strategic partnership (SP)" with China in 2003, in "a confluence of historical events" (Callaham, 2007: 29).

As established in the previous chapter, the idea of a 'Peaceful Rise' seemed to be in convergence with the EU as a non-hegemonic power or a normative power. According to the EU official China Policy Paper published in 2003, the Union decided to make "a shift from a traditional state to state partnership, up to the EU level, across a broad range of issue areas, anticipating developments not only in the EU, but also in China. The Union would speak with one voice" (EC, 2003:2). The need for consolidation came from the proliferation of dialogues, exchanges and policy initiatives across various policy domains between the two sides.

However, after the initial euphoria of establishing a so-called "strategic partnership" in 2003, both China and the EU have been disenchanted by what they could offer to one another. This is largely due to the Europeans' value-based approach in dealing with China as an emerging power coming into conflict with China's own priorities and interests.

The value-based China strategy is conducted in two separate yet interconnected aspects of China-EU relations: economic ties and political relations. On the economic front, the EU would like to engage with China to become a more collaborative partner in abiding rules and regulations in world trade and market entry.



On the political relations, the EU appears to have focused far more on generating an impact upon domestic politics in China. “Whilst such an approach may have been successful when linked to the lure of prospective membership to Central and Eastern Europe states over the last decade, there is growing evidence to show that positive outcomes from this approach are far harder to achieve” (Filipini, 2009 ; Van Ham, 2012).

The two aspects are interlinked as Brussels believes greater integration of the Chinese economy to the rest of the world would eventually lead to further political reform inside China with a liberal democracy and multi-party systems being introduced.

Apart from the EU’s own cognitive mistakes, Brussels’ China policy has become very problematic and incoherent due to its intricate FP making process. The EU has no ultimate decision making body like China does. Institutions, such as the Commission, the EP and the EEAs have taken responsibility for different domains of the EU’s China policy. As a result, bureaucratic conflicts have become inevitable amongst the EU institutions when they come to deciding and delivering any FP. Brussels’ China policy is no exception.

This institutional incoherence has often occurred both within one single institution as well as between different institutions. For example the EU Commission, that is the policy implementation and formation body, has experienced frequent internal disputes over how to engage with China. As noted previously, the EU’s China policy has crossed four main policy spectrums (EEAs, 2013). The EU Commission is responsible for the policy domains of “global governance, trade and investments and technical assistances”. Issues related to global governance such as climate change are dealt with by the Climate Action Commission (DG

Clima), while the Trade Commission (DG Trade) enjoys the exclusive jurisdictions of trade related matters.

DG Trade and DG Clima have been in disagreement over how they should treat China's solar panel exports. On the one hand, DG Clima has been a main advocate amongst the EU institutions in promoting China-EU Climate Change and Renewable Energy collaboration. In doing so, it has signed "a detailed memorandum of Understanding and Technical assistances documents with the Chinese government" (EC,2005a; Ibid, 2009a). It has introduced some cutting edge renewable technologies to Chinese manufacturers.

On the other hand, the Trade Commission has exercised its exclusive jurisdiction to deal with the EU's trade dispute with China with the usual defensive approach to Chinese solar panel exports. It has never hesitated to utilise duty measures as an instrument of economic statecraft in order to shape China's trade policy. The Trade Commission has played a significant role in initiating campaigns against Chinese trade policy since China joined the WTO in 2001.

However, its most punitive instruments directed at China have produced greater mistrust and frustration between the two sides. The scope of the EU's negative instruments has also expanded from filing dumping cases to imposing retributive duties on exports that have been heavily subsidised by the Chinese government.

To prove an anti-dumping case requires one to show that the export price of the goods is lower than its domestic price. This is not difficult when European companies are allowed to use the flexibility between the EU regulation on anti-dumping and the ratified WTO agreements. While when filing on an anti-subsidy case, "the EU needs to have

documentations on the subsidies and evidences that they affect the export prices. It has to refer to the WTO agreements, which contain direct definitions of what constitutes a subsidy. Such WTO agreements do not allow the EU to use flexible definitions as in the case of anti-dumping”<sup>24</sup>.

DG Trade officials have insisted on launching anti-dumping and anti-subsidy investigations simultaneously against Chinese solar panel manufacturers and have argued that “partners, like China should also follow the WTO agreements, The Commission will not withdraw the investigations unless the Chinese government admits its subsidies”<sup>25</sup>. As a result, the solar panel trade disputes between China and the EU have escalated and dominated China-EU High Level Political Dialogue since the investigation launched in September 2012. The Chinese media criticised the EU for being “arrogant, self-interested and untrustworthy” (People’s Daily, 2012a). The incoming Chinese Premier Li Keqiang wrote a personal letter in November 2012 to Markus Ederer, the then EU ambassador to China and asked for the Trade Commission to withdraw the investigations. In the Letter Li Keqiang suggested that “the EU shall not once agree with establishing a climate change partnership with China while imposing retributive measures on Chinese renewable exports. The EU’s investigations have been in contradiction to what it tried to promote”<sup>26</sup>.

To this extent, the Chinese government has been frustrated by the incoherence between trade and climate changes policies and is confused by who is actually in charge of the EU’s overall China policy. This inconsistency has partially been caused by the increasing competitiveness of Chinese exports to the EU market. Both the Commission and European companies are concerned that Chinese manufacturers have rapidly moved up the value chain of

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24 Interview with Fredrik Erixon, ECIPE, London, June 2011

25 Interviews with a Trade Commission official who is in charge of China’s trade relations, Salzburg, 2012

26 Interview with Markus Ederer December 2012, Beijing

manufacturing to threaten their own homegrown high-end manufacturers. The EU no longer considers China a junior partner, or pupil, of European sophisticated industries.

Described within the bureaucratic politics model it can be said the Trade Commission, one of the most well-funded and established EU Commissions, has attempted to prevail amongst other EU institution when it comes to dealing with China.

The DG Clima plays a leading role in promoting the China-EU Climate Change partnership and champion itself as the most influential institution to decide Brussels' China policy. Yet, it has to share the competencies with its MS and agreements between Brussels and the MS have been a rare occurrence. A successfully established China-EU Climate Change partnership would reinforce the position of the DG Clima in promoting the EU's FP agenda in an area related to global governance.

Whereas the DG Trade believes that the trade and investments policy domain is the single most important policy area in which the EU engages with emerging powers, like China. With a confusing message sent from Brussels, the Chinese government has returned its focus to influential MS and asked for their assistance to resolve the investigations. This thesis will discuss the role that MS have played in this trade dispute in the next section.

The developments of the EU's China policy have also reflected the shift in the balance of power amongst the EU institutions, which has added more incoherence to the EU's overall China strategy. This lack of coordination has posed another serious challenge to the maintenance of the overall policy coherence. Beside intra-departmental disputes, the inter-institutional incoherence and disputes have also taken place amongst various EU institutions.

Disputes on how to interact with China between the European Parliament (EP) and the newly established EEAs illustrate most clearly the institutional flaws of EU's China policy. Since the ratification of the Lisbon Treaty, the EP has begun to play a greater role in European external relations. This in turn affects the EU's approach to China, and overall China-EU relations. The EP mainly deals with the "Political and social changes" domain of the EU's China policy, "host[ing] the All-Party Parliamentary dialogue with the Chinese People's Congress and the IDCPC twice a year, either in Beijing or in Brussels"<sup>27</sup>. The dialogue covers an extremely wide range of policy areas from social reforms to financial regulations. The EP has vociferously criticised China's human rights record and issues related to Tibet and Taiwan. It was labelled as "Anti-China" but lacked the substantial amount of power required to pursue its agenda until 2007.

With the Lisbon Treaty in place, the EP has been granted more power to strengthen its budgetary and political roles and to impose some forms of budgetary control over EU institutions. In the pre-Lisbon Treaty era, the Commission and the Council were the main decision making bodies of the EUFP. MEPs could ask questions and make certain recommendations, but the Commission and the Council largely downplayed their views. Due to their newly acquired budgetary and regulatory roles, the EP has greater influence over the EEAS, "newly established in early 2011 to promote overall coherence in EUFP, with 3600 staff and an annual budget of EUR464 million" (EU Insight, 2012: 1).

The EP seized this opportunity to extend its influence over the EEAS and in particular some of the EEAS' policy preferences. "While the EEAS can only begin to work after the personnel

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<sup>27</sup> Interviews with an official at the European bureau of IDCPC, Brussels, November 2012

and financial regulation have been modified, those two requirements have given the EP a strong bargaining position in the establishment of the EEAS” (Weiss, 2010: 3).

In the case of China-EU relations, the EEAS and the EP have always been at odds with each other since the EEAS began to operate in 2010. Catherine Ashton, the head of the EEAs, emphasised that the EU’s interests in China are located in trade, investments and co-operation on global challenges. She suggested to the EU leaders that “arms embargoes is a major impediment for developing stronger EU-China co-operation on foreign policy and security matters” (Daily Telegraph, 2011).

In contrast, the EP urged that the EU should be more actively promoting Brussels’ beliefs and practices on human rights. An interviewee commented in 2011 that “Ashton may compromise as a result of pressure from the EP and add a more human rights related agenda into the EU’s approach to China”<sup>28</sup>. This shift was subsequently proved during the China-EU high level political dialogue in February 2012. Despite the looming sovereign debt crisis dominating the dialogue, Ashton had surprisingly brought up the issue of Chinese women who live in rural areas and their rights to have a second child<sup>29</sup>. According to this author’s interviews with a Chinese diplomat who sits on the dialogue, she believed that “Lady Ashton was simply trying to make a point to please the President of EP who also participated in the dialogue”<sup>30</sup>.

Apart from its growing political influence, the EP has also extended its influence over economic aspects of the EU’s China policy formulation. Prior to the Lisbon Treaty, the EP had only participated in the process informally during the EU multilateral trade negotiations. “The Lisbon Treaty requests to have Parliamentary consent in Common Commercial Policy

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<sup>28</sup> Interview with Dr. Gundun Wacker at SWP Berlin, Nov 2011

<sup>29</sup> Interview with a Chinese diplomat from MFA who participated in the dialogue on 13 Feb 2012

<sup>30</sup> Ibid

related agreements” (Thym, 2006: 112). Such agreements include areas in foreign direct investments and IPRs where China and the EU have already encountered severe disputes.

Involvement of the EP will only further complicate and escalate conflicts between the two sides. This is because “the EP can insist that non-economic objectives should be taken into account, and use its veto power as leverage over the EU’s negotiations with China” (Qu, 2011:9). Simon Hix suggested that “the EP would not veto the trade agreement between the EU and China, but, will set up its positions by resolutions on non-commercial issues which will be subject to a review and linked to a potential refusal of a future bilateral agreement”<sup>31</sup>. Issues such as increasing unemployment in the EU will certainly put blame on China given its growing inflow of direct investments in Europe.

Despite the growing importance of China to Europe, most MEPs are parochial and focus on issues related to the interests of their constituents. China has sometimes been treated as a ‘scapegoat’ for increasing unemployment and a large trade deficit. Moreover, MEPs are pre-occupied with certain preconceptions on China and are reluctant to learn more about China outside the European media coverage, which often portray a very negative image of the Middle Kingdom.

As a result, the Chinese government has set up the parliamentary affair attaché specifically to introduce China to MEPs. Such personnel are drawn from the IDCPC, who are required to be fluent both in English and French. Conventionally, the IDCPC sends only one person to each country to carry out parliamentary affairs related work. But there are two personnel from the IDCPC residing in China’s Mission to the EU who are specifically targeting the EP. Chinese

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31 Interview with Professor Simon Hix in Berlin Nov 2011

diplomats have arranged monthly meetings with MEPs who will either visit to China or receive Chinese officials. The contents of their meetings cover basic facts and figures of the PRC to more complicated and technical matters, such as how Chinese hospitals deliver prescription medicines to patients<sup>32</sup>.

On political matters, IDCPC staff managed to convince MEPs to minimise the discussions regarding Tibet and China's human rights record. On the economic front, the Chinese government has fully acknowledged the importance of MEPs, after the ratification of Lisbon Treaty, when it comes to discussing issues related to "non-tariff" trade barriers and foreign direct investments. As a result, relevant Chinese governmental departments and large Chinese companies which plan to invest in Europe will always be introduced to and consult MEPs' opinions on specific issues before they carry out any actual projects. According to an interview by the author, a Chinese diplomat suggested that the "EP has become more important than the EEAs because the former can exert control over the latter, so it would be useful to make the MEPs understand China better"<sup>33</sup>.

To conclude, the EU itself has found its heroic ambition to pursue a value-based China policy beyond its capacity. China has made few political reforms over the past eleven years. The current predicament between China and the EU stemmed from a misunderstanding and a lack of recognition as to what the policy priorities are from each side.

Also, the EU's China policy has lacked overall coherence, an issue which is derived from both the EU institutions and the MS. Due to the nature of the Union, it does not possess an

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<sup>32</sup> Interview with IDCPC staff at China's Mission to Brussels, Nov 2012

<sup>33</sup> Ibid



ultimate decision making body. In the case of the EU the institutions and the MS share some of the final decision-making power of external affairs.

The ratification of the Lisbon Treaty has worsened the institutional incoherence by tilting the balance of power among the EU institutions. The EP, which is traditionally seen as 'anti-China', has been equipped with a more substantial influence over EU external relations. The EEAs has been constrained financially and politically whenever it attempts to forge a China strategy that fits its own preferences. The Commissions has been in disagreement with itself on how to engage with China. This has led China to adjust its focus to individual EU members. As a result, influential MS have become a formidable source for making the EU's China policy. The next section will therefore turn the focus to the Member States' China policies.

### **Section 3.2: The EU Member States' China Policy between 2001 and 2013**

This section will shift the focus from an EU policy formulation level, towards the individual bilateral partnerships between individual member states (MS) and China. Between 2001 and 2008, the MS had played a pivotal role in shifting China-EU relations from a honeymoon period to a near breakdown of their partnerships, which subsequently triggered Beijing to postpone the 2008 China-EU Annual Summit in Lyon, France.

As argued in the previous section, the EU's China policy has focused on four main areas, in each of which the MS have disputed the EU's direction. The MS are also divided amongst themselves over two main issues, namely the growing significance of the Chinese economy to Europe, and attitudes towards China's normative issues.

Despite their divisions, they have vigorously competed with each other in order to gain a lion's share of the Chinese market for their own companies. This is because they realise the real economic benefits of engaging bilaterally with Beijing. As China re-emerges as a major power in world politics, China has been a target of almost all EU MS' calculations in terms of foreign policy decision making.

Meanwhile, given the persistence of the sovereign debt crisis, MS' China policies have become more pragmatic and interests oriented compared to that of Brussels. Not only have divisions between the EU and MS been prevalent, simultaneously disagreements have also existed amongst the MS on how they should deal with China.

As a result, the more that each MS is in a quest for access the Chinese market, the less likely Brussels is to have a coherent overall China policy. This section seeks to explore the reasons why the member states (MS) individual China policies have induced an overall disjointed China strategy within the EU. In doing so, it attempts to test the main hypothesis of the thesis, which asserts that China-EU relations are multilateral in nature with the extensive involvement of MS, as well as inputs from the EU institutions simultaneously.

This section will firstly examine the major disputes between the EU institutions and MS on their stances over China policies. It will then depict and analyse the different types of China policies executed by the MS. It seeks to explore the extent to which domestic politics of each MS has determined its individual China policy agenda.

As argued in the previous chapter, there are two stumbling blocks existing in Sino-EU relations, namely China's Market Economy Status and the Arms Embargo. Deep divisions amongst MS on these issues have prevented their resolution. Whether to grant China a MES has been intensively debated for a long time between the EU and its MS. On the one hand, the EU institutions firmly believe that China has not yet fulfilled the criteria of being a market economy. As discussed earlier, China's heavy state intervention into their economy, a large trade surplus with the Union, and high market entry barriers for foreign companies were

the main reasons why the EU has so far rejected MES for China. As argued by a scholar, “EU’s refusal to give MES would encourage China to restructure its economy and induce the Chinese to fulfill their WTO commitments” (Remond, 2007: 347).

On the other hand, some of the major MS have disagreed with the EU, and contend that the refusal would cause retribution by China who would increase the difficulties faced by their companies operating in China. Between 2003 and 2007, France, the UK, Denmark and Germany were the four main active advocates who sought to persuade the EU to grant China MES. This was largely because their business collaboration with China was located in aviation, finance, energy and the high-tech sectors, which were least likely to be threatened by cheaper Chinese exports. On the contrary, China was treated as a huge market for them with extremely high demand for their products and services.

In contrast, member states with their main industries based on the labour-intensive manufacturing and textiles sectors, such as Italy, Spain and Portugal have been the main opponents of granting China a MES between 2001 and 2008. These three governments feared that most of their family owned manufacturers in leather and textile industries would be threatened by Chinese products which have significantly lower prices. Whether to grant MES is to be decided by a unanimous voting of the 28 members. Due to the large existing divisions, the EU has therefore continued to refuse to grant MES to China.

In the area of trade, the EU has been widely known as a vital and unified player in the international arena. As China’s biggest export market, the Union is legally required to act as one entity on trade policy. But in reality, major members of the EU have been openly opposed to the EU Trade Commission’s decision to launch “Anti-dumping” investigations into certain

Chinese products on several occasions.

The German government under Angela Merkel spoke out against the Trade Commission's "Anti-dumping and Anti-Subsidy" investigations in regards to China's solar panel exports. This is the best example with which to reveal the deep divisions and conflicts between the MS and Brussels when they engage with China. In this case, Berlin and the Trade Commission appeared to be doing their best to undermine the EU's ability to wield international influence, and its ambition to be taken seriously by the Chinese government. During Chancellor Merkel's state visit to Beijing in early September 2012, she openly suggested that the "solar panel disputes between China and the EU should be resolved via negotiations. Any forms of trade protectionism are short-sighted" (People's Daily: 2012).

Interestingly, it was a group of small to medium sized German solar panel manufacturers who requested the Trade Commission to initiate the investigation against the Chinese products. During her trip to Beijing in September 2012, "she sealed a deal for fifty Airbus fleets orders from the Chinese aviation authority" (Reuters, 2012). Therefore, she was ready to make a concession and to oppose the DG Trade's decision against the Chinese solar exports.

By comparison, the gain in tax and revenues from the Airbus purchases outweighed the economic challenge from the Chinese solar panel manufacturers. This large Airbus order has inevitably boosted Germany's flagging-export dependent economy and therefore contributed to Chancellor Merkel being re-elected in 2013. Her gesture has further encouraged the division between Brussels and the MS. This has also ultimately convinced the Chinese government to continue to play "divide and rule" tactics when it comes to engaging with the EU.

MS have also disagreed with Brussels' engagements with China in the area of global governance, such as climate change. This was largely because some of climate change policies that the EU intended to pursue would seriously damaged the economic well-being and unique competitiveness of some MS.

For example, in January 2012, "France was vociferous against DG Clima's proposal to impose a carbon duty on non-European airlines, including China and the US, flying in the EU" (New Statesman, 2012). The proposed carbon duty would be calculated and charged from the starting points to the European destinations that each flight operates. DG Clima's proposal had caused "equal opposition both within the EU and from non-EU countries in early 2012" (FT, 2012b).

Outside the Union, the US and Indian governments claimed that it would take legal action against the DG Climate if the proposal was enacted. The Chinese government criticised Brussels' "double standards and interfering in the domestic economic affairs of other countries" (Xinhua News 2012). Beijing asserted that EU's proposal was against the fundamental idea of multilateralism that the Union has always advocated.

To respond to the EU's proposal, "China decided to delay their payments for its 35 orders of Airbus A330 and 10 Airbus A380 fleets with a total value of USD 12bn" (China Daily, 2012)<sup>34</sup>. Within the EU, both France and Italy, that are important actors in the international civil aviation sector, opposed the DG Clima's proposal in January 2012. Airbus<sup>35</sup> has been a major source of French export revenue since it was established, so having potential delays of

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<sup>34</sup> US dollar is used as final payments for any forms of aviation purchases globally

<sup>35</sup> Part of the EADS Group

payments by Airbus' clients such as China would have generated a severe impact on an already fragile and sluggish economy in France. As a result, the French government openly opposed the DG Clima and launched several rounds of intensive lobbying together with EADS to ask the Commission to postpone the imposition of carbon tax on international airlines. Ultimately, "the EU Commission decided to postpone the carbon tax charge until further notice" (People's Daily, 2012b).

The DG Clima's decision to postpone the carbon tax charge has not only illustrated the external influences that the EU is having to take into consideration, but more importantly revealed policy incoherence and deep divisions between Brussels and MS. It has also indicated that the EU's ability to pursue a "normative-oriented" foreign policy has been deeply restricted by the power of the major MS.

On normative issues, Brussels and the MS have also lacked a consensus of how they should engage with China. On the one hand, Brussels incorporated its "normative power" discourse into its FP making. As a result, seeking to influence China's human rights and promoting rules of law have become an indispensable part of the EU's overall China strategy. On the other hand, most MS have largely disagreed with what the EU wanted to pursue. They feared that being vociferous on China's poor human right records would severely affect their individual economic ties with China. The Chinese government has always treated good political relations as a pre-requisite for any further economic collaboration or for the "awarding" big contracts to the MS.

For example, the French government has long been "the facilitator for its national companies" (Casarini, 2010). This is mainly because large French MNCs from civil nuclear,

aviation and utility sectors are make up a major part of the French national economy and almost two thirds of total employment. Therefore, securing large contracts with other states is an effective method with which to maintain economic growth and employment.

However, the Sino-French relationship became sometimes erratic, and experienced severe turbulence in the past few years. This was largely because the French government under Nicolas Sarkozy initially “boycotted the Beijing Olympic Games and spoke out against the Chinese government’s treatments of Tibetan ethnic groups in 2008” (Daily Telegraph, 2008). Sarkozy also sent his wife to meet the Dalai Lama while he was in Beijing to attend the Olympic Opening Ceremony. His apparent political inconsistency enraged both the Chinese elites and the public, and then brought Sino-French relations to a low point. After an array of disputes between China and the major EU MS, Beijing finally postponed the annual China-EU Summit that was supposed to hold in Lyon in 2008. In February 2009, France was omitted by the Chinese Premier Wen Jiabao from a list of European countries to be visited. “Not until November 2010, did the Chinese President Hu Jintao visit France and seal a deal for another 102 Airbus fleets” as an indication of reconciliation for Sino-French relations (Xinhua, 2010b).

As the sovereign debt crisis has deepened, in most of the bilateral meetings between Beijing and the MS, normative issues are no longer a concern. The EU MS had witnessed the ups and downs of Sino-French relations in 2008 and decided not to further antagonise China on normative issues. Instead, they rushed to compete in gaining a lion's share of the Chinese market without considering the overall coherence of the EU’s China strategy. Their competitions to access the Chinese market have led Chinese diplomats to assert that “normative issues” have become a rather minor part of Sino-EU relations since 2009. The



vast Chinese market was far more important than holding to the principle of human rights<sup>36</sup>.

Changing attitudes towards China on normative issues amongst the Eastern European MS revealed how their economic concerns have also taken priority when engaging with the Chinese government. Apart from the Czech Republic, which has always held a very critical opinion on China's human rights record, the rest of Southern and Eastern MS have been silent on issues related to Tibet and Taiwan.

The Hungarian Prime Minister Viktor Orban's recent treatment of the Dalai Lama, the Tibetan Exiled spiritual leader, could be used to explain such a shift. Orban met the Dalai Lama when he was the Prime Minister in 2000, but, did not do so when Tibetan leader visited Hungary again in 2012. Instead, he praised "a new alliance of major significance with the PRC" (Reuter 2012). This was largely because the Chinese Premier Wen Jaibao visited Budapest and offered a series of financial assistances through Chinese companies' acquisitions and investments in Hungary during his visit in June 2011. For example, Wanhua, one of the main Chinese chemical SOEs took full control of BorsodChem<sup>37</sup> in 2011, creating the third largest isocyanine maker in the world (Financial Times, 2011a). China had also promised to hold several billions of Hungarian bonds during Wen's visit. A few European scholars concluded that "Some Eastern European MS have treated China as "a complement, or even an alternative, to European or IMF loans" (Godement and Plenser, 2011: 8).

A careful observation of the above disputes between the EU and its members' China policies shows that the domestic politics of the MS have made a decisive impact on their relations to Beijing. In the case of Sino-EU relations, politicians from the MS prioritised their domestic

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36 Interviews with a diplomat at Policy Planning Bureau, MFA, August 2012, Beijing.

37 The largest chemical company in Hungary

concerns. This is because the MS have been disenchanted by the EU's inability to formulate a China policy that will tailor for all their specific needs.

On the one hand, the larger MS have been frustrated by the mounting barriers to access the Chinese market, which could further worsen their already fragile economies. On the other hand, the debt-ridden Southern European members have searched eagerly for financial assistance from Beijing to overcome the lingering crisis. For both reasons, to obtain short term economic benefits has become much more important than formulating a coherent long-term EU China strategy which retains a focus on normative issues in China. Solving the pandemic sovereign debt crisis is the only domestic priority that most MS are concerned with at the moment. Therefore, engaging with China economically seems to be the most viable and effective solution to the leading politicians amongst the MS. Their engagements show that they aim to address the immediate economic concerns of their respective states, which will in turn create the potential for them to be re-elected.

The British government's recent economic engagements with China provide very a good illustration on how politicians prioritise domestic economic concerns over other issues. The idea of "China as a trading partner" has been widely hailed by both the previous Labour, and the current Coalition governments, during the past twelve years. However, the UK has been consistently critical about China's human rights record and on issues related to Tibet. "Prime Minister David Cameron's meeting with the Dalai Lama had brought progress in Sino-UK relationships to a halt in 2012" (BBC 2012b). The Chinese government has "decided to cancel all ministerial-level meetings related to social and political issues" (Daily Telegraph, 2013).

Despite these cold political relations between the two sides, their economic ties have been strengthened by senior politicians in charge of economic affairs and British business leaders. According to my interviews with board members of China-Britain Business Council (CBBC), they echoed that “Sino-EU economic relations had been insulated from recent political hiccups between Beijing and London. None of big contracts between China and the UK was withdrawn for political reasons”<sup>38</sup>.

Between 2001 and 2012, both Germany and France gained large commercial contracts from China. The UK has neither an abundance of the natural resources China is keen to import nor the capacity to produce high-end manufactured goods. The main asset of the UK is its much developed financial services sector. Opposing rigorous financial regulations and the EU's Tobin tax, the UK financial market remains relatively open to non-European investors. In late 2011, the Chinese government granted London the status of being the first offshore RMB trading point, which “allows the RMB to become an exchangeable currency from financial deals made in London” (FT, 2011b). Since then, major investment banks and financial institutions have benefited from the lucrative amounts of commission fees generated from relevant deals. Despite its small scale, RMB offshore trading reinforces London's status as an international financial services hub. This may in future help to rejuvenate the sluggish UK economy. “It is therefore the first time the UK has gained longer term contracts from China which France and Germany will not able to take”<sup>39</sup>.

Apart from the internationalisation of the RMB<sup>40</sup>, the British government also welcomed Chinese investors to invest in its outdated infrastructure sector. According to the UK

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38 Interviews with a Board member of Huawei, UK, March 2012

39 Interviews with Françoise Godemont, January 2012

40 The Chinese Financial Authority preferred to call “The Expansion of RMB”

Treasury, British infrastructure needs to generate GBP 200bn of investment in order to have appropriate upgrades. The Chancellor George Osborne has been very keen to lead the CIC to invest in the UK infrastructure through its participation in public-private-partnerships (PPP) as an equity investor. Lou Jiwei, the then Chairman of the CIC, praised the UK as “one of the most open economies in the world, a position bolstered by its sound legal system” (Lou, 2011: Financial Times).

However, despite the small sum of funds invested, the CIC’s equity with Thames Water caused much public controversy. The British media portrayed the CIC’s equity purchase as “a Conquest of Britain” (Daily Telegraph 2012). With more of CIC’s portfolio developments in the UK, Sino-UK relations may encounter further turbulence caused by these Chinese sovereign investments.

In conclusion, the MS have been a pivotal group of actors in shaping overall China-EU relations. Their individual China policies have significantly undermined the EU’s ability to utilise its self-claimed “normative power” to influence China’s domestic and foreign policies. In this period of financial turbulence, MS have mostly marginalised normative issues during bilateral engagements with Beijing. The MS left EU institutions such as the EEAS and the EP to conduct numerous dialogues with China on the policy domains related to political and social changes. By examining the China policy agenda of individual MS, one cannot deny the importance of corporate sector in determining their respective governments’ China policy. They have actively persuaded their own governments to shift the China policy objectives from normative oriented to business focused ones. At the EU level, the European companies have also formed alliances with relevant bureaucratic actors to address their own business concerns with the Chinese government. The European companies do not simply subsume

their interests to their national governments and the EU institutions; rather, they make the bureaucratic actors their agents to ensure their commercial interests in China. The next section will give an exclusive focus on the roles of the European corporate sector on the recent developments in China-EU relations.

### **Section 3.3 European Corporate Sector and the developments of China-EU Relations**

This section will give an exclusive focus on the activities of the European corporate sector that have influenced the EU's China policy, and overall China-EU relations, in the past twelve years. It aims to assess to what extent the European corporate sector is seen as a significant interest group shaping Sino-EU relations. It will also seek to explore the reasons

why the EU, and some of its member states (MS), have sidelined their pursuit of a normative foreign policy agenda towards China in the past three years.

This section asserts that European companies have been the main driver of the EU's more economically orientated China strategy. Unlike some Chinese companies, most European firms are independent from state interferences when they design their business strategies. Their activities and interests in China represent the nature of their corporate aims, which is market-orienting and profit-maximising. Therefore, China's vast domestic consumer market and large government procurement budget have presented a unique opportunity for European companies.

Despite being independent from the EU institutions and their national governments, they have sometimes relied upon governmental institutions to represent and negotiate their business interests with officials in Beijing. Given that economic ties are the backbone of China-EU relations, the European companies have therefore played an indispensable part in either strengthening or distorting relations since 2001. As the sovereign debt crisis loomed, European companies started to take a more robust position in the face of Chinese competition and the mounting entry barriers to the Chinese domestic market.

As a result, the request to ensure a level playing field in China and full implementation of China's WTO commitments have become recurring themes dominating all kinds of dialogues and meetings between Chinese and European officials (EC, 2011). In order to examine the roles of European firms, this section will firstly examine to what extent the European corporate sector shapes the EU's overall China policy agenda. It seeks to explore why the EU institutions have frequently criticised China on issues related to trade, investments,

Intellectual Property Rights (IPRs) and market entry. It will then explore the relations between European firms and their national governments when those States come to formulate their China strategies.

Between 2001 and 2008, the European companies had made a positive contribution to the driving forward of Sino-EU relations. They had made few complaints in Brussels, and eagerly persuaded MS to develop amicable relations with China. They had actively lobbied both their national governments and European institutions to sideline normative issues, which would create greater opportunity for their business operations in China.

Smooth economic relations, at this time, between China and the EU were largely because China was at the very early stage of upgrading its industries. Mostly the European companies that operated in China had become a major source of technology assistance. They offered technological transfers mostly in the form of foreign direct investments (FDIs). “An important character of the EU FDIs in China was its focus on capital and technology-intensive manufacturing industries, such as automotive, chemicals and pharmaceuticals” (O’Callaghan and Nicolas, 2007: 25). Also, European investments in China were primarily market-seeking, in other words, European firms were motivated by market expansion rather than by cost considerations.

However, since 2009, Chinese manufactures have almost completed their “catch-up” stage with their European partners. European firms have inevitably shifted their status from one of “tutors” to “competitors”. As a result, the Chinese government has initiated a series of policy measures to undermine European firms’ ability to compete with home grown Chinese companies. Moreover, “the Chinese government issued a RMB 4 trillion stimulus package in



order to accelerate an industrial upgrade in the midst of global financial crisis” (Bloomberg, 2008). The package has further undermined the Europeans’ competitiveness in China. This trend has largely been reflected in the developments of the Chinese renewable energy sector and Beijing’s climate change policy, which I will discuss to a great extent in Chapters 4 and 5.

As some media observed, “Most European conglomerates have realised the business environment in China has become tougher since 2009” (Daily Telegraph, 2010). Their business optimism has been dampened dramatically by concerns of regulatory interferences and unfavourable domestic economic policies directed at foreign enterprises. As a result, the European corporate sector has actively “sought the support of the EU institutions, in particular, the EU Commission, to ensure their business interests are upheld in China” (EC 2011).

In the areas of trade and investments, the DG Trade assumes exclusive jurisdiction, and negotiates relevant agreements on behalf of MS and European companies. In recent years, the DG Trade under the Commissioner Karel de Gucht has voiced particularly strong criticisms that the Chinese domestic market has become increasingly difficult to enter and operate in. Most of the criticisms are derived from European companies that have been affected by the latest policy measures established by the Chinese government.

Amongst their several criticisms to the Chinese business environment, there are three main complaints that have particularly worsened China-EU economic relations. They are: firstly, unfair treatment in the public procurement projects bidding process, secondly, as established by commercial report, “involuntary technical transfers and finally, invisible entry barriers to

the Chinese domestic market” (EUCCC, 2012)<sup>41</sup>. As a result, the EU Commission has welcomed the corporate sector's criticisms of China. This is largely because the Commission relies upon effectively managing the corporate sector's complaints to reinforce its status quo as the single most significant institution when the EU deals with China. It has attempted to inform the Chinese government that the Commission, not the EEAs nor the MS, is the ultimate decision-making body for the EU's China strategy.

The Commission's attempts have been driven by Beijing's preference to resolve trade and investments issues bilaterally with MS. According to my interviews with two senior members of the DG Trade China Team, they suggested that “our requests to meet the relevant officials in China between 2010 and 2011 were mostly refused by our Chinese counterpart, the MOFCOM”<sup>42</sup>. The Commission was furious with the Chinese government's assertiveness and arrogance. It believed that being vociferous in its criticism of China's non-commitment to the WTO rules and lack of transparency would be the best way of getting the Chinese government's attention”<sup>43</sup>. As a result, the EU Commission has addressed the most immediate concerns of the European corporate sector, namely, their unfair treatment in the public procurement projects bidding process. The requirement of a level of playing field has also become regular rhetoric during the meetings between the Commission and the Chinese government.

Given the investments driven model of the Chinese economy, China's vast public procurement (PP) market has presented European companies with enormous opportunities to set their foot in the domestic market. As indicated by European Chamber of Commerce in

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41 2012 Business confidence survey by European companies in China, draw by Roland Berger Strategy Consultants GmBH, the author herself participated in analyzing survey result

40 Interviews with DG Trade officials in Brussels and Salzburg Nov, Dec 2012.

43 Ibid

China, “the total market value of Chinese public procurement market was worth RMB 6800 bn in 2011” (EUCCC, 2011a:18) PP is the “tendering by central and sub-central government and other public entities projects that are of public interests and/or use public funds” (Ibid:5). Sectors of PP include energy, transportations, constructions, governmental car fleets and public healthcare.

European companies are equipped with particularly strong technological advantages in these sectors. Their manufacturing products are synonymous with the highest quality and latest technological standards in China. They have also positioned China as one of the key places in their global strategic outlook.

Obtaining PP contracts is treated as a unique opportunity to conquer the Chinese market and to compete with their peers globally. Because the Chinese PP contracts are often very large in physical scale and have very high publicity during the project construction. Such high publicity will enable the chosen European companies to establish their reputations across different levels of governments. This may help them to win other PP projects in future.

Even in post-project utilisation, the Chinese government will ask the winning bidder to offer maintenance and repairing services for several years after construction. For example, “in 2001 the Maglev train between Shanghai Pu’Dong Airport and central Shanghai were manufactured by Siemens and Thyssen-Krupp”, the German industrial giants (Beijing Review, 2006). After the completion of the project, “the Shanghai Municipal government has insisted on continuing to use technicians at Siemens to maintain the carriages and the tracks” (People’s Daily, 2003).

However, in recent years, as suggested by several media sources, this enormous PP market has become a key disputed area of Sino-EU economic relations, rather than creating new business opportunities as one expected (DW, 2012; Erixon, 2012). European firms joined by the EU institutions have brought up endless complaints that they have been discriminated against by the Chinese government during the PP tendering process. This is largely because the granting of PP contracts now favours domestic Chinese bidders.

The European companies have realised that they must overcome ever growing numbers of hurdles before they could even reach the final bidding platform of the tendering process. Most of the hurdles are tactically set up by the Chinese government in order to promote domestic manufacturing products. One of major hurdles that have undermined European companies' competitiveness is the requirement of domestic content for the PP projects.

This particular requirement was introduced in 2007 by the Ministry of Science (MOST). According to this restriction, it suggested that "the PP projects are required to utilise 50% of domestic manufacturing products" in its initial publication in 2007 (MOST 2007). Since 2009, "the required percentage has increased to 80% of domestic content on products such as steel and railways" (EUCCC, 2011a: 12). Civil nuclear and civil aviation, in which Europeans still own an absolute technical supremacy, are excluded from this requirement. This is largely due to China's under-developed capacities for producing its own nuclear reactors and air fleets.

Meanwhile, the Chinese government also announced "China's National Indigenous Innovation Products Catalogue" in 2009 (MIIT&MOF, 2009). This Catalogue has provided an important guidance to the carrying out the PP tendering process and to deliver PP projects.

There were only 2% of the listed products that were made by European firms who invested in China in the 2009 Catalogue<sup>44</sup>. Without being short-listed on the Catalogue, the European firms' potential to win PP projects has been severely undermined.

For example, in the area of high-speed railways and infrastructure constructions where European companies previously had an absolute advantage in PP projects, they can no longer easily win PP projects due to the requirements detailed above. Often, European companies criticise that "the tendering process is very opaque and lacks any clear instructions as to when they can bid and in which format they can bid"<sup>45</sup>. The author herself shares the similar experience with those interviewed European companies during a bid process with a European conglomerate.

According to interviews with several management team members in a large European companies, they echoed that "to win a bid, European companies find they need to engage the buyers or the Chinese government at a very early stage, even one year before the bid, because by the time actual tendering is announced, the winner has already been decided"<sup>46</sup>.

European institutions and companies' joint vociferous criticism have made little impact on the changing rules of the game in the Chinese PP market. Instead, the Chinese senior officials asserted that the "Europeans are being self-interested and unrealistic" (Wen, 2012). Similarly, the bidding process in the renewable sector has also disadvantaged the European firms, which will be discussed in a greater extent in Chapter Six.

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44 Based on the Catalogue with over 800 types of products, with only 17 made by European firms

45 Based on my previous working experience in a bidding process with a European firm in China

46 Interviews with management team members at BASF China., Sep 2009

As a result, the European conglomerates that have made great losses in the domestic Chinese market are making attempts at retributions by targeting Chinese export manufacturers. They have begun to turn against Chinese high-end exports to the European Common Market. Trade disputes between China and the EU have existed since 2001. There has been a clear trend of increases in trade disputes between China and the EU since 2009. In recent years, the DG Trade has worked stridently to prove the existence of a systematic campaign by Beijing of lavishing improper subsidies on favoured industries to boost China's global competitiveness.

Between 2001 and 2008, European companies that filed complaints were mostly family-owned Southern European textile manufacturers. In the past three years, however, they have been joined in their complaints by well-established European Multi-national companies. These leading European companies have formed alliances with the EU institutions to criticise the Chinese government. In particular, they have not only accused the Chinese firms of dumping exports in the European market, but more importantly they have challenged the Chinese government's generous subsidies to manufacturers across various industries. Examples given in previous sections include the China-EU solar panels trade disputes, and the textile trade wars which are initiated by small to medium size European companies that have never really enjoyed business success in China.

"In Dec 2012, the DG Trade suggested that Beijing was helping makers of organic coated steel used in construction and to make household appliances to obtain materials at below market prices"(FT, 2013a). Unlike the trade disputes examples given in the previous chapter, the recent anti-subsidy steel investigation opened by the DG Trade has been initiated by Thyssen-Krupp and Arcelor-Mittal, two conglomerates that had achieved relative success in their China operations. Their profits plunged after the Chinese government launched a

national campaign for so-called “Self Indigenous Innovation” to promote home grown steel manufacturers and other industrial products in 2009.

Such a move by two steel giants has only escalated the ongoing trade disputes between Beijing and Brussels. “If the investigation is proven, the European steel makers will allow using this investigation as a benchmark to challenge any metal-based exports coming from China”<sup>47</sup> However, the MOFCOM, the equivalent of DG Trade in China, denied that its subsidies were against the WTO agreements and suggested the EU treated the Chinese steel products unfairly (MOFCOM, 2013b).

Inevitably, given the ongoing disputes, the European steel manufacturers will experience a difficult period in which to do business in China. Fierce criticisms from the Commission have done little to change China’s governmental subsidies schemes and have only soured bilateral trade relations.

After several unsuccessful attempts by Brussels to negotiate with the Chinese government, many European companies have realised that the EU institutions have insufficient capacity to negotiate with the relevant governmental departments in Beijing on their behalf. As a result, more and more enterprises have turned to their individual national governments to seek the necessary support.

A few companies that have long been established in China are very familiar with mind-set of the Chinese policy makers. They have learnt that Beijing is very much in favour of developing stronger bilateral economic relations, rather than cultivating sound commercial

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<sup>47</sup> Interviews with Fredrik Erixon, Brussels, January 2013

ties with the Union as a whole. Smoother bilateral relations will allow China to play the “divide and rule” method with different MS in order to maximise their own benefits. Well-informed European companies have therefore treated their national governments as more effective agents to represent their commercial interests when their respective national officials meet with their Chinese counterparts.

Germany has set an excellent example of helping their own already competitive firms to gain a large number of high value business contracts in China. Under intensive lobbying from German entrepreneurs, since 2008 the Merkel government has not placed normative issues such as Tibet and China’s human rights record as a priority at their bilateral summits. Instead, during their bilateral summits and cabinet meetings Berlin has supplied an extensive list of complaints from its corporate sector, which stated the increasing difficulties experienced by German companies trying to access the Chinese market.

German industrial leaders have shifted from a position of “pro-China” to ask Chancellor Angela Merkel to take a tougher stand in order to ensure a level playing field for their companies in China. The German government has dealt with China with a more cautious and well-executed approach than the EU institutions have managed.

Besides the requirements for domestic content, most German companies have often committed involuntary technology transfers in order to make themselves the “preferred” partners of the Chinese. It is one of the immediate concerns of German firms that have operated in China. This is because their business operations in China have been almost exclusively been placed in high-tech machinery, renewable energy, transportation and chemical sectors. These sectors are intrinsically affected by obligatory technology transfers



and partial denial of market access by the Chinese. Without a certain amount technology transfers, they cannot set up joint ventures with their Chinese partners.

For example, “BASF, a German chemical giant, began to collaborate with Sinopec to build the largest Asian chemical refinery in Chongqing”, a Southwest Municipality (China.org.cn, 2009). One of key agreements between BASF and Sinopec for this joint venture was to offer methane and lubricant technologies, which Sinopec and other Chinese chemical peers lacked. Despite the reluctance of BASF, it still agreed to do so because this high profile, the Municipal-government backed Chongqing plant was too precious to lose. BASF’s non-participation in Chongqing would have jeopardised its other business operations in China<sup>48</sup>.

In addition, not only are German MNCs concerned about mounting barriers to market access in China, but also German’s family-run, small to medium sized enterprises (SMZs) are too. Involuntary transfers have threatened the survival of some SMZs since they lack the resources and political capital both to negotiate with key officials and to access information from a rather opaque and complex Chinese governmental framework.

Instead of openly accusing Beijing, some German companies have taken initiatives to sign a range of agreements with the Chinese companies. Such agreements would encourage the two sides to establish a wide range of industrial research & development centres across different industries between German firms and some of the most important SOEs in China. By doing so, as argued by some media sources, “the German firms would have some level of autonomy in which technologies they transfer to their Chinese partners and in which forms they transfer” (21<sup>st</sup> Century Economic News, 2011; Xinhua 2012c). Companies, like BASF and

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48 Interview with Head of Government Relations, BASF, Berlin, November 2011

Volkswagen are front runners for this initiative. Therefore, they have managed to maintain relatively good relations with the Chinese government, which will help them gain larger contracts in future.

In conclusion, one cannot deny the importance of European companies as an interest group in determining the EU's China policy agendas. Examples have been shown of ways that both the EU and the MS have moved away from normative-oriented China policies and turned instead to business-oriented ones. European firms have therefore acted as the main drivers in the shift of the EU's China policy priorities at both the EU and MS level.

The EU institutions have been more than willing to support their firms to combat Beijing's increasing assertiveness of its foreign economic policies, even if their attempts have achieved little success.

At a national governmental level, rushing to the Chinese markets has almost become a mantra for the European leaders in order to revive their own national economies in the midst of a sovereign debt crisis. European companies have served well as vehicles for their politicians to achieve concrete economic successes.

### **Conclusion for Chapter Three:**

In conclusion, the EU has largely failed to pursue its normative-oriented China strategy. It has unsuccessfully applied several forms of economic statecraft, such as structural linkage and free trade, to induce social and political reforms within China. Subsequently and concurrently its relationship with the Middle Kingdom has become more and more disjointed in the past twelve years. As argued above, the EU has misunderstood China, and therefore implemented a China strategy that has little in common with the interests of Beijing.

Within the EU, the failure to develop a coherent China strategy has largely reflected the deep divisions between Brussels and the MS. Against the backdrop of economic problems, the MS have treated China as both a strong competitor and “a solution” for the lingering crisis. As a result, MS have vigorously competed with each other to benefit from China’s economic boom without considering the EU’s overall objectives when engaging with China.

Meanwhile, one cannot ignore the complexities of the EU’s institutional structure, which have also contributed to the EU’s incoherence. The institutions overlapping responsibilities and the ratification of the Lisbon Treaty have tilted the balance of power amongst the EU institutions. Each institution has only made and implemented its own specific China policy agenda, which suits its own departmental interests. Therefore, its China policy has been subject to all sorts of institutional constraints and bureaucratic turf wars.

Apart from the governmental apparatus, the European corporate sector has become an indispensable actor in China-EU relations. European companies have mainly acted as policy formulators for the Union’s China strategy. Their corporate interests have been mostly represented by their national governments as well as the EU institutions. They have

determined the shift of the EU's China policy priorities from value-oriented to business-focused at both the EU and MS level.

China-EU collaboration on renewable energy provides an excellent test case to examine the extent to which both bureaucratic and corporate actors have flexed their muscles to shape the final outcomes of the collaboration. In Chapters Four and Five, there will be a strong focus on the roles of Chinese actors, both governmental and corporate one. In Chapters Six, there will be an examination of the extent to which the Europeans actors respond to policy changes and shifts in the institutional balance of power in China during the collaboration process.

## **Chapter Four: Green Partnerships in the Making: the Development of China-EU Climate Change and Renewable Energy Collaborations: A Chinese Institutional Perspective**

### **Introduction:**

After reviewing the developments of overall China-EU relations in Chapters Two and Three, this chapter will shift the thesis focus to their climate change (CC) and renewable energy (RE) collaborations. In particular, this chapter seeks to explore the collaboration process through an institutional perspective from the Chinese side. In other words, it will turn the focal point towards China's central governmental institutions. It will examine the significance that institutional actors have placed in determining the outcomes of collaborations. More importantly, this chapter aims to disentangle the relations between the CCP, as the ultimate decision-maker, and the other various bureaucratic agencies, which are also foreign policy (FP) actors. These actors co-exist in the established FP making framework in China as well as outside the conventional FP making process.

The current literature in this field has paid great attention to individual projects, policy initiatives, and the results of collaborations. However, it has largely ignored the vital roles of the CCP, which is the key source, and driver, of both China's climate change policy and collaborations with the EU. On the one hand, the CCP has driven the dynamics of collaborations and regulated the Chinese institutions that are involved in the collaboration process. On the other hand, the relevant institutions have attempted to mobilise their own resources to implement and modify decision outcomes according to their own departmental interests. Inter-department and intra-departmental bargaining have become frequent occurrences. Their preferred outcome is decisions that will help those institutions to acquire more financial resources and to achieve higher bureaucratic status. It is therefore of

heightened importance to examine the relations between the Party and various institutions during the collaboration process as well as bargain process amongst different agencies. In doing so, it will help to answer a research question as to what extent governmental institutions have managed to shape the overall collaboration.

In recent years, China has undergone a dramatic transformation in terms of social and economic developments. Soaring energy demand has become a recurring symptom to constrain more robust economic growth. China has also experienced the unpleasant side effects of CC in the wake of its own economic success. As a result, tackling CC and developing alternative energy have been treated as one of the highest priorities on the CCP's agenda. The Chinese government has changed its approach to CC dramatically, by moving from a position of deep suspicion of curbing emission to drafting a comprehensive and ambitious strategy to set China on to a path of low carbon and sustainable growth. Beijing has issued a flurry of climate and energy related legislation and policy initiatives to create a momentum of transforming the Chinese growth model.

As a new comer in the field of CC and RE, China has eagerly searched for international partners and sources of learning CC related technologies. As an emerging power, China has realised that its persistence of holding "Common Goals But Differentiated" principal and its self-assumed status as "a developing country" began to lose explanatory value. As a result, China has turned to the EU, which is seen as a global champion of CC and a crucial source of technological assistances. Both sides had shown tremendous enthusiasm for their collaborations and have tried to achieve some concrete results. However, their collaborations have progressed at a rather modest level. These are mainly due to their misunderstanding of collaborative purposes intertwined with an extremely complex institutional setting when

dealing with one other. In particular, this chapter will provide insights into the bureaucratic complexities from the Chinese side.

Beyond this introduction, this chapter will divide into three sections. The first section will explore the bureaucratic restructuring process of China's climate change policy making. The two major reshuffles have exacerbated the fragmentation of climate and energy policy making, and therefore triggered much confusion when China collaborates with the EU. The second section examines the roles of Chinese central governmental agencies in participating in Sino-EU climate change collaboration. The final section will provide some insights into the bureaucratic land-rush among the central government institutions when they collaborate with the EU in the area of renewable energy.

## **Section 4.1: China's Climate Change Policy Making Process and its Key Institutional Actors**

This section will explore the evolving process of institutionalisation in regards to China's Climate Change policy making. It aims to build a foundation of understanding of the crucial role of Chinese central governmental institutions in determining the Sino-EU collaborations on Climate Change (CC) and Renewable Energy (RE) in the next two sections.

China has experienced an unprecedented high level of economic growth and industrialisation. The price of such economic success has been severe environmental degradation. A wide range of climate related problems, such as pollution and energy shortages, have posed immense and immediate challenges to further economic growth and the social stability of the Middle Kingdom. CC policy making in China has been changed significantly in accordance with the Chinese Communist Party (CCP)'s priorities. According to the Chinese President Hu Jintao, "the CCP has rapidly elevated environmental politics to the highest priority on its agenda" (Hu, 2009). As indicated by the NDRC, "numerous policy initiatives have been carried out by various existing central and provincial governmental agencies" (NDRC 2009f: 11).

The CCP has also created a large number of new institutions and restructured some existing agencies to implement its ever-changing policy agenda. Inevitably, fierce competitions amongst the various institutions have become a frequent occurrence. These agencies have competed with one another for pre-eminence in influencing the decision outcomes according to their own preferences. Winning such competitions will result in a larger governmental budget as well as elevation of their bureaucratic status within the policy making process.



This section will search for the sources of changes and the reasons for persistent bureaucratic conflicts within China's CC policy making and implementation process. To do so, this section will begin by analysing the relations between the CCP and the governmental institutions when it comes to the making of China's climate and energy related policies. Secondly, it will identify the key players, either conventional foreign policy actors or the newly established ones. Finally, it will assess the impact of such a fragmented institutional framework has generated to China's CC policy making process. And this impact has certainly cast a long shadow over the Sino-EU collaborations.

As argued in Chapter One, rising environmental problems have constrained China's economic growth and caused a decline in public health and living standards. Such degradation has already triggered some incidents of social unrest and public grievances. Therefore, China's environmental problem has posed a serious challenge to the very core of the CCP primary objective: retaining power. In the past thirty years, the CCP's legitimacy has shifted from ideology to their performance in governing the state. In other words, demonstrating their political problem-solving capacity has become the foundation for the CCP's self-assumed power. In relation to tackling environmental problems, the CCP has made many serious attempts to demonstrate its ability to govern. During the middle to late 1990s, the CCP had cast serious doubts on the impact of global warming. They treated the international climate change framework as a trap made by the Western liberal democracies to interfere in China's own domestic affairs. However, since China joined the WTO, climate change and the environmental policy agenda have rapidly become grounds of concern for the CCP. According to official documents from the PRC, tackling climate change has recently become part of China's core national interests (UNFCCC 2004).

The reasons why the CCP shifted their views and policy stances on climate change are two-fold: firstly, there has been a growing sense of vulnerability to the potential impact of global warming, which will certainly become intertwined with the existing social inequality and the political risks of governing. Secondly, curbing carbon emission can create a huge potential for China to fundamentally transform its economic model from a heavily polluting manufacturing-oriented base to a sustainable, technological, and innovation driven model. Based on the above two reasons, the CCP has issued a flurry of policy initiatives, and pursued several environment protection related laws in order to demonstrate its problem-solving capacity. As a number of China experts and historians suggested, “The CCP is a Party that is equipped with a rapid learning-curve to adapt changes according to different historical situations” (Westad, 2012; Lampton, 1992). Its policy shift on climate change has certainly reflected its flexibility and resilience in the face of social changes.

Given the number of climate change related policy initiatives being taken, the CCP needs to create new governmental institutions and to restructure the existing policy-making apparatus in order to accommodate its national campaign of tackling climate change. As a result, a number of new policy actors or bureaucratic institutions at the national level have been created by the CCP, such as SDRC<sup>49</sup> and Environmental Protection Commission<sup>50</sup>. These newly emerged actors have had to share the competencies and financial resources of the existing actors such as the Central Metrology Agency (CMA), the Ministry of Industry, Science and Technology (MOST) and the Ministry of Foreign Affairs (MFA). From a domestic perspective, these bureaucratic re-organisations have exacerbated the incoherence and a lack of coordination in China’s domestic environment and energy policies. Externally,

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49 Renamed as National Development and Reformation Commission in 2003

50 Later elevated as Ministry of Environment Protection in 2003

with a number of equally important central governmental institutions sharing responsibilities, potential partners in the collaboration on climate change have found it exceedingly difficult to identify and to distinguish the functions and competencies of the various departments.

As argued in Chapter One, bureaucratic rifts often occur as a consequence of a shift in the political priorities of certain policy areas within the domestic political arena. In the context of CC policies in China, the emergence of CC as an immense political challenge has triggered profound changes in the distribution of bureaucratic power. Given the expansive nature of climate change issues, it has not only become one of political priorities of Chinese domestic politics, but it also has ranked equally important in China's foreign policy making sphere. As a result, the institutions that are responsible for environmental policy and foreign policy making have to share the responsibility and compete for financial resources when they participate in China's CC policy making process.

Since 1998, the CCP began to reform China's climate change policy making framework. This restructure hinted which institutions would take the lead for China in the field of CC. As a scholar observed, "the 1998 reshuffle had also established a foundation for a second reshuffle in 2003" (Conrad, 2010:57). During the 1998 restructuring, institutions such as MFA remained the only organisation to deal with Beijing's CC diplomacy. As indicated by one of the NDRC official document, "the newly created SDRC has since taken several responsibilities from the previous state planning commission, including its duty as the leading coordinator of China's CC policy" (NDRC2009f: 16; Xinhua, 2003).

However, the distribution of bureaucratic power is a zero-sum game. The SDRC's bureaucratic triumph had caused dissatisfactions amongst, and a decline in the authority of,

the other institutions that had also previously performed key roles in making China's CC policies. As observed by a scholar, "the CCP realised that its climate change policy had become institutionally fragmented" and lacked focus in its policy agenda (Conrad, 2010: 57). In an attempt to resolve the fragmentation issue, the Party began to use its usual practice of establishing a Small Leading Group to improve institutional coordination. As mentioned in Chapter Two, Chinese FP has also suffered from institutional fragmentation, establishing a "Foreign Affairs Leading Small Group" was the attempt at a solution in order to improve coherence. Similarly, a National Climate Change Coordination Leading Small Group (CCCLSG) was established in 1998 under the State Council. As observed by a Sinologist, a "Leading Small Group (LSG) is a common instrument in Chinese politics employed by the Party leadership to coordinate policy decision-making where the existing institutional structures prove unable to bring about results"(Lieberthal, 1992: 12).

"Establishing a LSG could also signal the importance of a specific political issue by the CCP" (Ibid). This was certainly the case for China's CC policy making. The CCCLSG has therefore become a platform where institutional specific interests clash and inter-departmental bargaining takes place. During the 1998 reshuffle, "the State Science and Technology Commission was upgraded to the Ministry of Science and Technology (MOST), and the National Environmental Protection Agency was renamed as the State Environmental Protection Agency (SEPA)" (Xinhua, 2003). Both institutions managed to successfully extend their influence over China's CC policy making process. Later, they played key roles in facilitating the Sino-EU collaborations in Climate Change and Renewable Energy.

Despite the efforts being made to increase coordination, China's CC policy making process largely remained fragmented after the 1998 reshuffle. As outlined by the CCCLSG opening

statement, “given the increasing importance of environmental issues in both domestic politics and FP, the CCP decided to pursue another round of institutional restructuring in 2003, which intended to clarify the CC policy agenda and to distribute responsibilities more evenly amongst various institutions” (CCCLSG, 2003). The 2003 reshuffle largely reflected the current institutional structure of formulating and implementing China’s climate and energy policies. Unlike the 1998 re-organisation, this 2003 reshuffle has not only just divided institutional responsibilities in pursuing the domestic CC policy agenda, but equally important, it has also outlined the responsibility of each institution when they participate in international negotiations, as well as conducting cooperation with other countries or entities.

The SDRC was “renamed as the NDRC and remained the most powerful institution in China’s CC policy making”, if not the most powerful in China’s macro-economic policy making in general (Lewis, 2008: 158). Its strengthened authority has inevitably undermined other institutions competencies and power in both domestic CC policy formations as well as in China’s climate diplomacy. As a scholar remarked, “the NDRC has played a major role in CC policy formation as well as policy implementation since the 2003 reshuffle of the Chinese central bureaucratic system” (Hegglund, 2007: 18). To do so, the NDRC has established a new “Climate Change Bureau<sup>51</sup>” to focus on policy formation and implementation. The newly established Bureau aims to compete with other institutions which share the responsibilities of making CC policy with the NDRC.

One of the most compelling challengers to the NDRC’s authority on international CC negotiations is the MFA. The MFA has set up a special “Office for Special Representative on

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51 国家发改委应对气候变化司 Climate Change Bureau at the NDRC

Climate Change<sup>52</sup>”to deal with policy domains related to China’s environmental diplomacy. The NDRC and MFA have been in frequently disagreement, and have become each other’s ultimate rivals. According to interviews I conducted in both institutions, officials in these two departments hold almost directly contrasting opinions. An interviewee who holds a key position at Climate Change Bureau of NDRC accused the “diplomats at the MFA lacking any scientific and economic understanding of climate change. They have always ‘appeased’ foreigners when it comes to negotiating with Westerners”<sup>53</sup>. Whereas the MFA personnel I interviewed contended that the “NDRC has little experience in international negotiations, which often causes more damage rather than a positive contribution to China’s climate diplomacy”<sup>54</sup>.

However, given the importance of the NDRC to overall domestic policy making, the NDRC has often prevailed over institutional conflicts. This is largely because CC and scientific innovations are areas that intertwine with China’s own economic developments. Increasingly in-depth scientific assessments have demonstrated China’s vulnerability to the detrimental effects of CC. The costs of mitigation have become much smaller than the costs of the “Business as Usual Scenario”. In the light of China’s climate vulnerability, the CCP believes that China’s current heavily polluted, export-oriented model is no longer viable for China’s longer term development. As a result, ministers that are in charge of the macro-economic and scientific innovations policy agenda have had a greater impact on CC policy formulation than the MFA.

The 2003 restructure has not triggered the result that the CCP expected; as a scholar

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52 外交部气候变化特别代表办公室 Special Representative Office at MFA

53 Interviews at NDRC Beijing, August 2012

54 Interviews at MFA Beijing August 2012

observed, “China’s CC policy coordination has still remained at a modest level” (Marks, 2010: 977). Despite the reshuffle of the existing agencies, the bureaucratic new comers that were created by the Party leadership, have further complicated its CC policy making and implementation process. Further to the 2003 reshuffle, “the CCP has transformed the CCLSG into the National Climate Change Coordination Committee (NCCCC) of the State Council” (NDRC, 2009f: 17). The NCCCC is an administrative body not only charged with inter-ministerial policy coordination but also to formally represent the ultimate decision making body regarding China’s CC policy.

Based on the NCCCC’s organizational description, initially, “there were 15 different central governmental agencies granted memberships of the NCCCC. The granting of memberships signalled their status as core institutions of CC policy-making. The Director of the NDRC is the second man of the NCCCC, second only to Premier Wen Jiabao himself, who is the chairman of the Committee” (NCCCC, 2008). More interestingly, there were four institutions which serve as the “Vice Chairs” of the NCCCC with the same bureaucratic ranks and equal political importance. “These are: the MFA; MOST; SEPA and the CMA” (Ibid). Each Vice Chair has represented their own distinctive interests and has been assigned different responsibilities by the Chairman. According to a Chinese CC expert, he suggested that “the co-existences of four Vice Chairs were a result of prolonged period of bureaucratic rifts”<sup>55</sup>.

Unlike the CCP wishes, the establishment of the NCCCC has further exacerbated the bureaucratic conflicts as institutional interests have become even more diversified. Despite the NDRC’s commanding position, the establishment of four vice chairs produced a substantial counter-weight to the NDRC assuming authority. This multi-tier set-up of

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55 Interviews with Professor Pan Jiahua, at the Chinese Academy of Social Science (CASS), August 2012

bureaucratic apparatus allowed for a number of institutional actors to exert a tangible influence over the policy making process.

However, despite interviews with members from various ministries, it has still remained very difficult to assess which institution can generate the greatest impact on the CC policy making process. None of the institutions mentioned above have achieved absolute overarching power to produce their desired decision outcomes on every occasion. The Party leadership has retained the reins of final decision power in its own hands. The next two sections will offer vivid examples of Sino-EU collaborations to demonstrate the complexities of making and implementing decisions.

In conclusion, China's climate and renewable policy making have largely remained fragmented even though the Party has made two serious attempts to improve coordination amongst their core governmental agencies. This intricate institutional setting has certainly cast a long shadow over the Sino-EU collaborations on Climate Change and Renewable Energy. The next section will examine the extent to which these bureaucratic rifts in Beijing have constrained China's capacity to collaborate with the EU in the area of Climate Change.



## **Section 4.2: Many Bureaucratic Rifts: The roles of Chinese central governmental institutions in determining the Sino-EU collaboration on Climate Change**

This section will offer an examination of the roles of the Chinese central governmental institutions in the process of China-EU collaboration on climate change (CC). As argued previously, the complex institutional framework does little to help formulate coherent CC policies in China. Domestically, a fragmented institutional framework has severely challenged the CCP's capacity to tackle environmental degradations and energy shortages. Externally, a lack of institutional coordination has undermined China's ability to demonstrate itself as a responsible and active player in international CC negotiations. Similarly, its collaboration with the EU has largely been affected by complex institutional settings from both sides.

Much literature has already been written on the EU's renowned bureaucratic turf wars in various policy areas whilst there is little that has explored the bureaucratic rifts from the Chinese side. Most institutions referred to previously have participated in the process of collaboration. They have played roles as collaboration agenda formulators as well as executors to deliver collaborative projects. Competitions for budgets, agenda-setting and project implementation have become inevitable amongst them. Some of those institutions have prevailed and utilised the collaboration as a unique opportunity to boost their political influence. While others have become marginalised due to a lack of sufficient and appropriate resources with which to play decisive roles during the collaboration.

In this section, the author will use case studies on China-EU high-level climate change dialogue, China-EU disputes at the Copenhagen UNFCCC Summit and the Sino-EU joint

research programme on Nearly Zero Emission Zone to illustrate how the collaboration has largely been shaped by bureaucratic power shifts within China's CC policy making process. This thesis will utilise three case studies to illustrate the bureaucratic land-rush when relevant Chinese institutional actors came to deciding on, and participating in, the Sino-European collaboration on Climate Change. The following three case studies are not chosen on the basis of arbitrary selection or random examples. Rather, the case studies have significant reasons, as detailed below, to justify their inclusion in this thesis.

Firstly, all three case studies represent very high profile events in China-EU relations. Secondly, apart from Climate Change, the collaborative mechanism between Beijing and Brussels has also been established in other fields of their partnerships. In particular, the Sino-European High-level sectoral Dialogue has also occurred frequently amongst other policy domains. Therefore, by examining the internal bureaucratic rifts and the composition of participants within Beijing on Climate Change Dialogue, one will be able to observe and analyse the Chinese bureaucratic disputes amongst other Sino-European sectoral high-level dialogues.

Thirdly, the China-EU trade disputes have become a necessary component rather than an exception in their partnership. Investigating the complexities of Chinese bureaucratic actors' involvement in the solar panel dispute could largely reflect upon their engagements in other areas of Sino-European trade disputes.

Last but not least, all three case studies involve one, or several, non-conventional Chinese foreign policy actors to challenge the status quo of the established foreign policy actors in shaping the Sino-European relations. My analyses of those case studies below are mostly

based on interviews conducted between 2010 and 2012 as well as my previous consulting experience with Chinese energy conglomerates. Most interviewees are practitioners who have participated in those projects and wish to remain anonymous.

## **1. China-EU High-Level Dialogue on Climate Change**

“China and the EU established the CC partnership in September 2005 and elevated their partnership to that of ministerial level in 2010” (EC 2005; NDRC 2010c). Both sides have expressed great enthusiasms for collaboration throughout years. Both governments believe that CC is an area where they can achieve major and concrete results through collaboration. Like other areas of China-EU collaborations, China-EU high-level dialogue on CC is one of the major mechanisms to initiate the collaboration agenda and to discuss potential projects. According to their joint declarations, “the dialogue is held either in Europe or in China, once or twice a year” (Ibid).

During the first dialogue in March 2006 in Vienna, both sides agreed to collaboration according to the “China-EU Climate Change Rolling Work Plan”. The Plan prioritised nine different areas of collaboration which were mostly scientific and technological cooperation driven, such as developing renewable energy, joint projects on Clean Development Mechanism and energy efficiency improvement (MFA, 2006). Only two of those areas were non-scientific or non-technological in nature. They were “Institutional capacity building and Raising public awareness of Climate Change” (Ibid). Based on the agenda from the plan, it indicated that their collaboration was very much driven by technology transfers and scientific cooperation. This in turn has led the MFA to have an insignificant role in driving the collaboration forward.

As referred to previously, the NCCCC has four vice chairs to make decisions on China's CC policies. The MFA is granted one of the four vice chairs. This signals the MFA's importance in China's international CC negotiations and collaboration with foreign partners. However, in reality, the MFA's authority and competency have been undermined by the NDRC and other science-led institutions.

In the case of China-EU collaboration, the role of the MFA has diminished throughout the past six years. Its authority as the "chief negotiator" of the international CC negotiations has encountered several strong challenges from other institutions, which are either located within the Chinese FP making process or emerged as what Linda Jakobson labelled as the "new FP actors" in Beijing's FP decision making process (Jakobson and Knox 2010:2). The MFA's decline in bureaucratic influence over China-EU collaboration is reflected upon both in institutional arrangements and the agenda setting of the collaboration.

In terms of an institutional setting, the MFA only acted as the chief executive on the Chinese side when initiating the dialogue at the very two first meetings between Beijing and Brussels. Afterwards it attempted to use various dialogues and international negotiation mechanisms to formalise its territory over environmental diplomacy. To do so, the MFA established the Office of the Special Representative for Climate Change. The Special Representative also acted as the chief negotiator during the first two China-EU CC bilateral dialogues. At the first two meetings, the Chinese dialogue consists of 25 personnel, 7 of them from the MFA, 4 of them from the NDRC, 2 from the MOST, 2 of them from the Ministry of Finance (MOF), and the rest of team were drawn from relevant university research institutes and large SOEs, which sought to explore business opportunities in which to cooperate with European

companies. In addition, there were two personnel from the China Mission to the EU in charge of CC issues. One of those was appointed as the councillor and the other was ranked as the First Secretary, both of whom were from the MFA<sup>56</sup>. This setting indicated the bureaucratic significance of the MFA over China-EU bilateral dialogues.

From a bureaucratic politics perspective, the MFA had managed to extend and to strengthen its influence as the chief negotiator on China's CC issues. Financially, the MFA had also been granted the bigger budget from the State Council because they needed to have more monetary resources to deliver the dialogues and negotiations. Part of the budget was generated from some of agreed collaborative commercial projects from the dialogues.

However, there has been a sea change on the CCP's attitude towards environmental issues. As discussed above, seeking CC international collaboration has become one of key methods through which the CCP demonstrates its ability to tackle CC issues both domestically and internationally. In relation to this shift, the CCP intended to conduct a wave of "Technological Diplomacy" to maximise its benefits from their international collaboration partners (Economy, 1998: 23). Given the MFA's traditional area of responsibilities, it has had very little knowledge regarding the latest climate technologies and renewable know-how. As a result, the NCCCC headed by Premier Wen decided to change the focus and team composition of the China-EU bilateral dialogue and other international negotiations.

The dialogue team is now made up of 30 personnel. The MFA Climate Change Office no longer acts as the Chief Negotiator. Instead, during the 2007 and 2008 bilateral dialogue it was headed by the director of the NDRC Climate Change Bureau, Su Wei. The NDRC has

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<sup>56</sup> Interviews with officials at China Mission to the EU in Brussels Nov 2012

sent 10 representatives to participate in the dialogues. The other 20 representatives consisted of 3 from the MFA, 5 from the MOST, 3 from the CMA and the rest were from research institutes and SOEs. Moreover, China's Mission to the EU has also changed the institutional setting. There are still two people in charge of CC issues. However, the previous councillor of the MFA has been replaced by an equivalent politically ranked representative from the NDRC; and the First Secretary remains an MFA appointee<sup>57</sup>.

By 2010, the bilateral dialogue was elevated to that of the Ministerial-Level. According to a MOU from the two sides, the NDRC has become the one and only institution taking overall responsibilities for dialogue from the Chinese side. All agreements in regards to CC between China and the EU were signed by either the Director of the NDRC or the director of National Energy Agency<sup>58</sup>. The NDRC's chief negotiator role was therefore consolidated, and this left the MFA with little room to manoeuvre. Surely, the NDRC's authority and assertiveness have generated a clear impact on the EU side. The EU Commission on CC and energy has a clear understanding of who they can speak to amongst their Chinese counterparts. However, the Copenhagen Summit further exacerbated bureaucratic conflicts and frustrated the Europeans, which will be discussed later in the section.

In terms of agenda-setting, the NDRC has enjoyed undisputed authority over other institutions in overseeing the dialogue agenda. Its agenda-setting role has been largely reflected upon in changes to the contents in many years of dialogue. In the very first two dialogues, the Chinese side had stressed the importance of collaboration and China's political will to tackle global warming whereas little details had been revealed on the methods of collaboration and which technologies transfers that Beijing wished to acquire from Brussels.

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<sup>57</sup> Ibid

<sup>58</sup> Archive search from the NDRC website

Since 2008, the content of the dialogues have become more specific and technologically driven. Both sides have revealed details of financial contributions, areas of technology transfers, areas of joint research and the time span of joint researches. Such detailed contents of their dialogues have been rare amongst the other China-EU dialogues. These contents have illustrated the heightened importance of the involvement of the NDRC and the MOST. As a result, the MFA has been marginalised and “lost its previous budget to support its CC office. The remaining budget on tackling CC from the State Council was transferred to the NDRC and MOST”<sup>59</sup>. According to the interviews from the MFA Climate Change Office, they admitted that “we do not have sufficient expertise to understand the complexities of CC. We can only be in charge of political and logistical matters of the dialogue”<sup>60</sup>.

Carbon capture and storage (CCS) is a key technology for curbing carbon emission that China is keen to learn from the EU. I have asked a couple of questions related to CCS to several MFA interviewees. It seemed that none of the MFA interviewees were familiar with technical matters. But, they all rigidly insisted that MFA still does play a crucial role in facilitating the bilateral dialogue. However, they could not assess the significance or extent of the MFA’s role as an agenda formulator during the dialogue.

## **2. China and the EU at the UNFCCC Copenhagen Summit**

According to the “Rolling Work Plan” and other MOUs between Beijing and Brussels, the EU will coordinate with China when it comes to international CC negotiations (EC 2005, MFA 2006). However, in Copenhagen in 2009, the Europeans became confused and

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<sup>59</sup> Interviews with a staff member at China Mission to the EU, Brussels November 2012

<sup>60</sup> Interviews in an official at Policy Planning division MFA in Beijing August 2012

frustrated by China's incoherence regarding the carbon emission reduction as well as "Beijing's vociferous emphasis on its status as a developing country" (NDRC, 2009b; Xie, 2009). The 2009 Copenhagen Summit was therefore deemed as a low point for China-EU CC collaborations.

One of the main causes of the confusion was due to the lack of institutional coordination and communication from the Chinese side. As referred to in previous paragraphs, the MFA used to be the chief negotiator for China on international CC negotiations. Given the increasing environmental challenges within China, the CCP has treated climate change as part of China's development issues. "The Party has strong incentives to use the international CC cooperation to solicit the assistances of developed nations in achieving its domestic CC goals" (NDRC, 2009f). Despite shifts in domestic politics, China has continuously insisted on holding to the Principle of "Common but Differentiated Responsibilities (CBDR)" (Ibid). The CCP framed this principle according to three key issues:

- 1) The West's responsibility for current environmental damage.
- 2) China's right to tackle economic development issues first.
- 3) The emphasis on receiving funding and technology to cooperate in an international multilateral framework.

Based on the Chinese government's own analysis, "China and the EU have disagreed with each other on two major issues in regards to tackling climate change. And these two issues have dominated the Sino-EU CC dialogues and other relevant official meetings" (Shen, 2009). Firstly, the EU disagrees that carbon emission should be viewed in historical terms and on the basis of equity. In other words that developed countries, such as the EU member states, should contribute more; and that "developing countries have the right to develop and to



refuse to accept binding commitments in the field of CC mitigation and adaptation” (Hegelund et al, 2009: 34).

Secondly, the EU rejected China’s idea that the international framework and collaboration should give China the privilege to ask for preferential agreements on technology transfers and funding in order to comply with international agreements, and even to justify eventual requests for a waiver of IPR protection while still deciding any kind of binding commitment (Euractive, Wen’s speech 2009). Based on these two main disagreements, China and the EU have had little chance to stand in the same camp during the 2009 Copenhagen Summit.

According to my interviews with Su Wei, the director of Climate Change Bureau, “China is very unlikely to give up the CBDR principle and this has become a recurring issue yet to be resolved in the annual China-EU CC bilateral dialogue. For China, holding the CBDR principle is one of key reasons why it wishes to collaborate with the EU. China’s position is unlikely to change in many years to come”<sup>61</sup>. His view was echoed by a senior diplomat at the MFA, “holding the CBDR principle is in accordance with China’s overall FP and its claim to ‘a developing country’ status”<sup>62</sup>.

Without much agreement between each other before and during the Copenhagen Summit, the Europeans were largely disappointed by China’s persistence of a non-binding commitment to carbon emission. China’s policy inconsistency on its negotiation position had further undermined the trust and validity of collaboration with the EU. This inconsistency arose from the Chinese negotiation team. As one observed, much academic literature and journalistic

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61 Interviews with Su Wei, Beijing August 2012

62 Interview with a senior diplomat at MFA, Beijing August 2012

articles have described and discussed China's Copenhagen fiasco" (De Matteis, 2012; Wubbeke, 2013; Xinhua 2009b). However, little attention has been paid on the reasons why the Chinese negotiation team behaved so unusually and inconsistently during an important international negotiation.

According to verdicts from several members from the negotiation team, the major cause of the fiasco was due to fragmented policy making process on China's CC policy, without a powerful and credible overarching authority to make the final decisions. This was particularly the case for China in Copenhagen just as in China's recent rifts with its neighbours near the South China Sea. The initial team at Copenhagen from China was very similar to the China-EU CC bilateral dialogue. According to MFA's statement and information from media outlets, the Chinese delegation was "headed by Xie Zhenhua, Vice Director of NDRC (Ministerial-level), who was also former head of SEPA; the second in charge was Su Wei whose position was the Director of Climate Change Bureau at NDRC. Another key team member, Yu Qingtai, is from the MFA" and a special representative for the CC talks (MFA, 2009; Southern Weekly, 2009). As one scholar observed, "the Chinese team combined a high degree of climate expertise with relatively extensive decision-making authority and experience on the international stage" (Conrad, 2012: 444).

My interview with Professor Pan Jiahua, who is the most prominent climate change scholar in China, and has participated in the negotiations in Copenhagen, confirmed other scholars' observations. According to Professor Pan, "Our team was probably the best team for CC negotiations China ever had, and the three main negotiators had reached agreements on every

little details that may affect China's international standing"<sup>63</sup>. However, as seen by media and some academics, "the arrival of Premier Wen and his diplomatic advisory team reversed and objected to some terms that the initial China team had agreed with other participants"(Ibid; Foreign Policy, 2009). One of the initial key agreements was "by 2020 China will join the binding commitment of compulsory carbon reduction"<sup>64</sup>."

However, as observed by a scholar and confirmed by one's interviews, "Premier Wen and his team declined this proposal" (Ibid: 445); his own advisory team was mostly from the MFA policy planning unit, which have limited understanding on how CC mitigation works<sup>65</sup> . Instead, this group of advisers only stressed that "China is a developing country, with no further changes regarding this status" (Lynas, 2009). Wen's reversal on the proposal has increased the Europeans' frustrations towards China holding on to its CRBD principle. Consequently, several European leaders denounced China at the post-Summit press conference as well as in European major newspaper, with accusations that China was "a selfish and irresponsible player in Copenhagen" (Milband, 2010).

China's Copenhagen fiasco was deeply rooted in its fragmented CC policy making process. There has never been any clear guidance from the NCCCC as to which institutions or individual has the overarching authority to settle internal disputes, and who shall communicate and advise the Premier before, during, and after the Summit. Certainly, each individual institution wishes to shape the opinion of the Premier, but whose opinion carry the heaviest weight remains unclear.

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63 Interview with Professor Pan Jiahua, at Chinese Academy of Social Science, Beijing August 2012

64 Ibid

65 Interview with Professor Zhou Dadi, Senior Fellow at Energy Research Institute, NDRC, August, 2012

### **3. China-EU Collaborative Project on Near Zero Emissions Coal**

China-EU collaboration has been badly affected by China's CC policy formation process. Equally complicated, Beijing's policy implementation process can also generate a negative impact on their collaboration. The NDRC's authority as the most important player in China's CC policy making and implementation process has been strongly challenged by the other institutions who share many of the responsibilities during the implementation process.

In particular, participations in policy implementation by the MOST have posed the strongest challenge to the NDRC. As a scholar pointed out the reason for MOST's challenge to the NDRC, "this is largely because the politics of CC has been intricately linked to scientific data and technological innovation" (Wubbeke 2013: 713). CC was a scientific concept long before it entered the realm of main stream politics. Political decisions on CC are crucially dependent on scientific research findings and the feasibility of technologies. With a strong scientific element, the MOST has seized on this unique opportunity to extend its political influence. By expanding its political influence and adding scientific credibility, "the MOST has long established a close relationship with a few front-running CC research institutes amongst China's elite universities" (MOST 2012). Based on my archival search, "the MOST has encouraged those institutes seeking international cooperation projects under the umbrella of the MOST"<sup>66</sup>. Meanwhile, the "MOST also provides initial seed funds to institutes which have collaborative projects with international partners", according a scholar's observation (Wubbeke, 2013: 723). With many international collaborative projects on its hands, the MOST has established its own reputation as the institutional partner for China's international CC collaborations. The MOST' reputation has also put itself in a rather advantageous position when China collaborates with the EU.

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<sup>66</sup> Refers to all documents I examined through MOST website

The best example to illustrate the MOST's ability to contest the NDRC's capacity is in the EU-China joint initiative for developing Near Zero Emission Coal (NZEC).<sup>67</sup> NZEC is one of the key areas in which both sides indicate their interest in deepening the collaboration, which has also been stated in their "Rolling Working Plan" (MFA 2006). NZEC promotes the exploration and testing of the Carbon Capture Storage (CCS) capability of coal fire plants in China. NZEC is a capital investment intensive technology and requires a large sum for an initial setting-up fund. Currently, "only Germany and the UK have developed and adapted this technology due to the financial support from both their national governments and private enterprises" (Feng & Yuan , 2011: 31). NZEC related projects have often been established under alliances of private-public partnerships to carry out research and adaptation in European countries.

Given its initial high costs, the NDRC has consistently spoken out against Chinese coal-fired plants, and SOEs, developing NZEC. The NDRC officials pointed out that the "NZEC will produce very limited environmental benefit and render both governments and SOEs very heavy financial burdens"<sup>68</sup>. "NZEC had been frequently mentioned by the EU officials during the 2008 China-EU CC bilateral dialogue" (EC 2009a). As a result, the NDRC officials also suspected that "the Europeans strongly advocating this costly technology to China were largely driven by private firms' commercial interests in China."<sup>69</sup>

NZEC is acknowledged by the EU as one of the most expensive CC technologies to develop and to adapt. Therefore, the EU has contributed a total amount of EUR 50million up to 2012

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67 Aka, Clean Coal Technology

68 Interviews with an official at NDRC , Beijing August 2012

69 Interviews with officials at China Mission to the EU, Brussels, November 2012

to fund collaborating with China to jointly develop the technology. According to archival survey in the EU-China CC policy documents, the EU's financial assistance to China in developing NZEC is the largest single amount the Union has spent so far in contributing to the China-EU CC partnership (EC, 2012a; Lee, 2012: 42). According to the Commission, most parts the funds were from large European utility companies, which would hope in later years to participate in NZEC projects in China. Only a small proportion of the fund is from the EU Climate Change and Trade Commissions.

Despite scepticism of NZEC by the NDRC, the MOST has dismissed the NDRC's suspicion and proposed to the NCCCC to develop a few pilot studies in the coal-mining rich Western provinces. The MOST admitted the high initial costs to set up the technology, but contended that "China would become one of the very few countries to have NZEC, which would have a longer term benefit for China's ever-growing energy consumption. Developing NZEC would also help China to win international scientific prestige and possible follow-up projects globally."<sup>70</sup>

The reasons why the MOST was enthusiastically campaigning for NZEC collaboration with the EU are twofold. Firstly, the MOST has utilised NZEC collaboration with Brussels as an opportunity to challenge the NDRC's authority over China's CC policy implementation. NZEC is a scientific innovation and international collaborative project. Projects related to NZEC should belong to the competence of the MOST, which cannot be eroded by the NDRC. The MOST also has the responsibility to directly report to the NCCCC without much interference from the NDRC.

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<sup>70</sup> Interviews with an environmental expert at Chinese Academy of Science, who previously worked for MOST, Beijing December 2012.

Secondly, launching NZEC related projects can boost the MOST's financial power enormously. Given a lavish budget from Brussels the MOST, as the Chinese institutional partner, can manage to utilise the budget for NZEC projects as well as general administration within the Ministry. The fund for developing NZEC would not only be drawn from the Union, the Chinese government itself would also contribute accordingly.

More importantly, the development of NZEC technologies has been endorsed in China's National Climate Change Programme in 2008 and 2009 (NDRC, 2007, Ibid: 2009f). This endorsement has reflected the increasing political influence of the MOST in China's CC policy making and implementation processes. It has also shown how the MOST managed to exercise its limited competence to extend its impact on final policy outcomes. Moreover, the MOST's role as an institutional partner for China's international collaborations has also helped it to become an important, if not formidable, actor in China's FP making. The MOST's impact on China-EU relations has also been illustrated during the China-EU solar panel disputes, which will be discussed in the next section.

### **Section 4.3: The importance of the Chinese central governmental institutions in shaping China-EU collaboration on renewable energy**

This section will shift the focus to the roles of the Chinese central governmental institutions in determining China-EU renewable energy (RE) collaboration. As discussed in the previous section, the Chinese government launched a series of policy measures to mitigate the detrimental effects of climate change. Similarly, promoting RE has also become one of key long term development goals for China. In the view of the Chinese government, the EU is considered as both “a leading player of international climate change regime as well as a global champion for renewable energy” (Falkner, 2012: 457). According to the Rolling Working Plan of the China-EU Climate Change partnership, collaboration on RE is a key area of focus from both sides, and therefore Beijing and Brussels had shown great enthusiasms in the early years of collaborations between 2007 and 2010.

However, due to China’s unprecedented progress in developing RE technologies, China has now shifted its position from a junior partner, to a formidable competitor in the RE sector. As a result, a key area of collaboration has become an area of contention and dispute in the light of the recent Sino-EU solar panel dispute. Indeed, it is crucial to acknowledge that the solar dispute has become a major obstacle to Sino-EU relations, together with the Market Economy Status and Arms Embargo issues. It is even more important to be aware that their RE collaboration and disputes are not insulated from the continuous bureaucratic rifts amongst institutions from both China and the EU. Such institutional conflicts have worsened their diplomatic relations.

Most academic literature and media reports paid much attention to the disputes itself without



seeking to explore the causes of these disputes.<sup>71</sup> This section will exclusively focus on institutional conflicts from the Chinese side. The ever growing numbers of players involved in China RE policy making have certainly aggravated the disputes and undermined the quality of collaboration.

Beyond this introduction, this section will divide into two parts. The first part will offer a snapshot of China's RE development and point out how China's RE development has been a good foundation for Sino-EU collaboration. The second part will feature two case studies to disentangle the complexities between the decision maker, or the Party, and the bureaucratic institutions, as well as conflicts amongst institutions. It seeks to analyse the key reasons why the China-EU RE collaboration has been stagnated. To do so, this section will use case studies about China-EU collaboration on developing coal liquefaction technologies, and China-EU solar panel disputes to illuminate the analysis.

This thesis is drawing on the following two case studies because firstly, both case studies will reflect the participation of non-traditional foreign policy actors in shaping the overall Sino-European relations. Secondly, both case studies will exhibit the extent to which non-conventional foreign policy actors solicit their own expertise to challenge the existing authority of the traditional foreign policy actors. Finally, both case studies will reflect changes in focus of Chinese foreign policy, and the extent to which these changes have corresponded to the institutional shifts in the balance of power in the Chinese foreign policy making process.

At the beginning of the Twentieth-First Century, the Chinese government had taken a decisive step to fundamentally restructure its energy production and consumption over the

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71 Refer to articles written by Jing Men (2014), Financial Times (2013), People's Daily and Reuter's Reports (2012)

next ten years. The newly published Twelfth-Five Years Plan in 2012 indicated Beijing's strong political will to continue its expansion of China's renewable sector. According to this Plan, "the new installed renewable capacity will reach 160GW, including 61GW of hydro-power, 70GW of wind power, 20GW of solar power and 7.5 GW of biomass. The electricity generation from renewable sources will account for more than 20% of total electricity generation by 2015" (State Council 2012). The proportion of renewable consumption will also significantly increase. By 2015, "the annual renewable energy consumption will reach 478million tons of Standard Coal Equivalents (TCE), representing more than 9.5% of the overall energy mix. Such a large scale renewable campaign has been driven by a combination of domestic motives and foreign policy considerations" (NDRC 2007; Ibid).

Under a carefully orchestrated renewable technology innovation campaign, the Chinese renewable sector has "caught-up" rapidly since 2005. Most Chinese renewable manufacturers have not only played a catch-up role, but more importantly have learnt to design their own wind turbines and nuclear reactors. Chinese renewable manufacturers have then become strong competitors to their international partners, who in the past used to offer outdated technologies for technology transfers. The Chinese manufacturers have enabled themselves to produce technologically advanced and internationally priced competitive renewable equipments for export. For example, "in Brazil, 90% of their wind turbines were imported from China by 2010" (Berger et al, 2012:5).

Such technologically advanced exports have partly shifted China's export model from low cost, low value-added products, to high value added exports. This transformation has fitted well into the Chinese leadership's plan to restructure the existing economic growth model and enabled China to move up the value chain. As a result, the RE sector has been continuously

“highlighted as one of seven strategic industries, earmarked to produce technology innovation” (Reuter 2010). The Chinese leadership wishes to use the RE boom to achieve an industrial shift from “Made in China” to “Invented in China”.

In addition, the geographic feasibility of renewable energy does not always meet the demand side. Inland provinces such as Xinjiang, Tibet, Inner-Mongolia and Gansu are abundant in renewable resources, such as solar and wind energy. Developing renewable projects could create economic incentives for local governments, in order to sustain economic growth and secure local employments. However, as some studies suggested, “coastal provinces which need more electricity have to bear the high transmission cost for renewable generated electricity” (EC2 Report, 2012:26, Berger et. all, 2013: 5). This in turn has led grid companies from coastal provinces to purchase electricity generated by coal. Until transmission technologies are optimised, it is still very difficult to suggest how the inland provinces could benefit from the renewable energy boom.

The CCP has taken bold steps to promoting developments in the RE sector. Numerous policy measures and regulations have been introduced in order to achieve the goals set by the Renewable Energy Law and other stipulated policies. However, the developing renewable sector involves both economic policy-making and scientific policy measures amongst others. Given RE policy-making is a relatively new territory for the Chinese government, some of the policy measures has been rather inconsistent with an overlapping of responsibilities and functions amongst various institutions. As referred to at the beginning of this thesis, the phenomenon of bureaucratic politics, described by Graham Allison and Morton Halperin has not limited its application to a particular political system. “Whilst the rules of game might play out very differently in a democratically elected government, the fundamental

characteristics of bureaucratic competition remain the same regardless of the type of government” (Allison, 1968; Halperin 1974).

Analysing China’s RE policy making process and exploring the role of Chinese institutions in the Sino-EU collaboration can also apply to the Bureaucratic Politics Model. Developing the renewable sector in China requires the Party to have substantial scientific expertise as well as market knowledge. However, none of the current members of the Politburo Standing Committee possesses a good understanding of alternative energy, even if most of them are from physics or other science background. They have always made decisions based on the knowledge of scientists and the relevant bureaucrats. As a result, when it comes to delivering a particular set of RE policy measures; this mixed nature of the RE sector has provided fertile grounds for bureaucratic battles.

The best illustration for a bureaucratic battle is the roles the NDRC played in making and implementing China’s overall RE energy policy. As stated in the previous section, the NDRC is the most powerful governmental institution in China’s climate change and energy policy-making processes. It characterises various departments holding overlapping competencies. For example, both the Climate Change Bureau and National Energy Bureau are in charge of carbon reduction policy in China (NEA, 2012). The NDRC’s authority in those two policy areas has not only been challenged by other equally important ministries, but simultaneously, its internal departmental conflicts have constrained its capacity to act as the most important actor within the policy making process.

The NDRC itself is a highly fragmented organisation that includes a wide range of different departments holding overlapping competencies as well as a number of internal units with a

large degree of internal independence. In the field of RE policy making, the NDRC has particularly suffered from this fragmentation. This is largely due to China's fragmented energy policy governance. As many scholars in this field of research pointed out, "The Party has never succeeded in establishing a Ministry of Energy to coordinate China's energy production and consumption. There have been constant conflicts arising between the central governmental institutions and the national oil companies, both of which have had the same political ranking within the Party" (Cornad, 2010, Downs, 2006, Garrison, 2009). The NDRC has therefore never managed to integrate the energy related departments or control the three major oil giants, i.e. CNPC, CNOOC and Sinopec.

Instead, the State Council established the National Energy Bureau (NEB/NEA)<sup>72</sup> during the 2003 reshuffle, which is "a vice-ministerial body with over 100 personnel and acts almost entirely independent from the NDRC's competency" (NEA 2012; Caijing Magazine, 2008b). The State Council has also never explicitly defined the function of NEA within the NDRC. In principle, tackling climate change and developing RE should go hand in hand under the overarching authority of the NDRC. However, according to recent policy engagements on several different issues, "the semi-independent NEA has not always corresponded to the policy agenda issued by the NDRC" (Caijing, 2008b). It has always resented the NDRC's attempts to undermine its authority of regulating China's energy production.

For example, the "NEA has always been at odds with the NDRC when they come to deciding China's diesel price"(Caijing, 2008a). As a result, the NEA has always overridden the NDRC's authority as chief-policy maker and implementer body within China's energy policy making process. On several occasions, the NEA ensured its policy proposals went beyond

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<sup>72</sup> Re-named at National Energy Administration in 2011

the NDRC'S supervision to be finally adopted by the State Council. Its clashes with the NDRC have not only created intense bureaucratic conflicts, but also projected a negative impact on China-EU renewable collaboration.

### **1. China-EU collaboration on Coal Liquefaction Project**

The best example to illustrate how the NEA managed to override, and shape China's renewable policy is the China-EU joint development of "coal to oil" (aka. Coal liquefaction) technology. This example has also revealed that bureaucratic conflicts could trigger the slowing of progress in China-EU RE collaboration.

Given China's abundant resources of coal, "Beijing initially decided to utilise its large number of coal mines in its Western provinces to extract coal and turn this into crude oil (Caijing, 2008c)". This particular technology was invented in the UK and required both sophisticated machinery and precise operation to reach optimum results. Under the Memorandum of Understanding (MOU) of the China-EU partnership on climate change and renewable energy, providing technical assistances on "clean coal and coal to oil was one of the key areas that the EU very much wanted to promote in China" (EC 2005). The NDRC had issued a specific set of policy guidance to invite European companies to establish partnerships with Chinese utility SOEs (NDRC, 2006b). Both Beijing and Brussels believed that collaboration on developing coal liquefaction technology could be a flagship programme to induce further cooperation in the field of RE technology.

Based on my previous consulting experience, I discovered that the NDRC chose the China Shenhua Group, one of China largest coal mining SOEs, to carry out a pilot study on this technology with British Petroleum (BP). Both the Chinese and British had invested extensive

amounts of financial capital and personnel on this flagship project located in the province of Inner Mongolia in mid-2008. BP had provided almost all the technical assistances it could offer within the project. And its Chinese partner, Shenhua, enjoyed the political advantage of being chosen as the front-runner for this particular project. The project went smoothly, without any technical and safety hazard, and was about to be introduced to other utility companies in China. The State Council even began to prepare to issue special policy guidance on “Carrying Coal Liquefaction in Northwest Provinces” projects under the advice, and in consultation with, the NDRC<sup>73</sup>.

However, as suggested by a few interviewees at Shenhua Group, “the NEA resented that the NDRC has taken overall responsibility and acquired the financial resources of coal liquefaction projects”<sup>74</sup>. As a result, some of senior members at the NEA who previously worked in the coal mining industry spoke out that the coal liquefaction technology was neither environmentally friendly nor economically viable. The core resource for supporting coal liquefaction technology is water. Paradoxically, most coal-mining rich provinces in China had suffered droughts over a very long period of time. Those provinces would not be able to supply the large quantities of water to sustain the process. “The whole coal liquefaction process required 3-5 tons of coal inputs to produce one ton of oil, which is not exactly environmentally friendly”<sup>75</sup>. After intensive discussions among the various relevant governmental departments, the State Council finally adopted the NEA’s policy proposal by “calling for a major overhaul of new coal liquefaction projects and suspending the existing projects at the Shen Hua Group in early August 2008” (Caijing, 2008c; Xinhua August, 2012b).

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73 Corporate Consulting Interviews with BP and Shenhua Group, April 2009

74 Ibid

75 Interviews with a member of BP coal liquefaction project team, London 2010

As a result, both the Shen Hua Group and BP suffered a major capital loss through the ceasing of the coal liquefaction project. BP had even attempted to pursue a legal action against its Chinese partner. However, losing the Chinese energy market would bring severe if not detrimental damage to BP's global business plan. Since then, BP has decided not to invest in the Chinese coal mining or renewable sector, and now has turned its focus exclusively onto the oil and refinery industries instead.

This example illustrates how internal bureaucratic battles could alter the final policy outcomes, and therefore created a strong sense of inconsistency in the Chinese RE policy-making process. BP's short-lived collaboration has offered a strong signal to other potential European partners, either governmental or corporate ones. Most European companies have suggested that "cooperating with China was a puzzle mapping adventure, rather than a smooth business operation"<sup>76</sup>. This was largely due to the Europeans being confused by who is the final decision maker, and to what extent the Chinese governmental institutions can reverse the decisions or policies that have already been endorsed by the Party or the State Council. Europeans were puzzled as to whether they had collaborated with the Chinese governmental institutions, or with the Chinese SOEs. Such policy inconsistency was caused by bureaucratic rift, which in turn has undermined the potential of China's collaboration with the Union.

## **2. China-EU Solar Panel Dispute and Negotiations**

As argued above, the overhaul of the coal liquefaction projects was a result of an intra-departmental conflict within the NDRC, which has brought very damaging impacts to the prospect of China-EU RE collaboration. The recent Sino-EU solar panel trade dispute has

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<sup>76</sup> Interview with Joerg Wuttke, China Representative of BASF



even further worsened the potential for collaboration. This particular dispute has become one of stumbling blocks to overall Sino-EU relations. It is crucial to acknowledge and understand that the lingering Euro sovereign debt crisis is an important cause of the dispute. The media and think tanks from both China and the EU have offered detailed analyses on the economic and business sides of the damages. The vertical division between the EU Trade Commission and the Member states has also been widely exposed and discussed, whereas little focus has been given to the political side of the dispute inside the Chinese policy making apparatus.

This part of the section will discuss two aspects of the dispute which have been under-studied by current policy analyses. Firstly, based on several interviews I conducted in the past few months, this thesis will argue that the solar panel dispute marks an important shift of China's, or the Party's, strategy towards the EU. The Chinese government has played "a divide and rule" game between the Commission and the MS when it comes to engaging with the Union. Beijing had engaged with both Brussels and the MS simultaneously until late 2008. However, since 2009 the Chinese government has exhibited a tendency of marginalising the EU institutions, and instead sought to explore greater commercial and political ties with individual MS.

Secondly, various Chinese institutions seized the opportunity in dealing with the trade dispute either to restore their bureaucratic status or to extend their influence within the Chinese foreign policy making process. An intra-departmental conflict, as described previously, has been transformed into an inter-departmental competition.

As referred to in Chapters Two and Three, the Chinese government, or the Party leadership, has always been puzzled by the EU as a *Sui Generis* entity. As a Chinese scholar asserts,

“Beijing has never felt at ease when it only engages with the EU institutions (Chen& Armstrong, 2010: 135)”. Therefore, the Chinese authorities have learnt to interact with the EU and the MS simultaneously from an early stage of their so-called “strategic partnership”. During the past eleven years, the Chinese government has witnessed Brussels’ inability to resolve both domestic challenges, and its failure to extend its influence globally. As a result, China has begun to give a much strong emphasis on cultivating greater bilateral relations with the major MS.

The EU institutions, especially the Commission, realised that it has been sidelined and ignored by the Chinese authorities. This was illustrated by Beijing’s refusals to attend most of the Commission’s meeting requests<sup>77</sup>. Meanwhile, the current Trade Commissioner Karel de Gucht has been very vociferous in his criticisms of China on an array of trade and investments related issues. In order to draw the Chinese authority’s attentions back to the EU Commission, “De Gucht himself launched a flurry of trade investigations against China when he became the Trade Commissioner in 2009, such as an anti-dumping investigation against Chinese telecom manufacturers, and an anti-subsidies case against Chinese high-end paper manufacturers” (Southern Weekly, 2013). Most of his predecessors had only opened cases under the requests of targeted European manufacturers.

Unlike his predecessors, De Gucht initiated these case investigations from the Commission and then collected evidence from individual manufacturers. “The Chinese government was furious by De Gucht’s series of investigations and therefore declined to communicate with the Commission even further.”<sup>78</sup> Instead, the Chinese government under both Wen Jiabao and Li Keqiang have stressed the importance of sound bilateral relations with the MS and paid

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<sup>77</sup> Interviews with members at DG Trade in Brussels

<sup>78</sup> Interviews with two members of DG Trade, Brussels November 2012

frequent visits to various European capitals.

According to the observation by some Chinese scholars, “both of them have strengthened and revived commercial ties with “old” MS such as Germany and France, and harnessed good relations with Southern and Eastern “New” MS” (Liu,2013; Xu,2014). The Chinese authorities has also understood that the final decisions on whether to imposes retributive duties to potential recipients has to be decided by Qualified Majority Voting within the EU. Surely, the more MS that have sound economic ties with China, the less likely the MS would jeopardise their companies’ commercial interests in the Middle Kingdom by voting against the Chinese solar panel exports.

In the case of the Sino-EU solar panel dispute, De Gucht failed to convince most MS which have had a well-developed and matured solar energy sector to impose retributive duties on China. In particular, Germany as the front runner of world solar energy has opposed the investigation as well as imposing retributive duties. As one world trade expert suggested, “The German government and the EU Commission appear to be doing their best to undercut the EU’s ability to wield international influence” (De Jonquieres, 2012). De Gucht’s initiatives and the German opposition have become an almost open invitation to let China practice “divide and rule” tactics further. These investigations have hardly restored the Commission’s status as the EU’s “chief executive”<sup>79</sup> for the EU’s China strategy. Failure for such an investigation has further encouraged China to marginalise the Commission, if not the EU institutions as a whole.

Unlike previous Sino-EU trade dispute, the top Chinese leaders have put a strong emphasis

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<sup>79</sup> Opinions from members at DG Trade, Brussels November 2012

on tackling the solar panel dispute. According to my interviews in Beijing, the Small Leading Group for External Affairs held two meetings between July 2012 and December 2012 to specifically discuss the dispute and possible solutions. As indicated in interviews, “it has been extremely rare for the Small Leading Group to meet so frequently in such a short period of time”<sup>80</sup>. As both my interviewees and a media report pointed out, “the solar panel case had temporarily become one of the highest priorities in Chinese foreign policy, alongside territorial disputes, because the imposition of a retributive duty would jeopardise the survival of the Chinese solar energy sector, which in turn would cut over 400,000 job opportunities” (China’s First Financial Daily, 2013b)<sup>81</sup>. The second aspect of the dispute I will explore is the roles that the Chinese central governmental institutions have played before, as well as their participation during the dispute negotiations.

In theory, trade disputes and China-EU relations should be dealt by the MOFCOM and the MFA respectively. However, given the emphasis from the Party leadership and the nature of the dispute, a number of institutions have inevitably become involved in dispute negotiations and policy formation. Some of the agencies or ministries are formally located within Beijing’s FP making process whereas others are not. Two Chinese institutions have used the solar panel case to restore, or to strengthen, their capacities as two of the most important actors in China-EU relations, namely, the MOFCOM and the MOST.

The MOFCOM has long been the “chief negotiator” of China’s trade related issues and chief executive of China’s foreign economic policy. However, in the past five years, the importance of the MOFCOM has significantly declined. The causes of its decline in power are twofold. First and foremost, the Chinese economy has gradually transformed from an exogenous-

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80 Interviews from those who participated in meetings within the Small Leading Group, Jan 2013

81 Interviews with members at MOFCOM Dec 2012, Potential Unemployment numbers are confirmed by media report

oriented one to an endogenous growth model. In the first five years of the 21<sup>ST</sup> Century, China became a member of the WTO and used its export trade volume expansion to boost the economy. The MOFCOM had played a critical part in preventing China from “being constrained by the relevant international trade treaties and greatly promoted China’s role as a World Factory” (The Lawyer, 2013).

However, after the 2008 Global Financial Crisis, the external demand has shrunk dramatically. China could no longer rely on producing low value-added manufacture goods alone to sustain its economic growth. Its export volume had fallen drastically after 2008. The Party Leadership had initiated and endorsed a RMB 4 trillion stimulus package, which mainly “concentrated on domestic infrastructure investments to maintain the national employment rate” (Bloomberg, 2008). Correspondingly, the MOFCOM was lowered to a rather embarrassing status as it had little involvement in the domestic economic stimulus. Despite increasing numbers of trade disputes with the US and the EU, none of these disputes were seen as important as rejuvenating the domestic economy in the wake of the global financial crisis. The MOFCOM had been temporarily marginalised.

The second reason was more on a personal level. The former Minister of the MOFCOM, Bo Xilai, now a disgraced Chinese politician, was a strong character who had tried his best to elevate and extend the MOFCOM’s influence within the overall Chinese FP making process during his tenure. For example, he insisted on keeping international economic assistance within the MOFCOM rather than establishing a new Ministry of International Development<sup>82</sup>. After his departure, his successors have had much less ambition and personal capacity to reinforce the MOFCOM’s political status. As a result, MOFCOM has only become one of the

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82 Interviews with staff members at MFA, Beijing August 2012

many ministries amongst others, rather than a leading actor in Chinese FP.

The Sino-EU solar panel case offered the MOFCOM a unique opportunity to re-gain its bureaucratic importance. This is because “the Party Leadership wants to resolve the disputes as soon as possible” (China First Financial Daily, 2013a). The MOFCOM has therefore naturally harnessed its own expertises in international trade negotiation and previous experiences in dealing with the EU Commission. To do so, the MOFCOM has established a special team consisting of international trade experts, European Law specialists and veteran trade negotiators to formulate possible solutions to the disputes<sup>83</sup> (MOFCOM, 2012a). Meanwhile, the MOFCOM has kept in close communication with Chinese major solar panel companies, such as Suntech, Yingli and Trina, to investigate the prices Chinese manufacturers offer in the EU market and their sales volume in each MS<sup>84</sup>. The MOFCOM has used this opportunity to establish itself as the central player of settling disputes both inside the Chinese FP making process and externally to the rest of the world.

The author conducted archival survey to all published documents from MOFCOM related to the Sino-European solar panel dispute. After reviewing all related documents, the author discovered that the MOFCOM has kept the State Council and the Premier himself updated on a weekly basis regarding the progress of negotiations internally. In order to prevent competition from other ministries, the MOFCOM sought support from the State Council and asked the Premier “whether the MOFCOM could be the chief negotiator of the dispute settlements amongst various equal politically ranked ministries”<sup>85</sup>. “The State Council endorsed the MOFCOM’s request and offered the authority of coordination to the MOFCOM” (MOFCOM, 2012b). As a result, the MOFCOM managed to by-pass the NDRC,

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83 Interviews with members of MOFCOM, Beijing December 2012

84 Confirmed by interviews with the Head of Government Relations at Trina Solar, Zurich, 2013

85 Interviews with Ministerial Counsellor Commercial Consulate of Chinese Embassy to the UK, January 2013

which is the chief player in making China's RE policy. The MOFCOM has indeed utilised its expertise and experience to expand its autonomy and influence, when it deals with the EU Commission on solar panel disputes.

Externally, the MOFCOM has also successfully managed to marginalise the MFA during the Solar panel disputes settlements. The MOFCOM has updated the progress of the negotiations through its press office and spokesperson on a weekly basis between September 2012 and January 2013 whereas the other ministries involved have not done so (MOFCOM, 2012b; Ibid, September 2012). The MOFCOM's press conference arrangements signal its success in side-lining the MFA during the disputes settlements. The MFA's press conference should have been the most important one in regards to China's external affairs, regardless of the nature of the subject. However, despite the political importance of the solar panel case, the MFA press conference has rarely mentioned solar panel disputes and its related negotiation progress.

According to my archival survey, the MOFCOM and the MFA had held 8 and 20 press conferences respectively between September and December 2012. The MOFCOM mentioned and updated news of the solar panel disputes 25 times out of its 8 press conferences. Whereas the MFA had merely mentioned the dispute 5 times by making the same statements as the MOFCOM had made<sup>86</sup>. By calculating those numbers, one can conclude that the MOFCOM has managed very well to maintain its status as the chief negotiator and coordinator of the dispute from China's side.

Consequently, the MOFCOM has successfully managed to restore its bureaucratic status as

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<sup>86</sup> Survey made under the assistance of a member at MFA Press Office

the chief player in Chinese foreign economic policy formation and implementation. Surely, the MOFCOM, like any other players in the game of bureaucratic conflicts, viewed the institutional competition with the MFA as a zero-sum game. It had tried its best to marginalise the MFA's involvement in solar panel disputes even though the MFA is also well equipped, with a substantial number of international treaty experts and veteran negotiators.

More impressively, the MOFCOM had prevailed in turf wars with the NDRC during the disputes. As stated extensively in earlier discussions on the role of the NDRC, it is the single most important and powerful institutions in the realm of China's environment and energy policies. Most documents related to the Sino-EU collaborations were signed by the head of the NDRC (NDRC 2011; Ibid, 2012; Ibid, 2014). However, the NDRC has played only a minor role in settling the Sino-EU solar panel dispute. According to a professional consulting service firm's data, NDRC's failure is mainly due to the fact that "the NDRC has become a victim of its own success through implementation of the 4 trillion stimulus package" (Roland Berger, 2009).

The MOFCOM accused the NDRC of being "the creator of the solar panel disputes"<sup>87</sup>. The NDRC let the scale of Chinese solar panel production expand enormously without considering the actual consumer demand from both in China and abroad. The NDRC's solar energy sector expansion plan was simply designed to implement part of the stimulus package. According to the "Regulation of Implementation Stimulus Package", both central and provincial government should give priority to the examining and endorsing of the development of renewable energy, including: solar, wind, nuclear, hydro and biomass. Following this regulation, the NDRC and provincial governments had encouraged the

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87 Interviews with a staff member at MOFCOM



expansion of renewable energy equipment production without any financial requirement attached to manufacturers.

Between 2008 and 2011, the Chinese solar panel batteries and PV production had jumped from “0.8GW” to “3.2GW” (IEA 2012). Provinces such as Jiangsu, Zhejiang and Jiangxi, are the sites of 90% of the production capacity of China’s solar panel. These provinces have embraced the NDRC’s plan without any hesitation.

However, one of key bottlenecks for China’s renewable energy usage is the capability and transmissions of electricity to the national electricity grid. As observed by industrial experts, “85% of renewable energy produced cannot be transmitted with the current electricity network” (Li&Shi, 2010: 3). Consequentially, the renewable equipment producers including solar panels manufacturers had to slash their product prices to export them to European countries and other global destinations. Given such a low price, the EU Commission has good reason to accuse the Chinese government of offering subsidies. Brussels also believed that Chinese manufacturers dumped their products to distort the market. The NDRC’s implementation to the stimulus package without considering the actual demand and supply offered the MOFCOM enough reasons to persuade the State Council to insulate the NDRC from the solar panel disputes negotiations. The NDRC has only become a scapegoat to an ill-constructed and implemented stimulus package. But, the MOFCOM has therefore prevailed.

The other institution that has emerged as a more powerful bureaucratic actor during the solar panel dispute is the MOST. Unlike the MOFCOM as a conventional FP actor in China, the MOST is not formally established within the Chinese FP making process. In recent years, the growing significance of climate diplomacy has enabled the MOST to extend its political

influence into the realm of Beijing's FP making. The high profile solar panel dispute has further encouraged the MOST's participation in resolving the disputes. As a science-oriented organisation, the MOST carries the ultimate authority in interpreting climate change and the feasibility of renewable energy.

In the context of Sino-EU solar panel dispute negotiations, the MOST plays a role in interpreting the patent of Chinese solar panel products and explaining the relevance of the newly ratified Renewable Energy Law to the EU Commission. More importantly, since 2009 the MOST has drafted and implemented the "National Innovation Product Catalogue". The Catalogue has deliberately set up a very high market entry barrier to prevent more European companies competing with Chinese manufacturers. The renewable sector is one of key sectors which the MOST has tried to include more Chinese products in the Catalogue.

As argued previously, part of the reasons why the EU Commission has vociferously criticised China's solar panel industry is because of the governmental subsidies offered and because Chinese solar panel products are included in the Catalogue. The MOST is the key institution to select which products can be included in the Catalogue and which enterprises deserve to be subsidised. Therefore, the MOST has emerged as a crucial institution that Brussels has to communicate with during the solar panel dispute negotiations. The MOFCOM is able to negotiate with the Europeans in terms of prices and export volumes of solar panels. However, the MOFCOM could not give evidence on which technologies those Chinese manufacturers adopted to produce those panels. It cannot answer the key question for the EU Commission on whether the products made from such a particular technology have violated intellectual property rights of other European companies. "The MOST had collected such evidence and reported directly to Premier Wen Jiabao on the variety of panel manufacturing technologies

used in October 2012”<sup>88</sup>.

As a result, the Small Leading Group for External Affairs requested that the Vice Minister of the MOST become the deputy chief of the solar panel disputes negotiation team. The Small Leading Group also asked the MOST to collect evidence from the top fifteen solar panel manufacturers in China, including: which technology the enterprise has used to produce the panels and where is the origin of this technology. The MOST’s investigation has found that companies such as Suntech, Yingli and LDK, the top three Chinese solar manufacturers that also ranked in top five globally, have all used their own technologies and own the patents of their self-invented technologies. As an industrial expert asserted, “The MOST has concluded that the EU Commission’s accusation is invalid. It also justified the products from those large Chinese solar panel manufacturers and suggested that they are of a good quality, durable and far more economically viable than the European products”<sup>89</sup>.

The MOST’ involvement in solar panel negotiation has caused much discomfort in the MOFCOM, and possibly even in the NDRC. Both institutions have long claimed their institutional status in China’s trade and economic policy-making. However, the nature of the renewable sector and the highly politicised solar case has intricately involved both science and politics. The Party would prefer to use science as a strong evidence to back its “self-innovation” campaign domestically and “a responsible participant” of the international climate change regime. The MOST has placed itself in a unique and advantageous position to interpret science through the standpoint of the Party Leadership. During the solar panel dispute negotiations, the MOST was asked to become the chief institution to collaborate with the EU on “Sustainable Urbanisation”, an area in which the newly formed Standing

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88 Interviews with a renewable expert at Chinese Academy of Science Dec 2012

89 Ibid

Committee of the Politburo of the CCP has been very keen to develop. Such a request illustrates the increasing importance of the MOST as a FP actor in shaping overall China-EU relations.

Meanwhile, the EU Commission has invited the MOST to establish a joint “China-EU Clean Energy Centre” to co-develop cutting edged renewable technologies (EC2, Introduction). Such an invitation has indicated that Brussels has now realised that the MOST has become an indispensable institutional player in determining the overall China-EU RE Collaboration. The EU Commission needs to pay greater attention to the MOST. This in turn will strengthen the MOST’s status as a newly emerging FP actor in China for many years to come.

## **Conclusion for Chapter Four:**

In conclusion, this chapter has assessed the roles of the Chinese central governmental institutions in determining the Sino-EU collaborations on Climate Change and Renewable Energy. It has extensively investigated two important pairs of relationships identified in Chapter One, namely, the relations between the Party and the central governmental institutions and the relations amongst central governmental agencies.

It concludes that the governmental institutions have not formed submissive relations with the Party as one might traditionally perceive. Their relations deserve to have more nuanced analysis. Rather, the Party has created the institutions as well as assigned certain amount of authority and financial power in order to pursue the Party's priorities. Institutions have managed to utilise their expertise to push for their desired policy outcomes. In doing so, some of those institutions have reinforced their bureaucratic status and gained greater financial resources while others have failed the game. To this extent, this chapter have analysed the pervasive bureaucratic conflicts and bargaining process amongst central agencies that participate in China's climate and energy policy making.

This chapter concludes that the pandemic institutional competitions in Beijing are one of major reasons why the Sino-EU collaborations have not progressed at a very fast pace. These intense bureaucratic rifts have caused policy inconsistencies from the Chinese side when they have collaborated with the EU. China's Copenhagen fiasco and its overhaul to the coal liquefaction technology project are two good examples.

This chapter also concludes that major changes in domestic politics will certainly trigger a greater foreign policy shift in China's external affairs. The Sino-EU solar panel dispute can

be viewed as one of the natural consequences of China's national renewable energy developments campaign.

Surely, given the importance of the corporate sector in promoting renewable energy, a study of China-EU collaborations on CC and RE cannot be complete without examining the role of Chinese companies in determining the collaborations. Equally, increasing involvement in shaping Beijing's foreign policy has made the Chinese companies become a formidable and indispensable group of actors. The next chapter will therefore discuss the roles of Chinese companies in shaping the Sino-EU collaborations.

## **Chapter Five: the Powerful, and the Vulnerable Few: the Role of Chinese companies in shaping China-EU collaborations in Renewable Energy**

### **Introduction:**

Following the similar pattern as the previous chapter, this chapter aims to provide an in-depth analysis of China-EU collaborations in Renewable Energy. The analytical unit of this thesis has now shifted from a narrow focus on central governmental institutions to a broader focus which includes Chinese companies. The Chinese companies in this chapter include those which are directly owned by the state and the Party, namely the State Owned Enterprises (SOEs) and those which are directly influenced while not necessarily being owned by the state. Given the Chinese SOEs' unique characteristics, it is of vital importance to analyse the relations between the Party as the ultimate decision-maker, and SOEs as policy executors. Therefore, this chapter attempts to disentangle the relations between Chinese SOEs and the Party, as well as their ties with central governmental institutions, when they come to deciding collaborative projects with the EU.

Also, this chapter will make a nuanced analysis on the roles of other non-state owned renewable energy companies in determining China-EU collaborations. The current literature on Sino-European relations have rarely observed and analysed how these companies determine China-EU relations.

This chapter will be divided into three sections: the first, short, section will be devoted to analysis of the relations amongst the Party, the SOEs and the relevant central governmental institutions. The second section will analyse the role of powerful SOEs in determining China's renewable policy making, and the SOEs' collaborations with the EU. The third, and final, section will offer detailed examinations on the relations between non-state owned

companies and provincial governments in determining Sino-European collaboration and ever more intense competition.

There is no shortage of studies on how powerful SOEs have successfully managed to influence foreign policy making in China, and it is certainly the case that powerful SOEs have evolved into formidable vested interest groups that determine China's domestic politics and external affairs. Most of the current research on the roles of Chinese SOEs in shaping Chinese foreign policy (FP) focus on the traditional fossil fuels sector, while so far little has been written on how Chinese SOEs are responding to Beijing's overall climate change policy and renewable energy (RE) campaign. Therefore, this chapter intends to fill the literature gap by examining the role of powerful SOEs in shaping overall China-EU collaborations on RE. Developing RE and curbing climate change are policy initiatives where high politics and scientific innovation have inevitably intertwined. Chinese SOEs are located in an unusual position, both delivering Beijing's policy as well as seeking innovations to maximise their profits.

As demonstrated in an earlier chapter, the relationships between the Party and the SOEs are not simply top-down relations. Although still subject to Party control, SOEs have become more autonomous and influential under China's economic reforms of the past thirty or so years. Most bargains between SOEs and the central government institutions are lengthy and complex processes where some SOEs have become winners, whilst others have made grave financial and political losses. This chapter aims to identify who the winners are, and why the others are the losers in the bargaining process. This chapter will draw case studies from China's recent boom in the civil nuclear sector, CNOOC's recent development of bio-fuels with BP, and its failure to collaborate with the Danish company VESTAS in offshore wind



energy, to test the hypothesis of the thesis, i.e. That the outcome of China-EU collaborations on CC and RE is determined by their multilateral nature and the involvement of a diverse range of actors.

A significant difference between RE and fossil fuels sector is that RE lies outside of the traditional SOE sphere of Chinese economic enterprise. And also the nature of the RE sector does not involve geo-political and military security concerns. Instead, it is driven primarily by technology innovations, there is sufficient room for some innovative, and non-state owned, Chinese companies to participate in collaborative projects with the EU. However, their collaborations have mostly turned into competition, and bitter spats, with their European counterparts. It is therefore of vital importance to also examine the role of non-state owned enterprises in shaping Sino-European collaborative partnerships. In particular, the complex relationships between those enterprises and their respective provincial governments deserve more nuanced analysis when one considers the backdrop of the Sino-European solar panel dispute.

According to this thesis's research findings; it was the provincial governments' political decisions to curb solar panel prices which triggered the solar trade dispute between Beijing and Brussels. These companies became the policy executors of the provincial authority even if they knew such practice would have a detrimental impact upon their business activities. However, they have far less political capital to negotiate with the provincial authorities when the non-state owned companies are intending to participate in a national campaign of renewable energy, and are therefore likely to follow the provincial governments' political decisions more closely. They are also treated as important sources of provincial GDP growth and taxation by their respective local authorities.

Provincial governments have always been keen to develop amicable, yet authoritative, relationships with these enterprises which operate within their provincial borders. On the one hand, provincial governments need to have the financial contributions from private enterprises to fulfil the plans of the central government. On the other hand, provincial governments have the ultimate authority to endorse private enterprise's domestic operations and overseas expansion. Private companies have therefore adopted semi-submissive relations in respect to their provincial governments.

In light of the above, this chapter will address the evolving relationships between the Party and the SOEs, the intricate set of ties between the seemingly powerful SOEs and the central bureaucracies, and the complex bargaining between the provincial government and those non state owned enterprises in the RE sector, to test the hypothesis of this thesis.

## **Section 5.1 Chinese Companies and their relations with the Party and the governmental institutions**

This section aims to explain the relationship between Chinese companies and the Party state.

As established in the introduction, Chinese companies, in particular the SOEs have an unusual structural characteristic with a combination of corporate organisation and governmental ministry. Their relations with the Party and the central governmental apparatus have not now always a submissive one. In recent years, large Chinese SOEs, in particular energy and utility companies, have had subsidiaries listed on foreign stock exchanges, and with an eye on the pursuit of profits, their corporate interests do not always coincide with those of the Party-state. As a result, bargaining between the central governmental institutions and the SOEs has been a frequent occurrence.

As a scholar nicely summarised, there are two types of bargain taking place between the central governmental institutions and the SOEs, “namely a bargain over redistribution and a bargain over planning” (Naughton, 1992: 268). This process of bargaining does not only operate between SOE's and the central government institutions, but also extends to other types of Chinese companies' relations with the state. These other companies, although not directly owned by the state, still play a crucial role by participating in collaborations with the EU, and these companies engage in similar bargaining activities with their provincial governments. The current literature on China-EU relations and overall Chinese foreign policy has so far ignored those non-stated owned companies' participation in China's external affairs, which this thesis intends to rectify. By using a case study, this thesis will demonstrate the extent to which non-state owed companies' business activities and their relationships with the provincial authority generated a significant impact upon China's relations with the EU.

This section will explore the bargaining processes from two perspectives. Firstly, this section will examine the redistribution bargain where interactions take place between a superior and their subordinate. There are two pairs of the superior vis-à-vis the subordinate relationships which will be examined: 1) between the Party, the central institutions and the SOEs; 2) between the provincial authority and non-state owned Chinese companies. Secondly and equally important, this section will draw on what Nina Halpern called the “competitive persuasion” model to explain the relations between these companies and the ultimate decision maker (Halpern, 1992: 126). This section will lay an analytical framework for the following two sections.

Literature on the Chinese SOEs’ relations with the central governmental ministries and the Party has recently gained great popularity in the field of China studies. A number of scholars have argued that conflicts between the SOEs and their superiors, such as the Party and the central ministries are pervasive, and trigger severe policy dis-coordination both in domestic politics and external affairs (Downs, 2008; Garrison, 2009; Jakobson&Knox, 2010, Lampton, 2001).

It is important to distinguish the SOEs’ relations with the Party to those with the central ministries. The former is a rather submissive relationship as the Party has power and authority over the central ministries in terms of personnel appointments and resource distribution. As some scholars observed, the latter relationship is less submissive, for while the central ministries have the power to regulate the SOEs’ activities, “their regulatory power has often been undermined due to the SOEs’ enormous capacity to alter policy outcomes” (Brodsgaard 2012: 625). This is because the SOEs often by-pass the governmental institutions to communicate directly with the Standing Committee members of the CCP

politburo (SCP). Some SOEs and central governmental institutions share the same bureaucratic ranking within the CCP. Also, SOEs do not always follow the decisions that are made by relevant ministries. Rather, the SOEs treat the government institutions as their intermediary to express their preferences or as useful allies when seeking to influence the Party.

In recent years, the CCP has established a regulatory framework designed to set the parameters for the economic activities of SOEs. Even more importantly in terms of authority and power relations, as indicated by a few scholars the CCP controls the appointment of CEOs and the Party secretaries of the most important SOEs, such as CNPC, CNOOC, China Telecom and CGNPC (Ibid; Li, 2009: 20; Rosen and Hanemann, 2009: 6). The CCP appoints the heads of those SOEs through two regulatory bodies. One of these is handled solely by the Central Department of Organisation (CDO); the other involves recommendations by the State Owned Assets Supervision and Administration Commission (SASAC). The CCP does pay great attention to the CDO's assessments of certain personnel, but also uses the latter as a complement to the former.

Unlike in the conventional understanding, “the SASAC does not hold a decisive position in the appointment of the heads of those most important SOEs” according to SASAC's own functional description (SASAC website). Instead, CEOs from those SOEs that I mentioned above (and not only those, there are 53 in total) are “directly appointed and assessed by the Party” (Ibid; Brodsgaard 2012: 625). These CEOs have ministerial or vice-ministerial status and, in terms of rank, are equal to State Council ministers and most provincial governors<sup>90</sup>. Within the Chinese political system, political ranking is the ultimate benchmark for selecting

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90 For detailed discussions, please refer to Brodsgaard (2012) and Li(2009)

personnel. It is a system where one's personal capacity to fulfil the task becomes far less important than one's political rank. To this extent, one can argue that "certain commercial decisions made by the SOEs are mostly dependent on whether the CEOs of the enterprises either want to improve their assessment results from the CDO or wish to enhance their bureaucratic positions"<sup>91</sup>. This view is also echoed by some other scholars who suggest that successful commercial decisions and outcomes will offer CEOs a chance to improve their political ranking within the Party as well as the bureaucratic status of the whole company in the government apparatus"(Rosen and Haneman, 2009: 21).

As China has experienced more than thirty years of economic reform, a process of decentralisation has taken place across every aspect of its national economy. This process of decentralisation has become a double-edged sword. On the one hand, both the governmental departments and enterprises have accumulated the necessary skills and improved professional experience by operating in a market economy. On the other hand, the governmental institutions and the companies are locked into various lengthy bargaining scenarios which were outlined in the introductory chapter of the thesis. On some occasions, the interests of the governmental institutions are in direct contrast to those of the companies. Bargaining amongst relevant stakeholders takes place during the policy formulation and execution process, and here this thesis draws on Barry Naughton's categorisation, namely the "redistribution bargain" and the "plan bargain" (Naughton, 1992:268).

In the process of the redistribution bargain, the bureaucratic agencies still retain the power to distribute financial and physical resources to fulfil their own policy priorities. As Barry Naughton noted, "the central government uses the redistribution exercises to reach down the

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91 Interview with Liu Jianfei, Professor of International Relations at the CCP Central Party School, Beijing August 2012

administrative hierarchy and shape the bargaining between the enterprises and in ways that reflect central-government priorities” (Ibid: 269). Certainly, both the SOEs and other enterprises can benefit by appealing to patrons at the central and provincial agencies. In doing so, they will have to make investments or launch new projects in the industries that the government institutions decide to support. The enterprises will then be rewarded by the distribution of extra financial and physical resources.

However, as some scholars observed in China’s fossil fuel industries, “conflicts have often arisen when the government’s priorities are contrary to those of the enterprises” (Downs, 2008: Kong, 2009: 805). Even worse, as will be discussed in the next section, sometimes following the policy priorities of the government will undermine the economic well-being of the enterprises or threaten the very survival of the companies.

As these distributed resources from the government are not sufficient to keep up business as usual, the enterprises will argue back and forth with the relevant institutions to change policy priorities, or ignore the policy priorities as some powerful SOEs have been able to do in the past. For example, the central governmental agencies can identify key projects through the issuing of special policy documents or Five Year Plans. As indicated by the NDRC, “the Renewable Energy (RE) sector has become a priority industry to develop since 2007 during the period of the Eleventh Five Year Plan towards the Twelfth Five Years Plan” (NDRC, 2007:15,16; Ibid, 2013a). Companies that participate in developing the RE sector would be “rewarded” with a special tax rebate and lower barriers to access bank loans (NEA, 2007:30).

While for the fossil fuels sector, those SOEs where oil is their core business units are not planning on developing the RE sector as they are unfamiliar with the industry, which means

they are therefore not equipped with the right expertise and personnel to launch any related projects. They have, therefore, utilised various bargaining methods, such as reducing pre-tax revenue, increasing unnecessary production costs and expanding unplanned overhead costs, to bargain with the central government.

In other words, the central institutions have the authority to distribute financial and physical resources, but the enterprises will always ask for more to be given as a trade-off for their following of the government's priorities. As will be discussed in the next section, neither the governmental resource distribution nor the enterprises' bargaining have always been smooth transactions. Their bargaining outcomes have gravely affected international collaborations and have damaged the reputation of both the Chinese government and the companies.

Another bargaining process that will be analysed is the so-called “Plan Bargain” (Naughton, 1992: 268). It often derives from the policy formation process where the enterprises aim for their preferred policies or business models to be endorsed and adopted by the governmental institutions. This type of bargain involves the enterprises seeking to persuade the key personnel in both governmental departments and at the highest level of the Party. Due to the restrictive length of this thesis, I will only focus on the plan bargain in the field of renewable energy (RE). Given the nature of RE, it is driven by technological innovation. As one scholar observed, “science and politics are heavily intertwined in China, this has given the enterprises with the knowledge of cutting-edge technologies sufficient room to persuade their superior or the key decision maker” (Wubbeke, 2013:713,715). This thesis will draw on what Nina Halpern has described as the “Competitive Persuasion” model to disentangle these bargaining relationships between the companies and governmental institutions (Halpern, 1992:125).



Beside the conventional bargaining scenario, the bargaining process between the SOEs and the central government can be summarised as a “competitive persuasion” model. Within this model, the SOEs attempt to formulate persuasive arguments about appropriate policy or investment projects in competition with other companies. The SOEs will benefit from the policy outcomes once the policy persuasions are endorsed by the governmental institutions. A competitive persuasion model neither focuses on the SOEs subordination to the Central government nor does it explain the exchanges and mutual veto power between the government and the SOEs as discussed previously. Instead, it pays a great deal of attention to expertise and area-specific policy making process. It is therefore intended to “apply only to the normal bureaucratic decision-making process where information and expertise are regarded as important” (Halpern, 1992: 126).

This particular model, suits very well, attempts to analyse Chinese SOEs influence over RE policy making as well as the content of international collaborations amongst the relevant SOEs. The relevance of this model can be explained from two perspectives: firstly, developing RE has little involvement with China’s military security. It is a particular energy sector where national security concerns do not always conflict with the SOEs’ commercial interests. Unlike the fossil fuel sector, bargaining between the SOEs and the state do not always involve irreconcilable disputes within the RE sector. Secondly, the developing RE sector is a relatively new policy arena. Based on my own experience and interviews, governmental departments often lack sufficient expertise and administrative capacity to drive the policy formation process.<sup>92</sup>

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92 Consulting projects interviews with officials at NDRC in August 2009

As a result, their lack of capacity has offered SOEs room to manoeuvre policy objectives and outcomes. As Halpern pointed out, “lacking the information and expertise necessary to evaluate the recommendation of lower-level units, political leaders will often permit those units to become de-facto decision makers in their own policy spheres”(Ibid). This chapter will use Chinese collaboration with France on civil nuclear power stations to illustrate how “competitive persuasion” has largely applied to the policy formation process in developing the RE sector.

The word “competitive” in this formula suggests a sense of competition by the relevant stakeholders to persuade the core decision makers. Therefore, there are winners and losers in every process of policy persuasion and execution. From my extensive research and interviews, the Chinese national oil companies have mostly become “losers” in the process of policy formation. Based on my interviews, “this particular group of SOEs feel their core commercial interests are under threat by the government’s renewable energy campaign”<sup>93</sup>. They therefore refused to carry out government decisions due to all kinds of pretexts, and have argued back and forth over so-called “special circumstances” (Ibid). They mostly seek to impede the smooth implementation of the government's decisions. While most literature on China’s energy SOEs have suggested the enormous power that they are able to deploy, very little of the literature has observed occasions when these SOEs have lost their battles. This chapter will draw on the failures of the CNOOCs in establishing a RE Unit and their failure to negotiate with the MOF renewable subsidies, to illustrate “losers” in the bargaining game.

The two types of bargaining activities described above also arise between non-state owned companies and provincial governments. This is because the central government does not have

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93 Interviews with several employees at CNOOC, August 2012, Beijing

direct control of those companies' activities as Beijing does over the SOEs. Some of their business activities, in particular "overseas investments, are approved and regulated by their relevant provincial government" (MOFCOM, 2013). Their economic contribution has become a reliable source of a provincial governments' tax income. Despite the process of decentralisation that has evolved, the provincial governments still remain as the subordinate partner that fulfils the policy targets, or investment plans, made by a superior, in this case, the central government.

In other words, the provincial authority treats non-state owned companies as the ideal candidates to fulfil the economic plan that is decided for them by the central government. In the field of China studies, there has been no shortage of academic literature to disentangle the relations between Beijing and the provincial governments. However, this section will not focus on the central-provincial governmental bargaining process. Instead, it will pay greater attention to the redistribution bargaining that takes place between companies and provincial governments; and to a lesser extent the plan bargaining between both parties, which should rectify the literature gap.

As discussed above, the central government decides on and implements priority investment programmes according to the Five Years Plan. As demonstrated in the various regulations from the NDRC and in observations by some scholars, "the central government will ask the provincial government to execute the Plan through some of the non-state owned companies' participation in investment; and the provincial government retains some autonomy to redistribute resources to the participants in investment programmes" (Kostka& Hobbs, 2012: 766; NDRC, 2007, 2009f). For these companies, on the one hand, they are glad to be included in large-scale governmental programmes. Yet on the other hand, they are also afraid

that these programmes will impede their own profit-driven smaller scale investments, even if they can obtain various special treatments and are being distributed extra financial resources from their provincial government. As a result, the companies and the provincial governments are locked into a classical “redistribution bargain” when each party has something the other needs (Naughton, 1992: 262). It is in the interests of both parties to get together, and it is in the interests of each to shape the resulting bargain to their own advantage.

Plan bargain has also been exhibited between the enterprise and the provincial governments. This is mainly because the provincial governments find themselves squeezed between Beijing and those non-state owned companies. On the one hand, they must bargain hard with the centre. On the other hand, they seek to retain and maximise their disposable resources. They must advocate their own development strategies, but they find themselves highly constrained by a lack of knowledge and experience. As a result, provincial governments often “assume a paternalistic and somewhat benevolent attitude towards all their enterprises and encouraging those companies developing individual strategies” (Naughton, 1992: 261).

The last section of this chapter intends to use the case study of the relations between the Jiangsu Provincial Government and Suntech, one of the world largest solar panel manufacturers, to illustrate how such bargains derive from both policy formulation and policy implementation stages. This theis will analyse to what extent price manipulation, by the local authority, of Suntech's solar panels, caused the severe disputes between China and the EU over the solar panel industry.

In summary, Chinese companies, regardless of their ownership, have become significant actors in the determination of China’s RE policy and the Sino-European collaborations on RE. They are locked into both plan bargaining and redistribution bargaining in the

formulation process of China's RE policy, and carry out collaborations with the EU. Such bargaining processes are very likely to remain a persistent feature whilst the collaborations continue. The next two sections will therefore use the case studies to explain how such lengthy and complex bargain processes have determined the outcomes of collaborations.

## **Section 5.2 The Role of Chinese State Owned Enterprises participating in China-EU collaborations on Renewable Energy**

This section will further narrow down the focus of the analysis on the role of Chinese SOEs in determining the Sino-European collaborations on Renewable Energy (RE). As argued in the previous section, Chinese SOEs have the power and resources to be important players in the domestic policy making process as well as collaborating with foreign partners in fossil fuels and RE. According to this thesis's research findings, the SOEs shape the decisions mainly in two ways. Firstly, SOEs influence the final decision making at the policy formation stage. The central governmental institutions and the Party exert certain fiscal controls and discipline to regulate the SOEs' economic activities, while the SOEs utilise their specific expertise to shape decisions to eventually benefit themselves. On some occasions, the central energy-related bureaucracies lack the sufficient personnel and financial resources to fulfil their policy targets. As a result, the central governmental institutions have inevitably relied upon the SOEs own renewable developments to fulfil the government's policy targets.

To illustrate this process this thesis will apply Nina Halpern's "competitive persuasion" model to the case study of the China Guangdong Nuclear Power Company's<sup>94</sup> collaboration with European companies, revealing how this particular RE decision making process has largely been determined by the motivations and activities of the SOEs (Halpern, 1992: 126).

Secondly, it can also be shown that the SOEs are sometimes not successful in influencing the decision outcomes at the policy execution stage. This can be seen from the fact that not all of the SOEs have achieved economic triumphs and have been able to elevate their political status through the developments of RE with other European partners. Unlike the conventional

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94 Known outside of China as "China General Nuclear Power Group" from September 2013

policy making game, SOEs that hold monopolies in fossil fuels have suffered from grave losses in the decision making process over RE policy. They have not managed to propose the right policy options that would have benefited them. Two examples from the China National Offshore Oil Company's (CNOOC) cooperation with BP to develop bio-fuel technologies and its collaborative project with VESTAS on offshore wind energy will thus be used to illustrate how the SOEs' constraints and failures which can cause both economic losses and diplomatic disputes.

#### **4) The China Guangdong Nuclear Power Company and its collaboration with the EU in developing civil nuclear technology**

The civil nuclear sector is a relatively new energy sector when compared to the conventional fossil fuels industries. "China only began its civil nuclear program developments in 1982" (China Energy Daily, 2012). Like the adoption by China of other advanced technologies, the Chinese government established collaborative partnerships with Western companies. In the case of civil nuclear technology, China's primary partner is France, which developed its technology in the 1960s and the 1970s due to the Gulf oil crisis. As a result, "China and France collaborated to construct the first civil nuclear power station at Daya Bay in Guangdong Province in 1987" (Ibid). Given the enormous amount of financial resources required and substantial safety risks, the development of civil nuclear technology was proposed and regulated by the China National Defence Commission of Science and Industry (COSTIND)<sup>95</sup> (SASTIND website). The COSTIND used to "set production targets and to prescribe technological standards within China's civil nuclear sector" (WNA, China).

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<sup>95</sup> Now renamed at State Administration of Science, Technology and Industry for National Defence (SASTIND)

However, the COSTIND is a semi-military governmental agency (SASTIND website).

Despite its expertise on nuclear usage for military purposes, it failed to prescribe appropriate civil nuclear energy production guidance and to plan further power station construction.

Therefore, “the central government divided the existing nuclear operation units into three different SOEs, each with specific functions” (China First Financial Daily, 2012). They are: the CGNPC, the China National Nuclear Company (CNNC) and the China National Nuclear Technology Company (CNNC). “The CGNPC is the front runner for adopting European technology and international collaborations” (Financial Times Chinese Website 2012) . The CNNC specialises in nuclear energy production and the CNTG focuses on the home grown innovation of nuclear technologies. “The NDRC and National Energy Bureau also replaced the COSTIND in its regulation of the CGNPC and CNTG, whereas the CNNC remains under the direct control of the COSTIND” (Nakano,2013; WNA, China).

As referred to in the previous section, the relations between the Chinese nuclear SOEs and the central government can be described as a “competitive persuasion” model (Halpern, 1992). The relations between the nuclear SOEs and their superiors can be interpreted within this model. According to my research interviews, their relations with the central government agencies are no longer seen as the relations between the subordinate and a superior. Unlike the in relationships between the SOEs in the fossil fuels sector and the central institutions, the nuclear SOEs are not locked into the conventional bargaining process when the subordinate and their superior’s interests are often in conflict.

As examined by a number of scholars, “the SOEs in the fossil fuels sector and the governmental agencies are in constant battles during the process of formulating and executing policies” (Downs, 2008; Breslin 2012; Garrison 2009). Rather, the nuclear SOEs play a role



as information providers to the decision makers who often lack the sufficient capacity to formulate policies. Through their provision of knowledge and expertise to the decision makers, the nuclear SOEs have often successfully persuaded the decision makers to formulate policies according to their own preferences. Competitive persuasion can be exhibited into two ways. Firstly, the nuclear SOEs act as information providers at the policy proposal consultation and formation stages. They do this by selecting and filtering the provision of information to the decision makers in order to produce the SOE's desired policy outcomes. Secondly, the nuclear SOEs draw on their previous experience during the policy execution process to convince the decision makers to keep to the “business as usual” scenario and oppose any changes that may undermine their commercial and political interests.

For example, the CGNPC acted as an information provider and a policy practitioner when competing with other nuclear SOEs for collaborations with the French utility companies, mainly EDF and AREVA. Its successful collaborations have not only advanced its economic interests and political standing, but also acted as a show case for Sino-European collaborations on renewable energy.

As AREVA helped CGNPC to establish the first nuclear reactor in 1985, it has become the only partner to CGNPC when delivering large civil nuclear projects in China. Between late 2006 and early 2007, the State Council and the NDRC orchestrated a range of debates and consultations to prove the necessity of developing China's home grown nuclear technology with the assistances of foreign partners. As a result, the State Council published the Eleventh Five Years Plan on China's civil nuclear industry (COSTIND, 2007). Before then, all three major nuclear SOEs relied heavily upon importing core reactor technologies from major Western industrial conglomerates such as, AREVA, Westinghouse and General Electric. The

Chinese government was very concerned that continued imports of reactors from the West would pose a persistent threat to industrial safety and national security. Therefore, developing China's own nuclear reactors and generators was the most appropriate solution to avoid this long term security dilemma.<sup>96</sup> Such views have also been echoed by media report, suggested “without the intervention from the very top of the Party leadership, none of civil nuclear SOEs knew which types of technologies from which countries would post daunting security threat to China” ( 21ST Century Economic News, 2012a, 2012b)

According to interviews, the central governmental agencies involved, such as the NDRC, the NEA and the MOST, “have neither the sufficient experience nor the appropriate personnel to make impartial judgements regarding the quality and design of the Chinese home grown reactors”<sup>97</sup>. Their insufficient expertise offered all three major nuclear companies enormous opportunities to shape the consultation process as well as to alter the final policy outcomes. The central institutions relied on information and evaluation provided by the SOEs to assess the feasibility of developing a home grown nuclear reactor as well as the capacity for new civil nuclear power stations. Within the civil nuclear sector, the central institutions are most likely to accept the suggestions made by the SOEs even if they are aware of the SOEs' incentives to promote their own corporate interests.

The most common form of information flow from the SOEs to the central institutions is through the submission of the individual SOEs' five years plans. The central institutions draw on the Five Years Plan from each SOE and draft the overall Five Years Plan of the Chinese civil nuclear industry. According to information gathered during my previous consulting experience, the consultation process for the development of home grown reactors in 2009, all

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<sup>96</sup> Interviews with a research fellow at Chinese Academy of Science in Beijing August 2012

<sup>97</sup> Interviews at NDRC and Chinese Academy of Science in August 2012

three nuclear SOEs submitted their individual tailor-made Twelfth Five Years Plan drafts. The nuclear SOEs and other large SOEs used to hire top-tier Western professional services firms, such as auditing and consulting firms to gather relevant information and to write up the Plan drafts. The CGNPC hired a leading European consulting firm to evaluate global market potential while writing up the Plan. This allowed the CGNPC to have a better judgement when choosing a foreign partner to develop its proposed home grown nuclear reactors. This was because the CGNPC knew only too well that its competitors would also choose other leading foreign civil nuclear companies to propose too.

On most occasions, the NDRC and the NEA would choose the proposed technologies from one particular SOE, and the other SOEs have to adopt the proposed technologies unconditionally, which are endorsed by the NDRC and the NEA. For any of the nuclear SOEs, it is therefore of vital importance to have its proposed technologies adopted. This in turn will promote the chosen SOEs' political and commercial interests<sup>98</sup>.

The CGNPC drew on its unique advantage as the engineering company for, and the owner of, the first nuclear power station in China. Within the civil nuclear sector, the owner and the engineering companies are mostly separated from each other, which may result in operational inefficiency when it comes to building new power stations. The CGNPC proposed to continue to extend its collaborative partnerships with EDF, AREVA in France and IDERBODRA, a Spanish renewable giant, “through the designing of China’s own home grown reactors during the period of the Twentieth Five Years Plan with an investment of RMB 72.5 billion” (Xinhua News, 2013b).

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98 Interviews with Professor Pan Jiahua at Chinese Academy of Social Science, August 2012

Based on previous working experience and in-depth interviews with its management team members<sup>99</sup>, I argue that CGNPC has three major incentives for why they want to win the policy consultation process and to have its technologies endorsed. Firstly, “the CGNPC was very keen to expand its business footprint from being Asia-focused, such as in Pakistan and Kazakhstan to the rest of the world” (Caijing, 2009; China First Financial Daily, 2014a). It is of heightened importance to have its technologies endorsed and recommended by the Chinese government. In the near future such an endorsement will help the CGNPC to win the government-led nuclear construction projects in countries which have amicable relations with China.

Secondly, the CGNPC has an exceedingly strong incentive to improve its political and bureaucratic standing within the Party-State apparatus. The CGNPC is a SOE with “a vice-ministerial position” in the bureaucratic setting (CGNPC at Glance). Its ultimate rival, the CNNC, is “a full ministerial equivalent SOE”, and can obtain a wider range of resources when compared to the CGNPC (CNNC Introduction). The CGNPC is therefore determined to climb up the bureaucratic ladder.

However, this proved to be almost impossible to achieve in the short term due to the CNNC’s governance structure and institutional setting. “The CNNC is under the direct control of the People’s Liberation Army (PLA) whereas CGNPC is regulated under the civilian government apparatus.”<sup>100</sup> According to interviews with a staff member at the CNNC, “The PLA is often equipped with greater autonomy and bargaining power when it comes to deciding its affiliated SOEs’ bureaucratic standing within the CCP”<sup>101</sup>.

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99 CGNPC Consulting interviews in September 2009, Shenzhen Guangdong Province; research interviews in August 2012, Beijing

100 Refer to COSTIND’s direct control to CNNC

101 Interviews with a staff member at CGNPC September 2012

Thirdly, the CGNPC has encountered ever greater financial difficulties in recent years because of its projects overstretch, both at home and abroad<sup>102</sup>. Also, “the CGNPC had unwisely invested in different types of financial derivatives before the 2008 Global Financial crisis” (FECN, 2011). It urgently needs to have the NDRC’s endorsement, which would help it to gain access to state-owned bank loans and other forms of financial assistance from the Ministry of Finance. Parts of the financial aids the CGNPC desired were called the “National Special Funds for Innovation on Science and Technology”<sup>103</sup>. They are distributed to SOEs exclusively to develop cutting-edge technology. Such technologies would apply to large scale production and usage in future. They also last for at least ten years which would be ideal for the CGNPC to help develop lengthy nuclear power station construction projects.

However, obtaining the funds is extremely difficult because the evaluation and approval processes are complex and involve five different ministries over several months, including the Ministry of Finance, Ministry of Science, Ministry of Industry and Information Technology, State Council and the NDRC/NEA. The only way to access fast-track approval was to have the CGNPC’s home grown reactor technologies endorsed by both the NDRC and the NEA. Therefore, having its technologies approved posed a great significance to the financial well-being and the survival of the CGNPC.

Beyond the consultation process between the governmental institutions and the nuclear SOEs, “the CGNPC has also been in frequent exchanges with two members of the Standing Committee of the CCP to explain its motivation and unique advantages in developing China’s

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102 Consulting Interviews with CGNPC Corporate Strategy Department, August 2009

103 In Chinese as “国家重大专项科技基金”

home grown reactors”<sup>104</sup>. The CGNPC knew that the support and approval from the SCP members are decisive, and irreversible by any other governmental officials. On most occasions, the governmental agencies would neither object to the decisions made by SCP members, nor oppose to the consensus amongst the SCP membership. According to Linda Jakobson’s observation, “SOEs often meet SCP members on informal occasions and provide information to persuade SCP members to make decisions according to SOEs’ own interests” (Jakobson&Knox, 2010:4). The CGNPC’s persuasion to the SCP members fit well into Jakobson’s description.

Unlike the hosting of regular meetings with the NDRC and the NEA, the CGNPC persuaded two members of the SCP, Wen Jiabao and Zhou Yongkang in various informal meetings. The CGNPC chose to target those two particular SCP members due to “their previous working experience in the energy sector and the personal relations between the CGNPC management team and the SCP members” (China Vitae; Xinhua, 2002)<sup>105</sup>. According to previous consulting interviews, senior members of the CGNPC presented its proposal for developing home grown nuclear reactors from three perspectives that were directly related to national security and self-innovation.<sup>106</sup>

First and foremost, the CGNPC, after many years of experiments in China, is equipped with a sufficient pool of talents to develop reactor technologies. Its chosen partner, AREVA, would only play a minor role in the technological literature research and in providing case studies from its existing power plants in France and Finland. The CGNPC would orchestrate and control the overall reactor design and the engineering tests. Therefore, the core technologies of the home grown reactor would not be exposed and examined by its French partner.

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104 Interviews with CGNPC senior members at the management team, August 2009

105 Ibid

106 Ibid

The CGNPC also pointed out that both the CNNC and the CNNTC had long established collaborative relations with Westinghouse and GE and that “China should neither allow one particular type reactor, such as the AP1000 from Westinghouse, to dominate the Chinese civil nuclear sector. Nor should it only collaborate with companies from the US. The specific concern is that American companies might steal nuclear secrets from China on behalf of Washington D.C.”<sup>107</sup> As a number of Chinese media outlets have observed, “the CGNPC openly complained about CNNC’s close ties with the American Nuclear technology giant as well as CNNC’s tactics to dominate the Chinese civil nuclear sector, which would do more harm to the developments of the sector” (China’s First Financial Daily 2012, 2014a; Caijing 2009).

Secondly, the CGNPC argued that it chose a place for engineering tests that is located in a relatively remote area of Anhui Province<sup>108</sup>. Such a remote location would allow engineers and nuclear experts to experiment and to construct a miniature reactor. This in turn would not threaten the economic well-being of the host province. This would also pave the way to construct a fully-fledge power plant in Anhui Province<sup>109</sup> where the CGNPC could easily transmit generated electricity to both inland and coastal provinces.

Thirdly, the CGNPC could develop the reactor technologies by spending only two-thirds of the National Special Funds for Science and Technology Innovation. Its proposed expenses were much lower than the other two civil nuclear SOEs’ estimated costs. As a result, the CGNPC managed to persuade those two SCP members who were in direct and frequent contacts with the Company management team. Those two members expressed their opinion

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107 Roland Berger consultants meeting notes management team meeting at CGNPC, September 2009

108 Ibid

109 Anhui Province locates at the centre of PRC geographically.

to the NDRC and the NEA that they were in favour of the CGNPC developing China's first home grown civil nuclear reactor.

CGNPC also utilised its foreign partner AREVA's political network in France to make an even stronger case to the SCP members. As argued in Chapter Three, the French government often facilitates "Grande Contracts" for its industrial conglomerates when engaging with China. AREVA, alongside other French multinational corporations, has been a long term benefactor of such engagements. In 2009, China-France relations were at a very low point after President Sarkozy's official meeting with the Dalai Lama, the Tibetan Spiritual Leader in exile. Despite the nearly frozen bilateral political relations, Paris wished to maintain amicable economic ties with Beijing. As suggested by a European expert on China, President Sarkozy and the French Prime Minister took different views on the relations with China; with the Prime Minister taking a mercantile approach when engaging with China<sup>110</sup>. AREVA's collaboration with CGNPC could therefore serve as a good opportunity of rapprochement.

According to interviews with AREVA and EDF, they have sought to have support from Prime Minister Francois Fillon when they began to bid for collaboration with the CGNPC in 2009 (EDF 2009). They believed that "collaborations with the CGNPC would not only benefit the French civil nuclear industry over the longer term, but would also pave the way to repair Sino-French bilateral political relations"<sup>111</sup>. As a result, Prime Minister Fillon asked the former Chinese Ambassador to France, Wu Jianmin, for assistance in communicating with senior officials in Beijing, such as Wang Yang and Ma Kai at the CCP Central Committee.<sup>112</sup> Despite, Beijing's vociferous criticism of Nicolas Sarkozy, it continued to maintain a great

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110 Interviews with Francois Godement, London, January 2012

111 Interviews with members at AREVA corporate strategy department, Paris 2011 and 2012

112 Interviews with Wu Jianmin, Beijing 2012, Wang Yang was the Party Secretary of Guangdong Province where CGNPC HQ is located, Ma Kai was the director of NDRC. Both of them were members at the 17<sup>th</sup> CCP Central committee



deal of interest in sound commercial ties with the second largest economy within the EU. This in turn might help China to gain ever greater leverage when it comes to engaging with the Union economically as a whole. Therefore, AREVA and France's participation in the CGNPC's reactor design project were welcomed by both the CCP and the Chinese government.

With persuasion from the CGNPC, and the campaign from Paris, the SCP members and the NDRC finally decided to choose the CGNPC as the one and only developer of China's home grown nuclear reactors, and "the Chairman of CGNPC was promoted to be the deputy director of the NEA, a position equivalent to that of a full ministerial level official in the Chinese government apparatus"<sup>113</sup> (Caixin, 2010a). The CGNPC crafted its persuasion strategies, and then acted as an information provider for both the central governmental institutions and the SCP members. It also took into consideration China's external relations and Beijing's grand ambition to become a champion of innovation. To this extent, the CGNPC's interests had been in step with those of the CCP and the Chinese government. Its successful persuasion has established for itself a good image as the most innovative and international oriented renewable energy SOE in China. This positive image has been reflected in its investment in the UK civil nuclear industry, which will be discussed in the next chapter.

## **5) The China National Offshore Oil Company and its failures to develop a offshore wind farm with VESTAS, and collaboration with BP on biofuel**

Unlike the successful example of the CGNPC, the CNOOC suffered from the central government latest RE campaign. This is largely because in the "CNOOC, like in any other

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<sup>113</sup> Due to Qian's seniority with the Party, he was elevated as full ministerial status even if the NEA is only a vice-ministerial body

fossil fuels SOE, the core business units are not located in renewable energy and they are relative new comers when it comes to developing the sector” (China Energy Journal 2013). The CNOOC’s establishment and the closure of its renewable energy subsidiary have vividly exhibited how an SOE can become rather vulnerable when it comes to negotiating with the central agencies. The Chinese SOEs, in particular the national oil companies, are often portrayed as “powerful and decisive” in China’s energy policy formation and execution (Downs, 2006:2). However, there are also occasions where the SOEs are unable to secure a better bargaining position, such as in the case of the CNOOC’s misfortune with its renewable unit.

The CNOOC established its renewable subsidiary (CNOOC Renewable Company) “in early March 2007 following China’s Eleventh Five Year Plan” (CNOOC website). The Plan proposed a major breakthrough in developing RE against the backdrop of turbocharged economic growth. Most energy SOEs were expected to follow the Plan and carry out major investments in the RE sector. For utility SOEs, developing RE would help them to invest in their existing RE projects. For example, “the major five utility SOEs have been ecstatic about this major shift in the Plan to focus on renewable energy” (China Electricity Council, 2011). While for oil companies, developing RE was new territory and would result in heavy financial burdens.

As established by media source, “the CNOOC was chosen by the NDRC to act as a front-runner to develop cutting-edge offshore wind energy farms and to produce bio-fuels” (China Energy Journal 2013). The CNOOC itself was also interested in bio-fuels production as such production would provide extra fuels for its oil exploration vessels and oil rigs’ consumption. This was largely due to its previous extensive experience with offshore oil exploration and

production. However, none of other two major oil SOEs, which is the CNPC and SINOPEC, followed the Plan or the NDRC's policy guidance. As discussed by a number of Chinese media outlets, as well as in my interviews with CNOOC employees, "both of the other two oil companies argued that they had always generated lower profits than the CNOOC. Apart from a lower operating profit, they also insisted that their overhead costs and production costs were much higher than the CNOOC. Therefore, they could not spare any of their existing financial resources to develop RE technologies"<sup>114</sup> (Ibid, Economic Observer 2014, 21<sup>st</sup> Economic News, 2014).

Due to a lack of expertise, the CNOOC chose VESTAS, the Danish wind energy giant, and BP's Bio-fuel Unit as their collaborative partners with which to develop the required key technologies. Between 2008 and 2009, "the CNOOC Renewable Company assumed that the central bureaucracies, such as the NDRC, NEB, and the MOF would offer both financial and political support to their offshore wind and bio-fuel projects, and the promised subsidies and tax concessions of RMB25mn within that Financial Year would be granted in due course."<sup>115</sup> In addition, as established by both media outlets and a NDRC official document, "the CNOOC believed that as they were helping those central bureaucracies to fulfil policy targets financial assistance and political backing should come naturally" (NDRC, 2009d; People's Daily, 2014). As a result, the CNOOC Renewable Company took bold steps and invested heavily at its own cost to set up various renewable projects in the subsidiary's first two years of operation.

However, the CNOOC was too optimistic in its assumptions that the redistributed financial resources and political support would automatically flow to its newly-established enterprise.

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114 Interviews with a senior member at CNOOC Renewable Company, August 2012, Beijing

115 Interviews with a project manager at CNOOC Renewable Unit, August 2012, Beijing

In reality, neither the financial assistances nor the political backing was given by the central institutions. In the case of offshore wind energy, the CNOOC and VESTAS jointly invested in China's first-ever offshore wind farm near the coast of the East China Sea. Based on my extensive research interviews with VESTAS, “both the Company and VESTAS agreed to divide their investments in a ratio of 58:42 respectively”<sup>116</sup>.

VESTAS clearly recognised, and accepted, their extremely low profitability in this project. Given the political importance of this joint project, VESTAS became more than willing to spend more than it intended with a total amount of RMB 10.5mn, which was 1.5 times greater than VESTAS initially agreed with the CNOOC. According to my interviews with VESTAS, it argued that “its collaborations with the CNOOC Renewable Company were more oriented towards a market foot-setting strategy than profit-seeking project.”<sup>117</sup> The political importance of the project became the primary reason why it wanted to collaborate with the CNOOC. Both companies had lobbied intensively to the NDRC, NEB and the MOF in order to gain their approvals for the joint projects. After many months of consultation and the approval processes, the CNOOC and VESTAS, after obtaining approval from the relevant ministries, were about to commence the project.

Yet, they were informed that the project could not begin without a license given by State Oceanic Administration (SOA). As introduced by itself, “the SOA was initially established as a scientific research institution for China’s Antarctica explorations” (SOA 2013). In recent years, it has gradually gained enormous power under various policy frameworks across government, from Chinese foreign policy to domestic energy policy. “It is under the direct control of the State Council and parallel to other ministries in terms of bureaucratic rankings”

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<sup>116</sup> Interview with Government Relations adviser at VESTAS dealing with CNOOC, August 2012, Beijing

<sup>117</sup> Ibid

(Ibid). Therefore, it will not follow the decisions or agreements of other ministries which may potentially harm its own interests.

In the case of the CNOOC-VESTAS joint project, SOA opposed their project proposal on the ground of “not being suitable for ecological balance near the coast of the East China Sea” (Xinhua News, 2011). Beyond this official reason given by SOA, the real cause for refusal was that “SOA and NDRC/NEA had been in dispute over who has the ultimate power to grant operational license for companies that wanted to carry out any industrial related activities near the coastline in China”<sup>118</sup>.

In addition, according to the several media reports, “the CNOOC had frequently ignored the SOA’s rules and regulations while it carried out other deep-water explorations and extractions in the past few years, such as ignoring health and Safety standards during oil rigs operations and the high profile oil spill case caused by its joint venture partner, ConocoPhillips” (Bloomberg, 2011; Sohu News 2011). The SOA decided to refuse the CNOOC-VESTAS proposal in order to punish its previous breach of the regulations. Both CNOOC and VESTAS asked for the help and coordination from the NDRC and the NEA. Despite several attempts made by the NEA, the SOA refused to grant an operational license to both companies. One member of the SOA pointed out, “we share the equal bureaucratic rank with the NEA and are in charge of different functions, why should we fulfil the NEA’s wishes”<sup>119</sup>.

According to the media report, “both the CNOOC and VESTAS ended up withdrawing from the entire project, regardless of the initial investments being made” (China Energy Journal, 2013). As a VESTAS interviewee suggested, “We will not collaborate with any oil company

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118 Interviews with a senior management team member at CNOOC Renewable Company, September 2012

119 Interviews with a member of staff at SOA, August 2012, Beijing

in future for renewable projects, because they were unprofessional; and the approval process was so messy”<sup>120</sup>. VESTAS intended to use this proposal project to bid for future offshore wind farms with other Chinese SOEs. However, this seems to be unlikely to happen in the near future in the light of the 2008 CNOOC fiasco.

Also other European wind energy players have learnt from this case the complexity of entering the Chinese market. This unsuccessful bid is a classic example of how bureaucratic politics shapes the outcomes of China’s international collaborations on renewable technologies. It indicates the extent to which institutions like even the SOA, which does not have direct control over SOEs, can determine the nature and progress of SOEs business activities. Also, it exhibits the extent to which Sino-European collaborations are largely interfered with by the central institutions, even if the SOEs are often seen as powerful players in Chinese domestic politics and external affairs, and had strong willingness to collaborate with the Europeans.

The CNOOC has been repeatedly locked into a redistribution bargain with the central agencies, and it did not manage to win the bargain as the CNOOC expected. Rather, it became the loser of this bargain and decided to withdraw from the entire renewable developments campaign in China. As pointed out previously, the SOEs serve as effective vehicles for the central government to fulfil its policy targets. In the process of executing the policy, the SOEs are often asked to implement special programmes, to invest in mostly white elephant projects, or even to set up a separate subsidiary to fulfil policy targets. By doing so, the SOEs are allocated various kinds of additional financial resources, political support and tax concessions.

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120 Interviews with Government Relations adviser at VESTAS, August 2012, Beijing

Despite these resources, the SOEs mostly ask for still more benefits to be granted, and for them to be elevated to higher political ranks within the government apparatus. As a result, the SOEs and the related central bureaucracies are locked into a classic redistribution bargain. More often than not, the central agencies are beneficiaries of this re-distribution bargain process whereas the SOEs have merely wasted their own financial resources to fulfil the policy targets of the governmental departments.

#### **6) The CNOOC Renewable Unit and its Collaboration with BP on joint production of Biofuels**

As mentioned previously, the Chinese SOEs can obtain a special fund from the central government whilst they carry out major industrial projects to fulfil the ministries policy targets. In the case of the CNOOC's bio fuel production, its experiments in the field would fit well into the category of National Special Fund for Innovation on Science and Technology. "In 2010, the CNOOC had developed a bio-fuel technology which utilises food waste as its main component" (Reuter, 2010). Such technology required a large amount of monetary support to explore its feasibility. It therefore turned to apply for the Special Fund from NDRC/NEA. As argued previously, applying to the special fund was a lengthy and complex process, just like any other bureaucratic process in the Chinese government apparatus. The CNOOC lobbied various agencies intensively in order to obtain the funds.

Meanwhile, the CNOOC approached BP's Renewable Unit and indicated their wish to collaborate with BP in further bio-fuel technological innovation and with market entry to

Europe. As some media observed, “BP has been a long term partner with CNOOC in the traditional fossil fuels sector and was keen to set its foot at the Chinese renewable market” (Bloomberg, 2010; China Daily 2010b). As a result, a joint project on bio-fuel seemed to be a plausible option. BP also realised that the CNOOC Renewable Unit was in the process of bidding for the Special Fund to make up for its previous financial loss in the offshore wind farm project. Winning the Special Fund would also symbolise the political importance of the project and would in turn help BP to expand its renewable unit in China. According to my interviews with BP, “BP decided to help the CNOOC by lobbying various governmental departments from its own Chinese political network”<sup>121</sup>.

In December 2011, the NDRC/NEA finally approved the special funds and provided it in the form of fiscal subsidies rather than a lump sum or grant. This subsidy promised to cover 20% of production costs for the CNOOC’s bio-fuel project, and by the 2011-2012 Financial Year, “the Company could expect a 30mn RMB subsidy from the central government, which would be issued by the Ministry of Finance” (China Energy Journal 2013). Both CNOOC and BP showed their initial enthusiasm about the subsidy.

However, as the grant was given in the form of fiscal subsidies, according to the final statement from NDRC/NEA, the grant had to be granted by the MOF in May 2012 (NDRC, 2011a). As demonstrated by interviews with CNOOC Renewable Company’s CEO, “there was a blurring of responsibility between the NDRC and the MOF on who should initiate the payment. The conventional procedure was to have initial approval from the NDRC and the MOF would make a payment accordingly.

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121 Interviews with Head of BP Renewable Unit in China, Beijing September 2012



According to interviews at the CNOOC, “its case with BP was slightly complicated as CNOOC was involved in projects with a foreign partner”<sup>122</sup>. As in other similar cases, the MOF was obliged to make its own investigation and audit on the financial side of the BP-CNOOC project and therefore postponed the payment to the CNOOC. The CNOOC had again inevitably entangled itself into this inter-departmental bargain over financial resources distribution as it did in the case of VESTAS offshore project. The NDRC/NEA decided to offer RMB 5mn to compensate for the delay of payment caused by the MOF. This was largely because the NDRC planned to use the CNOOC-BP biofuel project to fulfil its policy target of developing cutting-edge technology. Despite several efforts made by the relevant parties, “the MOF continued to refuse to grant the rest of the RMB25mn fiscal subsidies to the CNOOC-BP project. As a result, both the CNOOC and BP had to withdraw from the project until further financial assistance was provided”<sup>123</sup>.

As can be observed in CNOOC’s financial records, and through media reports, “throughout the past six years, the CNOOC’s renewable unit has always been in debt, and differed itself from the rest of the business units within the company” (CNOOC; Economic Observers 2014). As an oil exploration and production company, the CNOOC is renowned for its high returns in investment, and high profitability since its inception. Its excellent performances are seen as an exception amongst the Chinese SOEs. However, its renewable operation was seen as the “black sheep” of the company and undermined its sound financial and industrial record.

Due to such heavy financial losses, “the CNOOC announced the closure of its renewable subsidiary from December 2013 and only retained the shale gas unit for future exploration”

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122 Interviews with CNOOC Renewable project manager on biofuels, September 2012

123 Ibid

(China Energy Daily 2014a). The unfortunate fate of the CNOOC exhibited the vulnerability of SOEs when they come to negotiate with the central bureaucracies. Most interviewees echoed a view that “the Chinese government was keen to develop renewable energy but its policy outcomes, and following implementations have become inconsistent and arbitrary”<sup>124</sup>. This in turn has undermined the prospects of collaborations from those SOEs’ foreign partners.

Those European utility and renewable giants have been disenchanted by what both the Chinese government and the SOEs have offered to them. An area of future collaborations has almost turned into an area of contention and bitter spats. As indicated above, the CNOOC’s unsuccessful collaboration with a British bio-fuel firm caused the closure of its renewable subsidiary, as well as an additional diplomatic row between China and the UK. The dispute has therefore cast a long shadow over renewable collaborations between China and the UK, as well as to a lesser extent between China and the EU. This case study illustrates the extent to which the Sino-European collaboration on RE has been largely determined and undermined by interactions between the relevant companies and institutions, even if there has been a grand vision of collaborations from Beijing and Brussels.

In conclusion, this section has examined the roles of Chinese SOEs and disentangled their bargaining relationships with the central institutions in the process of Sino-European collaboration on RE. Unlike in the conventional wisdom, the SOEs in these case studies were not as powerful as they seem to be in the traditional fossil fuels sector. The success of these collaborations has not only been determined by the political willingness of the two sides. Rather, it was shaped by the skills of the SOEs in persuading the ultimate decision makers,

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<sup>124</sup> Several interviews with members at CNOOC and BP in Beijing, August 2012

and in eventually influencing the decisions outcomes. It was also largely determined by a complex bargaining process between the SOEs and the central bureaucracies.

As shown in the case studies, the results of the SOEs' projects were mixed, and not as successful as they initially expected. Beside the bargaining relationships at the national level, the bargaining ties between the provincial government and those non-state owned enterprises also deserve to be discussed. Their intricate relationships have rarely generated collaborations but have triggered ever intensifying competitions between China and the EU in the field of RE. This thesis will exclusively focus on their bargaining relationships in its next section.

### **Section 5.3 The Role of Provincial Governments and other Chinese Enterprises Participating in Sino-European Renewable Energy Collaboration and Competition**

This section will shift the observation of bargaining relationships to another level, namely between the provincial government and those enterprises directly influenced by the local authorities. It intends to examine to what extent the business interventions and controls of renewable energy enterprises by provincial governments have undermined the potential of further renewable collaborations between China and the EU. According to detailed investigations undertaken for this thesis, the local authorities' interventions have resulted in ever intensifying competitions, and have almost led to trade wars between Beijing and Brussels.

This section will begin by disentangling the intricate and inter-dependent ties between the local authorities and other enterprises. In particular, it will examine the bargaining process on how provincial governments manage to extract companies' profitability to boost their provincial GDP growth. Then, it will use the case study of Suntech, once a star enterprise of the Chinese RE sector and its relations with the Jiangsu government to illustrate one of the major reasons for the Sino-European Solar panel dispute. This section also aims to reveal that the bargaining relationships in Chinese energy policy making does not only exist in the traditional fossil fuels sector between the SOEs and the central bureaucracies, but has also largely played out between other enterprises and their provincial governments.

Despite these bargaining activities taking place at the provincial level, the rules of the bargaining process have largely remained the same as that which occurs at the central level. Meanwhile, the outcomes of these bargains have not only caused bankruptcy or rendered

financial difficulties to some enterprises, but have also triggered severe trade disputes between Beijing and Brussels. There has so far been hardly anything written on the Sino-EU collaboration on RE from a provincial perspective, and this section intends to fill that literature gap. In doing so, this section aims to test the hypothesis that China-EU relations are not bilateral ones determined by the central bureaucracies in Beijing and Brussels. Rather, they are multilateral in nature which involve a wide array of actors to shape the Sino-European relations and are even affected by decisions made by the Chinese provincial governments.

In the field of RE, some other enterprises<sup>125</sup> have played a major role in accelerating industrial innovation. Amongst the top ten Chinese renewable manufacturers, nine of them are non-state owned enterprises and are located in Southern Provinces in China. This case study will specifically focus on the relations between Suntech, one of the world's leading solar panel manufacturers, and the Jiangsu provincial government. It will explore to what extent Suntech's bankruptcy was not determined by the Sino-European solar panel dispute. Rather, it was caused by Jiangsu provincial government's consistent interventions in Suntech's business management and adjustments to the redistribution of profit between the authority and the enterprise.

As pointed out in a previous chapter, one of the striking features in the Chinese policy making system is a sense of fragmentation within the decision making process amongst the central bureaucracies. The SOEs have also suffered from this fragmented decision making and responsibility sharing amongst the central institutions, as was revealed in a previous section of this thesis.

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125 These firms are not directly regulated by the state

At the provincial level, however according to some scholars, “this sense of fragmentation is actually shifted into a degree of policy integration between local enterprises and provincial governments” (Kostka & Hobbs, 2012: 778). As Walder points out, “the relationships between the provincial government and the local enterprises are less to compensate for fragmentation than allowing enterprises significant autonomy in important business decisions” (Walder, 1992:310). In other words, a city’s industrial system and revenue have been largely dependent upon the operational incomes from various corporations. The provincial government has played a role in carefully regulating the proportion of financial flows from the enterprises to the provincial government and has intervened extensively in crucial business decisions in those enterprises.

As asserted by a number of scholars, “the single biggest aspect of autonomy that the provincial governments enjoy is to decide the proportion of local enterprise revenue sharing between itself and the enterprises” (Breslin, 2000: 209-210; Naughton, 1992: 270). The provincial government can use the various mechanisms at its disposal to change the distribution of corporate revenues which include: tax concessions, subsidies, and minor share-holding, issuing provincial bonds and loan repayments. Some scholars who have observed the relations between the provincial governments and their local enterprises concluded “there are yet no clear standards about what is legitimately the provincial government and enterprises share of industrial profits” (Walder,1992: 331). As a result, a classic bargaining relationship between the provincial government and an enterprise is formed under this particular institutional setting. It is only out of the bargain process that a “fair” determination of these matters can be reached.

The enterprises that enjoy the best bargaining position are the ones on which the cities/provinces depend upon substantially for the supply of scarce inputs for local industry. These enterprises can also acquire substantial amounts of bargaining power when they have a good international reputation or become a leader of a particular sector. In contrast, the firms enjoy less advantageous bargaining position when their products become less “useful” for local industrial integration. Or their international reputations are deteriorating for various reasons. The case study of Suntech is a clear example on how its bargaining position with the Jiangsu provincial government shifted from extremely advantageous to powerless when it was no longer seen in a positive light by both international and domestic investors.

Suntech, the Chinese solar panel maker, was once an example of the country’s phenomenal prowess in RE. According to its own introduction, “founded in 2001, the Company rose to become the world's largest solar panel manufacturer, by sales, in a decade” (Suntech Website, 2014). In the early years of Suntech, it was treated as a role model for non-state owned enterprises by its provincial government, Jiangsu. The New York listed company had attracted much attention both inside of the renewable industry sector as well as from investors in financial institutions globally. Suntech’s early success originated in China’s nascent understanding of solar energy in the beginning of the Twenty First Century.

The Jiangsu Provincial government realised the enormous potential of the solar industry and were fully aware of the determination of the central government to develop RE. Therefore, as the Chinese media reported, “it offered its strongest fiscal and policy support to facilitate Suntech's ambitious business plans” (Beijing Youth Newspaper, 2013). By doing so, the Jiangsu authority asked Suntech to transfer 10% of its total operating profit as part of provincial GDP incomes between 2001 and 2005, which was a very low ratio compared to

what other local enterprises had contributed<sup>126</sup> (Ibid). “Such a low ratio almost certainly came with strict conditions attached, and the Jiangsu government acted as one of the minor shareholders of Suntech through a state-backed investment agency, the so called ‘Wuxi Guolian Development Co’ (Global Entrepreneur Magazine 2013). This investment agency acted as a representative of the provincial government to intervene in Suntech’s business operation consistently throughout the years even though it was only a minor investor in a consortium of investors.

According to Suntech financial records in the Financial Years of 2001 to 2005, “the Wuxi Guolian Development Co. had indeed upheld only 10% of total operating profit from Suntech” (Suntech 2006). Meanwhile, the Jiangsu authority issued a special policy document that offered direct tax concessions to all solar power manufacturers and equipment producers. Suntech was amongst the main beneficiaries of this policy and expanded rapidly under those preferential treatments (The Jiangsu Provincial Government 2006). Further to this policy document, as some Chinese media discovered, and was later confirmed by my interviews, “the authority also made local branches of China Industrial & Commercial Bank and China Construction Bank issue five years loans for Suntech’s European expansion as well as facilitating its initial public offering (IPO) on the New York Stock Exchange (Xinhua, 2013a)<sup>127</sup>.

In addition, the Jiangsu authority also utilised its own political network to convince the China Development Bank (CDB) to offer long-term loans to fund Suntech’s overseas expansion. According to the usual practice of the CDB, “it used to only offer such loans exclusively to the SOEs’ overseas acquisitions,” yet it was willing to make an exception to Suntech due to

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126 I used Andrew Walder’s comparison in ratio here (Walder, 1992: 305), also proved by interviews with industrial expert at Suntech as well as media sources referred , August 2013

127 Interviews with a staff member at Suntech August 2013, Beijing



the Jiangsu government's intensive lobbying and willingness to act as a guarantor (CDB&Xinhua, 2013a). With a flurry of political support and generous credit from state owned banks, “Suntech jumped into the league table of leading global solar panel producers by sales” (Sydney Morning Herald, 2013).

In September 2006, Beijing and Brussels signed “The Rolling Plan for China-EU collaborations on Climate Change and Renewable Energy”. Part of the Plan was to “promote Renewable Energy development at the provincial level” (MFA 2006). According to the Plan, those provinces that began to develop RE technology would receive fiscal support from both the EU as well as the central authorities in Beijing. Beijing treated the provincial engagements as part of the successes in the collaborative partnerships between China and the EU. This was largely because Beijing expected that provincial participations in RE collaboration with the EU could generate more substantial outcomes both economically and politically. The Jiangsu authority, like any other Chinese province, was keen to be part of the collaborations in order to obtain fiscal support as well as to demonstrate its political loyalty by following Beijing.

Inevitably, Suntech had become a role-model enterprise that could carry out the actual operational activities of the collaborations. In the process of bidding for participation in the overall Sino-European collaborative framework, Jiangsu encountered many strong provincial competitors, mainly from the other resource rich provinces such as Gansu and Inner Mongolia. According to interviews with staff members at the Jiangsu Provincial government, it came up with three existing unique advantages Jiangsu possessed in order to facilitate better collaborations.

Firstly, “Suntech, as a home grown Jiangsu enterprise had been successfully listed on the New York Stock Exchange in 2005, and eventually become an international leading player in the field of RE”<sup>128</sup>. Secondly, “Jiangsu had already facilitated an extensive industrial supply chain to develop RE, from equipments manufacturing to electricity transmission networks” (People’s Daily 2013a). European partners could maximise their industrial efficiency by utilising the existing supply chain, while their competitors had to build their supply chains from scratch. Finally, “Jiangsu is a coastal province with a relatively high GDP per capita, and has the mature infrastructure network needed to develop all sorts of hi-tech sectors” (Ibid). Beijing was convinced, and in the following three years, the governor of Jiangsu participated in all forms of China-EU High-level Dialogues on Climate Change as well as visits to Brussels to further discuss the collaboration plans. Suntech, as one the chosen enterprises, had indeed expanded rapidly in Europe. Based on its own press releases, it established its European laboratory and collaborated with other European enterprises in France, Spain and Italy on the latest models of solar panels (Suntech Website 2007, 2008, 2009).

However, despite its rapid international expansion, Suntech’s profitability stagnated between 2005 and 2010 (Financial Times, 2013b). This was largely due to intervention from the Jiangsu Provincial government on some of Suntech's key business strategies. Suntech could not always refuse the “advice” from its local authority as it was the main beneficiary of a range of tailor-made policies. As referred to in previous paragraphs, the local authority has enjoyed the ultimate autonomy in setting certain prices of products where other local enterprises require these products as production materials. Given the unprecedented success of Suntech, “the Jiangsu provincial government intended to integrate all local solar

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128 Interviews with a staff member at the Jiangsu government, November 2012, Paris

manufacturers and to create a Jiangsu high-tech industrial complex” (The Jiangsu Provincial Government, 2006). By doing so, the Jiangsu government authority would fulfil the policy targets made by the central government on developing RE. Even better, Jiangsu would serve as a role model for the rest of the country as the front-runner for the national RE development campaign.

Suntech, as the key player in the solar industry supply chain worldwide, was expected to follow the provincial government’s policy agenda. It was therefore asked to keep its solar panels’ prices below the international market prices in order to reduce other solar manufacturers’ production costs. As my interviewees suggested, “Suntech was in strong disagreement with the local authority and argued that Suntech as a public listed company should focus on profit maximisation rather than supporting other local enterprises”<sup>129</sup>.

Meanwhile, Suntech was in the process of establishing its European strategic partnership in collaborations with Conergy AG, a local Munich solar panels producer (Suntech Website 2007). Given its low profitability over several years, Suntech urgently required the financial backing of state owned banks back in its headquarters in Wuxi, a city in Jiangsu province. On the one hand, the Jiangsu authority was furious to learn of Suntech’s reluctance to keep its solar panel prices below the market price. On the other hand, the local government wished to have Suntech’s contribution to fulfil its policy target of developing RE. As a result, “relevant local governmental departments came up with a loan condition to Suntech, which was to keep Suntech products prices below the international market prices and to ask all nine state owned banks in Jiangsu to offer cheap loans to Suntech from 2007 onwards.”<sup>130</sup> With cheap credit in

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129 Interviews with staff members Suntech, Beijing August 2013

130 Ibid

easy reach, Suntech agreed this Faustian pack and inevitably entangled itself into the Sino-European solar panel dispute three years later.

In addition to price controls, “the Jiangsu authority had also utilised its autonomy to adjust the ratio of Suntech’s financial contribution to the provincial investments which would boost the local GDP growth” (Beijing Youth Newspaper 2013). Between 2007 and 2010, the Jiangsu authority requested to increase Suntech’s financial contribution to the total local taxation revenue of the province from 10% in 2001 to 15% from 2007 onwards. The Jiangsu authority argued that it had promoted Suntech both at home and abroad extensively, and would expect Suntech to make its “long overdue” contribution in return for the series of political and fiscal support it had received<sup>131</sup>. Suntech initially agreed with the new percentage of contribution and continued to invite “Wuxi Guolian Development Co.” to act as the representative of the Jiangsu authority on the board of its shareholders.

As Suntech’s profit stagnated, the management team realised that “it was not financially viable to contribute such a great proportion of operating income to the local authority. Therefore, Suntech managed to buy back the equity owned by “Wuxi Guolian Development Co.”<sup>132</sup> As pointed out in both my interviews and the Chinese media source, such a tactful purchase became a turning point of the once amicable relations between the Jiangsu authority and Suntech (International Financial News 2013). The Jiangsu authority realised that Suntech was no longer in need of its support to expand at home and afar. This in turn indicated that Suntech was no longer willing to serve as an effective vehicle for the Jiangsu authority to fulfil its policy targets and expand its provincial GDP.

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131 Interviews with a member from Jiangsu Province, November 2012, Paris

132 Interviews with staff members at Suntech, Beijing, August 2013.

While Suntech was in the process of expanding into Europe, China experienced the euphoria of embracing RE technologies between 2007 and 2010. A rapid solar expansion in China was fuelled by cheap credit from state owned banks, and resulted in a glut of capacity. “By 2012, the Chinese solar sector produced more than half of the world solar panels” (Financial Times, 2013b). However, based on some experts studies, “it lacked sufficient installation capacity as well as an appropriate utility network to transmit electricity generated by various solar farms” (EC2, 2012: 26). This overcapacity resulted in the plunging of solar panels prices both inside China as well as worldwide. The excessive quantity of solar panels made Suntech lose its trump card when it came to negotiations with the Jiangsu authority. Solar panels, once a high-tech and exclusive product had become widely available everywhere in China.

The Jiangsu authority was no longer pursuing its policy target to establish an integrated production chain of solar industry in the region. By 2012, Brussels began to pursue its controversial anti-dumping and anti-subsidies investigations on solar panel exports from China. Inevitably, Suntech, LDK and Yingli, three major players in the industry were accused of price manipulation in order to take over the European market, and the Chinese government was, for its part, blamed for offering subsidies which distorted the European solar market. Against this background, “Suntech had to withdraw from its existing collaboration with Conergy AG to develop super thin PV panels”, a collaborative project that Suntech was once proud of, and through which Suntech had expected, together with its German partner, further fruitful collaboration (Suntech 2013). The entire Chinese Solar panel sector was coming “under renewed pressure from the central government agencies, such as the NDRC, and the Ministry of Industry and Information, and other investors, to cut overcapacity and turn round losses” (NDRC 2013c, China Securities Journal 2013).

As shown above, Suntech had long suffered from profit-stagnation under the price control by the Jiangsu authority. The symptom of overcapacity and the EU anti-dumping & subsidies investigations caused Suntech's share price to crash in early 2012. Even worse, "the Jiangsu provincial government withdrew all existing policy support and ordered the relevant banks to cancel all loans in support of Suntech by June 2012"<sup>133</sup>. This was largely in order to follow Beijing's order to restructure the solar industry. "The provincial government must withdraw and discourage new investments in local solar equipment manufacturers", according to the NDRC announcements (NDRC, 2010a, 2011b). Eight months later, Suntech announced on 18<sup>th</sup> March 2013, that its primary subsidiary in China was facing insolvency. "Suntech became the most prominent foreign-listed Chinese company to end up in a bankruptcy court" (Financial Times, 2013c). According to the financial record of Suntech in 2012, "it had USD847mn of gross debt maturing during the Fourth Quarter of 2012, but only USD 168mn of cash to hand at the end of August 2012" (Suntech 2013).

With this staggering amount of debt, "the Jiangsu provincial government stepped in and asked the nine state owned banks as creditors to cancel USD1.4bn of gross debt"(Economic Observers 2013), and the state backed investment agency "Wuxi Guolian Development Co." was appointed as the transitional body in charge of Suntech's bankruptcy (Economic Daily 2013). Suntech's bankruptcy cast a long shadow over the entire Chinese solar sector. Other solar manufacturers are "set to follow the lead of Suntech as the industry enters a difficult period of consolidation and adjustment" (Financial Times, 2013c).

Unlike the Chinese SOEs, enterprises like Suntech, have little bargaining power when they come to negotiate with their respective provincial governments. The SOEs are able to

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<sup>133</sup> Ibid

negotiate with the central authority more or less on the same level due to their bureaucratic status in the government and their personnel ranking within the CCP. Companies like Suntech rely upon the provincial authorities' fiscal and political support, and have never acquired a strong bargaining position even if the provincial governments need to have their participation in certain policy execution processes. Suntech's bankruptcy thus sets a striking example to illustrate how much power a provincial government has in hand to dictate a blue-chip company's business plan. Such dictation was not based on plausible business considerations. Rather, the company served as a convenient vehicle for fulfilling the provincial authority's policy targets and to generate sufficient incomes to boost the provincial GDP growth.

Within the context of Sino-European collaboration, companies such as Suntech were promised as role-models for the two sides' cooperation. However, Suntech's business expansion caused more controversies than both Beijing and Brussels expected. The reasons for contentions were two-fold. Firstly, Suntech was a publicly listed company, with an ultimate goal of profit maximisation. Due to its rapid innovation plan, it no longer performed a role of "catching-up" with its European competitors. The process of "catching-up" had often generated sound collaborative ties between the two sides in the past few years, as observed in the Sino-French collaborations on the civil nuclear sector. By contrast, most Chinese solar panel manufacturers have had strong capability to compete with their European peers. As a result, the prospect of collaboration was largely undermined by China's sweeping success in the global solar industry.

Secondly, some crucial business decisions at companies like Suntech, were greatly influenced by its respective provincial authorities for various reasons. Enterprises often find it impossible to "refuse advice" from the local authorities. In the case of Suntech, it was the

Jiangsu provincial government's political decision to manipulate solar panel prices. Suntech had consistently refused to keep the prices below the international market price. As a result, it was under renewed pressure to follow the guidance from the local authority as a condition for the receipt of generous loans from state owned banks. Due to its profit stagnation, Suntech had no other alternatives to finance its global expansions besides the cheap credit offered to it by those state banks. It was therefore locked into a vicious cycle of lowering the prices of its products in order to obtain cheap credit.

As pointed out by Chinese media, "Other solar companies in similar size, such as Trina and Goldwind, had followed the same route with their respective local authorities regardless of the correctness of such a decision" (Beijing Youth Newspaper 2013). Therefore, they had inevitably entangled themselves into bitter spats over solar panels with the EU. To this extent, one can argue that the provincial governments' political and irrational decision triggered the Sino-European solar panel dispute. Their autonomy to dictate prices was a reflection upon China's unfinished market economy reform. Their anti-market decisions had truly dimmed the prospects of future collaboration. As pointed out at the beginning of this section, the Sino-European collaborations on RE, like any other areas of collaborations, are thus determined by various stakeholders, not just by Beijing and Brussels on their own.



## **Conclusion for Chapter Five:**

In conclusion, this chapter has treated Chinese companies; both the state owned enterprise (SOEs) and non-state owned enterprises as analytical units. As outlined in the Introduction to this chapter, it is of vital importance to understand the relations between the Party and the SOEs, the interactions between the SOEs and the central institutions as well as the relationships between the provincial government and those non-state owned enterprises. By doing so, it will provide us with insights into the decision making processes of the Chinese energy sector and its foreign affairs. This in turn helps us to understand the motivation of each stakeholder in determining Sino-European RE collaborations.

This chapter concludes that: firstly, after thirty years of economic reform, the Party has still retained tight control over personnel appointments and certain business decisions of the SOEs, even if the energy decision-making has undergone a process of fragmentation.

Secondly, unlike conventional wisdom, those energy SOEs are not as powerful as some scholars claimed when they come to participate in Beijing's national renewable campaign. The enormous power that they possess in shaping the fossil fuels sector is largely undermined by the complex institutional settings amongst the central bureaucracies, which participate in making renewable energy policies. Some SOEs that are specialising in renewable energy, such as the CGNPC, have utilised well their exceptional expertise in civil nuclear industry, and successfully persuaded the ultimate decision-makers to adopt policy options they have long desired. The CGNPC's successful collaboration with the French has exhibited the importance of SOEs' persuasions which have a direct and major impact upon Sino-European collaboration on RE. It is true that one of the three major oil giants in China, the CNOOC suffered from its economic misfortune and entangled itself into inter-departmental conflicts

during the process of expanding its renewable unit. It had not only rendered itself into great financial difficulties but worsened the prospect of future cooperation with other European partners. To a large extent, one can conclude that parts of the Sino-European RE collaborations were determined by the extent to which the corporate interests of the SOEs coincided with the relevant ministries and vice versa.

Last but not least, the non-state owned enterprises had plenty of opportunities to participate in the collaborations. Such participations in national-lead projects have been rare occurrences in the past. This was largely due to the nature of the renewable sector being driven by technological innovation, something in which those enterprises enjoyed a steep competitive edge when compared with the SOEs.

However, their participations in the collaborations have hardly made much of a positive contribution, but have instead caused contentions and bitter spats between Beijing and Brussels. As the latter part of this chapter shows, these enterprises are mostly influenced and encouraged by their respective provincial governments during their participations in any international collaboration. The provincial governments have still retained the autonomy to indulge in price manipulations of certain products, and financial resource distribution for enterprises. As a result, non-state owned companies are too vulnerable to bargain with their respective provincial authorities. Losing such bargaining could undermine their potential to access tax concessions, bank loans and other financial assistances. Consequentially, these enterprises have little choice but to follow whatever is initiated and asked of by their provincial authorities. In the case of Suntech and other solar panel manufacturers, they accepted the price manipulations and inevitably involved themselves in the China-EU solar

panel dispute. Ultimately, their acceptance of these price manipulations failed to bring any extra commercial advantage and instead triggered further financial hardship for themselves.

As observed above, the quality of RE collaboration between China and the EU is not determined by the political willingness of governments on each side, but is largely shaped by the behaviour of each stakeholder. In particular, both Beijing's energy policy formation and foreign policy making have undergone a process of fragmentation, which offers plenty of opportunities for each stakeholder to play a major role in shaping final policy outcomes. Each stakeholder can either facilitate or undermine the Sino-European collaborations, according to its preference. The Europeans realised that the collaborations with China had become far more intricate than Brussels and the Member States had at first expected. The next chapter will shift the focal point to Europe and examine how the Europeans responded to changes in Chinese energy policy and external affairs.

## **Chapter Six: A Fragmented European Union's Responses to the Chinese Governmental Apparatus and Corporate Sector during Collaborations on Climate Change and Renewable Energy**

### **Introduction:**

After analysing the roles of both the Chinese government and Chinese companies in collaborating with the EU, this chapter will shift the focus of the thesis to the European Union. It aims to investigate to what extent a fragmented EU responds and adapts to changes in Chinese foreign policy, and energy policy making. As stated in the analytical framework section, in Chapter 1, this chapter will examine how the EU adapts to changes in the priorities of Chinese foreign policy as well as the shifts in the balance of power amongst the relevant Chinese stakeholders.

While doing so, this chapter will not treat the EU as a singular analytical unit or foreign policy actor. Instead, in the first section it will investigate the responses of the EU institutions to the Chinese central institutions during their collaborations on tackling climate change (CC). This chapter will also observe the various ways in which the EU member states (MS) respond to changes in Chinese FP towards specific individual European countries. Then the final section will consider the motivation and behaviour of large European companies in determining joint renewable projects with both the Chinese government and their commercial partners. In brief, this chapter will have three analytical units, namely, the EU institutions in Brussels, the MS and European companies. Each of these analytical units is not static, and their individual responses to change have triggered changes in the policy making or shifts in the commercial strategies of the other units.

Neither the EU nor China is still embracing the euphoria of the so-called "Comprehensive Strategic Partnership" after the failures to overcome two stumbling blocks of their

relationships: the Market Economy Status and the Arms Embargo. As argued by both veteran diplomats and academics in the field, both Beijing and Brussels realise that “they should focus on what they can achieve rather than what they aspired to achieve”<sup>134</sup>. Surely, the EU is deemed to be a global champion for tackling climate change (CC) and innovator for Renewable Energy (RE). Whilst China has suffered from a severe environmental crisis after many years of economic growth fuelled by highly polluting industries. Climate Change and Renewable Energy have become twin areas in which the two sides have had huge potential to achieve concrete results. However, despite the so-called “Strategic Partnership on Climate Change”, the two sides have not generated the greater and ever closer collaborations that they expected.

In the previous chapters considering the Chinese side of the partnership, this thesis has explained several of the different reasons why the collaborations have been undermined. So in this chapter it is one’s intention to explain these unsuccessful collaborations which were driven by Brussels’ institutional constraints as well as the Union’s misunderstanding on China’s intentions and policy measures on CC and RE. The main reasons for the failure to achieve greater cooperation are fourfold. Firstly, the EU is renowned for its complex bureaucratic system and is now facing a partner which has established equally intricate bureaucracies. The EU has lacked the sufficient institutional capacity to recognise the shifts in the balance of power amongst the Chinese governmental departments and to adapt to changes in the Chinese policy making system.

Secondly, the EU treats Climate Change as a transnational issue and believes that RE should develop through market forces. However, as a number of scholars demonstrated, China treats

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134 Interviews with Robert Cooper 2013, Wu Jianmin 2012 and Francois Godement 2012

tackling CC as a domestic priority that should not always be resolved by multilateral negotiations, but sometimes rather “through the reinforcement of effective domestic policy measures” (Heggelund, 2007: 168; Lewis, 2008a: 158). For RE, Beijing believes that the government should offer more policy support and fiscal subsidies to the industry during its nascent stage.

Thirdly, the EU institutions and the EU members have been in serious dispute over how they collaborate with China. In particular, the EU members are puzzled and in disagreement, with Brussels and amongst themselves, on how they should handle the political spats with China on the one hand, and how to embrace economic opportunities on the other.

Finally, the European companies are financially independent from both the EU institutions and their respective national governments. Their goals in collaborating with both the Chinese government and Chinese companies have sometimes been in contradiction with the aims of the EU governments. In the meantime, the Chinese companies have rapidly “caught up” on the technological edge of their European peers. The relationships between the European companies and their Chinese counterparts have shifted from a “pupil-tutor” partnership to the companies becoming strong competitors against one another. As a result, an area of potential collaborations has become an area of intensive competition and bitter spats. This has not corresponded to the EU’s overarching goal of developing a collaborative partnership with China.

In the light of the above, this chapter will use several case studies to illuminate how each unit respond changes in the Chinese energy and foreign policy making. By doing so, it will answer the ultimate research question of the thesis, that is “To what extent are Sino-European

collaborations determined by a diverse array of interests from multiple actors”.

## **Section 6.1 The Role of the EU Institutions in Determining the Sino-European Collaborations on Climate Change and Renewable Energy**

This section seeks to discuss the role of the Brussels based EU institutions in shaping the Climate Change (CC) and Renewable Energy (RE) collaboration outcomes with Beijing. In particular, it will discuss the extent to which the complex bureaucratic politics amongst the EU institutions have undermined the prospect of fruitful collaborations with China. It will also examine the extent to which the EU institutions have understood and responded effectively to the equally complicated decision-making process within the Chinese governmental apparatus in the fields of energy and foreign affairs. This section also intends to address the shortcomings of the current literature, in which most scholars on the topic treat Sino-European collaborations as bilateral cooperation (Torney&Biedenkof, 2013; Men, 2014; Berger et al, 2013). Instead, this section will argue that treating Sino-European collaborations as bilateral misinterprets the nature of their collaborations. Instead, as previous chapters of the thesis have already demonstrated Sino-European collaborations are determined by their multilateral nature and the involvement of a diverse range of actors. This is also the hypothesis of the thesis.

This section will treat each relevant EU institution as the primary analytical unit. It will draw on what Simon Nutall argued was the fundamental flaws of the Union, which are the “horizontal inconsistency, institutional inconsistency and vertical inconsistency” to illustrate that China-EU collaborations are shaped, and negatively, affected by the bureaucratic politics in Brussels (Nutall, 2001:1). This section will firstly examine the role of the relevant EU institutions in determining Brussels’ overall CC and RE collaborations with China. As referred to in this thesis's Introduction chapter, this section intends to examine the relations



between the EU institutions and their Chinese counterparts. It will consider the existing processes to deal with the Sino-European collaborations and analyse the intrinsic flaws of having a fragmented collaboration framework. In the process of collaborating with China, each EU institution has had its own specific departmental interests. Therefore, such interests have inevitably reflected upon the outcomes of the EU's climate diplomacy with China. The EU institutions have also been in conflict with the Member States, which this thesis will focus on in the next section of the chapter.

Secondly, this section will offer a case study of the Sino-EU collaborations on developing Clean Development Mechanism projects with the relevant Chinese central governmental institutions. Given a lack of understanding of Beijing's intricate energy policy making process, the EU has failed to establish a more coherent and effective collaboration framework with the Chinese government. In the previous two chapters, this thesis has extensively discussed the intricate relations amongst the Party, the government institutions and the corporate actors in China. Their relations are not static but have shifted over time, and have generated an ever greater impact on Sino-European collaborations. However, Brussels has responded badly to the shifts in the institutional balance of power in Beijing. Their responses will be clearly exhibited in the following case study.

### **1) The Symptom of "Inconsistency"**

There has never been a shortage of supply of EU foreign policy literature which argues that the EU's capacity to have a coherent foreign policy has been largely undermined by Brussels' complex institutional framework, and a very slow decision-making process. This thesis echoes the views of these scholars and argue that this complex institutional framework has been one of key factors which prevent the EU from formulating a coherent collaboration plan with

China. Simon Nutall categorised the EU's incoherence, or inconsistencies, into three different types, namely, "Institutional Inconsistency, Vertical Inconsistency and Horizontal Inconsistency" (Ibid). Each type of inconsistency has affected the other two. Regarding the role of the EU institutions pursuing its climate diplomacy agenda with China, all three types of inconsistencies have largely existed in the current collaboration framework.

In terms of institutional inconsistency, it refers to "when each individual institution has become bureaucratic rivals" (Ibid). The resulting lack of institutional coordination has been a recurring symptom throughout the many years of the Union's institutional development. Based on a number of scholars' assessments, "the 2007 Lisbon Treaty aimed to improve the institutional coordination at all levels across various policy areas. However, so far it has made limited progress on the subject" (Balducci, 2010: 36; Crookes, 2013: 640; Wacker, 2012).

Regarding the Sino-European collaborations on CC and RE, the institutions that are directly involved in collaborations at the EU level are: the EU Delegation to China; DG Trade; DG Climate Action (Clima); DG Energy and the European External Action Services (EEAs). With a numbers of institutions competing for policy influence, the EU's climate diplomacy and collaborations with China have resulted in two insurmountable bureaucratic challenges for those institutions mentioned above: firstly, the lack of institutional resources; the second and related symptom, the lack of personal capacity. The lack of institutional resources is a persistent challenge to the EU when it comes to pursuing its climate diplomacy agenda with China. This limited institutional resource has directly triggered the shortage of personal capacity when dealing with China.

According to the MOU of the China-EU Climate Change Strategy Partnership in 2005, "DG

Clima<sup>135</sup> and the EU Delegation to China, are the two principal organisations dealing with Beijing in the areas of CC and RE” (MFA 2005). The EU Delegation has the chief responsibility to coordinate with the Embassies of the MS in China. This has inevitably resulted in a huge amount of work for staff members at the Delegation across all policy areas dealing with the Chinese government. According to my interviews with its staff members, they suggested that “we were overwhelmed by the workloads as we had to deal with the Chinese government on the one hand, and the rest of 28 MS on the other”<sup>136</sup>.

In regards to Climate Change policy areas, despite Brussels' emphasis on the importance of engaging with China, the Delegation has only had posted one full time counsellor,<sup>137</sup> and appointed a part-time officer in charge of the areas. These two diplomats take full responsibility for reporting back to Brussels and dealing with the Chinese governmental departments on climate change issues simultaneously. “Neither of them is fluent in Mandarin; but they are environmental science experts”<sup>138</sup>. This lack of knowledge of the Chinese language has certainly undermined their ability to gauge, and to respond to, the latest policy and bureaucratic shifts in the field of energy and environmental protection in China. As described in the previous chapters, the NDRC and energy-related ministries mainly consist of Chinese speaking officials. The EU Delegation staff members have found it almost impossible to establish personal contacts with officials at the NDRC and the other relevant government bodies without a working knowledge of the language. Yet having personal contacts, and good working relationships, are crucial to getting certain European projects endorsed by Chinese officials.

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135 It is used to be DG Environment taking the lead and was shifted to newly established DG Clima in 2010

136 Interviews with two staff members at the EU Delegation in Beijing, August 2012

137 Not a ministerial counsellor but counsellor at division level

138 Interviews with a staff member at the EU Delegation in Beijing, August 2013

Moreover, generally the staff members at the Delegation will shift to other diplomatic posts every 36 months; and this rule also applies to those two members dealing with climate diplomacy<sup>139</sup>. As a result, they have not had much determination to understand, and to investigate, the complexities of the Chinese energy policy-making process and related outcomes.

Beside these institutional constraints and personal incapacity, the EU Delegation also faced challenges from the Embassies of the MS, which have clear and well-structured climate diplomacy agendas to pursue in China. These challenges represent the vertical inconsistency between the EU institutions and the MS. The Delegation has the power to coordinate the activities of the MS' Embassies. However, it is not equipped with sufficient authority to prevent the MS from exploring opportunities for CC collaborations with Chinese companies and governmental institutions individually.

According to my interviews, and NDRC documents to other MS' Embassies in Beijing; the British, the German, the Danish and the French embassies in Beijing have “appointed at least two counsellors or First Secretary level and above officers to work on CC and RE areas with the central governmental bureaucracies, as well as provincial governments”( NDRC, 2009a). Their diplomatic posts on CC and RE in total had already exceeded the numbers of the diplomats in the same policy domains in EU Delegations. For example, “the British Consulates in Chongqing and Guangzhou have one First Secretary respectively, who both focuses on environmental issues within the regions<sup>140</sup>” (GOV.UK, 2011:1). They actively participate in all governmental-led conferences and workshops related to energy-saving and carbon reduction. Also, they work together with other departments of the British Embassy in

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139 Interviews with Dr. Markus Ederer, the Ambassador of the EU Delegation to China, August 2012

140 Information on First Secretary was obtained from interviews with FCO officials at the British Embassy, August 2012, Beijing

Beijing to seek business opportunities between British firms and Chinese partners (Ibid, 3, 4).

The MS' Embassies have not only carried out climate diplomacy with the Chinese government, but they have also actively engaged with the Chinese SOEs on the subject. For example, pointed out by both a SOE employee and a French diplomat, "the French Embassy has hosted bi-monthly seminars with carbon experts in order to invite the relevant staff members at the Chinese energy SOEs into joining in the discussions"<sup>141</sup>. With such intense competition from the MS, the EU Delegation has surely been constrained by its institutional and personal shortage in pursuing the overall EU's climate diplomacy agenda with China.

Back to Brussels, the DG Clima faced similar challenges as the Delegation encountered in Beijing. DG Clima was established in early 2010, with "the aim of representing the EU at the UNFCCC international climate change negotiations, as well as to pursue the EU 2020 carbon reduction target" (EP, 2009). However, due to its external focus it has been exclusively concentrated on pursuing its own agenda and at monitoring the process of the UNFCCC negotiations. It seemed to spare no extra institutional capacity to engage with the world's second largest carbon emitter, China. This lack of institutional capacity was echoed by a scholar, there "appears to be little acknowledgement of the value that could be gained by devoting addition resources to sustain bilateral outreach with key third countries such as China" (Dorney, 2012: 10).

During the research process, it was rather difficult to find an interviewee and to schedule an interview with staff members at DG Clima. As a result, I interviewed the First Secretary who

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141 Interviews with CNOOC employees, confirmed by the French Ambassador to China Sylvie Bermann August 2013

was responsible for work on CC issues at the Chinese Delegation to the EU<sup>142</sup>. She had a few direct contacts and exchanges with senior staff members at DG Clima. Her views could complement my lack of primary source from the DG Clima in order to support the view of institutional incapacity in dealing with China. She suggested that “DG Clima treated tackling climate change more like a scientific innovation ambition rather than a strategic outreach where the EU could utilise political capital to increase its global impact. The international climate change negotiation was complex and so far it was difficult to convince developing countries. Yet, DG Clima would not spare extra energy to win diplomatic support from other important countries, such as China and India”<sup>143</sup>.

From the DG Clima website it is clear that “DG Clima was also heavily involved in building consensus on CC policy with the 28 Member States” (DG Clima), which have always expected some different, and generally self-interested, policy mechanism to curb emissions. In addition, “DG Clima did not send any staff members to the EU Delegation in Beijing to carry out the overall EU’s climate diplomacy with China”<sup>144</sup>. This lack of personnel appointments also demonstrated that DG Clima was not equipped with adequate resources to perform its task as chief executive of the EU’s climate diplomacy to Beijing.

DG Clima has not only suffered from a lack of institutional capacity in dealing with China, but its role as the chief executive of the EU’s climate diplomacy was also strongly challenged by other institutions in Brussels. DG Clima’s challenge was partially driven by a fragmented China policy that the EU had carried out for many years. Since the late 1990s, the EU had conducted policy dialogues in almost all policy areas across different levels of the

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142 Interview with a staff member at the Chinese Delegation to EU, Brussels, November 2012

143 Ibid

144 Ibid and interviews with a staff member at EU Delegation to China, Beijing, August 2013

government apparatus within China. However, it seemed rather difficult to measure the success of such dialogue apart from its sheer quantity. As some scholars asserted, “the EU measured the quantity of dialogue as success, not the quality” (Holslag, 2011: 296). The proliferation of dialogues has characterised the EU’s China policy and triggered a sense of fragmentation amongst policy areas.

In the cases of CC and RE, Brussels and Beijing had launched either ministerial or bureau level dialogues in the areas of Climate Change, Energy, Environment, Forestry, and Sustainable Urbanisation, “which was added in February 2012” (EC, 2012b). With diversified yet inter-linked areas of dialogue, the DG Clima is only responsible for the annual ministerial-level of Climate Change Dialogue, without participation in other related Dialogues. For example, according to the official document from the Commission, “only DG Energy involved in the China-EU Energy dialogue” without participation of other DGs, even if the contents of those policy dialogues were much related to what DG Clima was familiar with (EC, 2005b).

In the process of dialogue formation and post-dialogue policy execution, DG Clima is mostly challenged by the EEAs and DG Trade. The EEAs is the chief foreign policy executive body in Brussels. It considers that CC and RE collaborations with China should be in accordance with the EU’s broader engagements with China. According to one scholar’s assessment, the EEAS holds the view that “DG Clima should be equipped with greater flexibility in terms of carbon reduction calculations or other technical details when it seeks to work with Beijing” (De Matties, 2012). For example, during the 2009 EU-China Climate Change Dialogue before the UNFCCC took place in Copenhagen, the Chinese authority represented by the NDRC suggested that “China would only calculate carbon emissions in terms of carbon

intensity per square meters”(NDRC, 2009b). While DG Clima delegates asserted “such a calculation method was inaccurate, and that China should follow the EU’s steps to calculate emissions in terms of tonnes per year”<sup>145</sup>.

Besides what the Chinese participants had suggested, the EEAs’ officials also asserted that “it would be useful if both sides achieved broader consensus to put the EU as China’s primary partner to curb carbon emissions. The precise measurement could be discussed at the next dialogue”<sup>146</sup>. However, DG Clima appeared to reject the EEAs suggestions and “openly criticised China’s unwillingness to contribute to emissions reduction at UNFCCC Copenhagen in 2009” (Carraro& Tavoni, 2010). The division between the EEAs and DG Clima shows the lack of coordination amongst the EU institutions. To this extent, it also illuminated that the persistence of one single institution could hinder the overall Sino-European collaborations on CC and RE.

Despite DG Clima’s disagreement with China’s measure of carbon reductions, according to its own management work plan, “DG Clima has played a rather positive role of introducing the latest technologies on curbing emissions, and renewable energies, to China” (DG Clima 2014: 4). However, the DG Clima’s enthusiasms and initiatives were largely challenged by the DG Trade, which was deemed as the most influential institution in Brussels in terms of the EU-China relations. In previous chapters, this thesis made in-depth analyses regarding the DG Trade’s antagonistic approach to the solar panel dispute with China, and this case was not the only dispute that the DG Trade launched in the fields of CC and RE. In 2010, DG Clima intended to introduce Carbon Capture Storage (CCS) technologies to several the Chinese State Owned utility companies. “This project was part of the Commission funded EUR 7mn

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<sup>145</sup> Interviews with Su Wei, at NDRC, Beijing August 2012

<sup>146</sup> Interviews with a staff member at the EEAS who participated in the dialogue, Brussels November 2012



projects to collaborate with China on CC and RE” (EC 2009a; Ibid 2009b). However, DG Trade was at odds with DG Clima on the subject due to increases in IPRs violations complaints from the European companies. As one scholar commented, DG Trade was “one of the major opponents against DG Clima’ initiative of introducing CCS technology to China” (Holslag 2010:123). The Trade Commission insisted that 100% technology transfers would receive no Intellectual Property Right protection in China, which would subsequently endanger European companies in this particular industry.

According to my interviews with a staff member at DG Trade and several others at European think-tanks, DG Trade surely spoke on behalf of the European companies which were leading worldwide players in terms of CCS technology. However, more importantly, “DG Trade had its own departmental interests in opposing the CCS technology transfers. By opposing this particular project, DG Trade could use the CCS technology transfers to negotiate with China on many other long-standing trade and investment issues such as the European companies’ market entry barriers, and changes in governmental procurement criteria to favour the Chinese domestic manufacturers”<sup>147</sup>. As a result, DG Clima made a concession to DG Trade by only offering China the CCS technology without key technical details being transferred. As a result, the NDRC and the Ministry of Science and Technology and Innovation were furious with the difference between what the EU Commission promised to offer and what it actually offered.

#### **4) The China-EU collaborations on projects under the Clean Development Mechanism**

After revealing the institutional incoherence above, this section will offer some examples of Sino-European collaborations under the Clean Development Mechanism (CDM) to illustrate

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<sup>147</sup> Interviews with a staff member at DG Trade, Fredrik Erixon at ECIPE, November 2012, Brussels

the extent to which the EU institutions have largely failed to understand Beijing's policy objectives, and changes in the process of China's energy and foreign policy making. Such insufficient understanding has hindered further fruitful collaborations between Brussels and its Chinese counterparts.

The CDM is one of three Greenhouse Gas (GHG) emissions reduction schemes established under the Kyoto Protocol. "The CDM allows the countries listed in Annex I, which are mostly developed countries, to invest in GHG emission reduction projects in non-Annex I countries that are mostly developing countries" (UNFCCC). "Investing in CDM projects allows the developed countries to claim and to exchange Certified Emission Reductions (CERs) to help them to achieve binding emission reduction targets domestically. The CDM also facilitates the developments of renewable and climate technologies in beneficiary countries" (IBRD, 2000). Initially, China treated the CDM with a great suspicion and considered that launching energy-efficiency projects under the CDM could reduce the amount of Overseas Direct Assistances (ODA) that China received from other countries and international organisations. However, as scholars observed, "China shifted its initial opinion on CDM projects after the Marrakech Accords (Heggelund and Tangen, 2003: 3, Heggelund, 2007: 180)". And it is now "actively seeking to utilise CDM as a crucial source for the obtaining of cutting-edge technologies on RE and to curb emissions" (Xinhua, 2009a).

As established by a Chinese media, "the EU has been one of the major supporters of China's participation in a numbers of CDM projects" (Ibid). The main reasons for the EU's positive responses were twofold. Firstly from an external perspective, the EU fostered China's understanding of carbon emissions and created the possibility of establishing a carbon trading market in China. Such initiatives were seen as the EU's capacity in acting as a global

champion to tackle CC. The EU's active engagement with China on CDM was also "viewed under a broader framework of the Sino-European strategic partnership on CC" (MFA 2005). Secondly, and from a European perspective; forging CDM collaborations in China would allow European companies using CER generated by CDM projects to offset their already over-subscribed emissions inside the EU. As a result, the EU initiated "the EU-China Clean Development Mechanism" project in April 2007 (EC 2007). "The EU agreed to "provide EUR2.8mn to introduce European and international standards into the CDM projects approval process, as well as the actual management of the projects" (EEAS, 2010).

Projects under the CDM often take several months or even years to get approved. Such a lengthy approval process has become one of main criticisms of CDM. In the case of China, the Chinese government "did not ratify the Treaty until August 2002", even if the Treaty itself had come into force in early 2000 (NCCCC). "China's Designated National Authority (DNA) overseeing CDM projects was not established until 2004. And the State Council in Beijing "did not give the final approval for the DNA's overall management of CDM project until October 2005 (Ibid)". China's hesitance in participating in CDM stemmed from its concerns about heavy foreign participation in the CDM projects. As a result, the Chinese government made the CDM approval and management process as "carefully crafted to heavily favour the Chinese interests and control; and to ensure Chinese resources are protected" (Szymanski, 2006:2).

The Chinese government's extensive interventions and protectionist approach to the CDM policy measures were later turned into a source of dispute between Beijing and Brussels. For example, in wind energy sector, the NDRC requested that "all turbine erected are subject to a 70% of local content requirement" (NDRC&MOST, 2006); the requirement became non-

obligatory three years later (NDRC 2009e). Such preferences certainly discouraged foreign participation in joining the bids for some CDM projects. As a result, responses from the EU had not been positive to China's protectionist approach towards the approval and management of CDM projects.

During the ministerial dialogue in 2010, the EU Commissioner on Climate Action openly criticised that "the Chinese government's local content requirements have not only gone against the principal of bilateral collaboration on CC, but also breached WTO rules" (Erixon&Razeen, 2010: 1). The Chinese authorities, in particular the NDRC and MOST, responded vociferously to "the EU's one-size to fit all approach" and asserted that "the EU and the other developed countries should bear the historical responsibility for the curbing of carbon emissions, requiring total technology transfers, or the use of Chinese home-grown RE equipment as being justified"<sup>148</sup> Such views were also echoed widely across the Chinese media (Economic Observer, 2011a; Xinhua 2012d).

The EU misunderstood that the Chinese authority had not only relied on the CDM projects as an important source of technology transfers, but more importantly relied on the projects "to establish home-grown, Chinese, climate and renewable technologies industries, which would accelerate China's own industrial upgrade and economic restructure" (NEA 2007). Beijing intended to reduce their reliance on foreign investments and technologies to achieve its domestic industrial upgrade in the field of clean energy technologies. Therefore, the Chinese government had provided all kinds of subsidies and fiscal measures to promote the industry as a whole.

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<sup>148</sup> Interviews with Professor Pan Jiahua, at CASS, August 2012

For examples, in 2012 alone, “the Chinese government paid 1.4bn US dollars for renewable subsidies” (Bloomberg 2012b). As exhibited in Chapter 4 and 5, the central government was equipped with a great determination to build a competitive clean energy technology sector in a shortest span of time, even if offering such subsidies would not contribute to the healthy growth of the RE sector. As some observers suggested, “governmental subsidies helped China to become the world leader in wind-power, and an estimated USD30mn in loans and subsidies is now spurring a massive deployment of solar panel energy” (European Voice, 2010).

Besides Brussels’ dissatisfaction with Chinese governmental subsidies in RE sector, the EU institutions are mostly concerned with violations of Intellectual Property Rights (IPRs). Indeed, as established by both expert interviews and media reports, the Chinese central institutions had executed various policy measures to insure the relevant IPR protections in clean energy technology sector; and “the desire to protect IPRs was strong at the central level” (Xinhua, 2007)<sup>149</sup>. Yet, the EU institutions were not aware that the central government in Beijing had often found it difficult to force the provincial governments to execute an endorsed policy mandate. This was largely because of the practice within the Chinese policy implementation system. Brussels assumed that the Chinese policy execution was a clear and strong “top-down” approach. In this case, the central governmental ministries would establish the overarching policy framework through the Five Years Plan and relevant policy measures, and then, the provincial government would follow accordingly.

On the contrary, this top-down approach has generated great levels of autonomy to provincial government when they come to translate those Plans and measures. As argued in the previous

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<sup>149</sup> Interview with a senior adviser for the China Association of Wind Energy, August 2012

chapters, they could adjust the policy mandate from Beijing in accordance with the specific local situation. As Shaun Breslin and some other scholars have observed, “governance failure in China is often attributed to weak implementation or to actors at the provincial level outright ignoring policies developed at higher levels” (Breslin, 2010; Berger et al, 2013). In addition, the provincial governments had little knowledge of IPRs protections and their related practices. But nonetheless, developing renewable and climate technologies held a great potential to generate incomes and to boost the local GDP. Therefore, the provincial governments and relevant companies would only utilise the most rapid way of generating incomes without significant prioritisation of IPRs protection.

Besides a lack of policy understanding, the EU institutions have also underestimated the impact of bureaucratic rifts within the Chinese energy and foreign policy making process. This misunderstanding became a major hindrance to a number of China-EU joint CDM projects applications. As discussed in Chapter 4, there are three major Chinese ministries sharing responsibilities for the formulation and the execution of China’s climate diplomacy as well as international collaborations on CC and RE. Similarly, “the CDM Approval Board also consists of those three central governmental institutions, namely the NDRC and the MOST as Co-Chairs, and the MFA as Vice Chair” (NCCC 2005). With several equal bureaucratic ranking ministries involved, the approval process had inevitably become a battle ground for departmental interests.

According to the official website of China’s CDM projects, “the CDM approval procedure starts with the NDRC and then is followed by a panel of environmental experts from the Chinese Academy of Environmental Science” (Ibid). With the approvals from experts and the NDRC officials, the project proposals are then sent to the CDM Board and considered by

those three institutions jointly. Once the approval is given by the Board, the NDRC will issue a letter of authorisation with formal endorsement from the MFA and the MOST.

However, the weight of each institution in terms of approval authority has shifted over time. According to my interviews with people who applied to the CDM, “the role of MFA had been largely undermined over the years since the CDM Board was established in 2005”<sup>150</sup>. Some media has also confirmed interviewees’ opinion, “the major reason for its decline was due to the fact the MFA did not have sufficient scientific expertise to evaluate the actual feasibility of the project proposals” (China Briefing, 2011). The role of the MFA “remained as a nominal one, rather than with the subsistence needed to shape the final approval outcome” (China Energy Daily, 2013).

The EU institutions had not fully realised the bureaucratic shifts at the CDM Board. As a result, Brussels facilitated many unsuccessful bids for CDM projects in China. For example, the City of Venice has developed experience in cleaning up chemicals in its numerous canals in the city. The water company<sup>151</sup> who managed this project believed its experience in Venice could apply to a city in China with similar geographical condition. If the water company went to propose a CDM project, it would also help itself to gain extra certified emission credits. The Italian government also considered this “clean-water” technology could be a useful experiment to help Italian companies in the clean technologies sector setting foot in the Chinese market.

In 2008, the company which had worked successfully in Venice chose Tianjin Municipal

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150 Interviews with Vera Lehmann, who was responsible to German companies’ CDM application in China, Nov 2012, Interviews with Tom Pellman who is government relations manager at VESTAS in Beijing, August 2012

151 The company remained anonymous until further notice for commercial reason

government as partner to jointly bid for the “Desalination of Hai River in Tianjin Municipality” project under the CDM. The Italian company believed that the DG Environment<sup>152</sup> must have extensive experience in dealing with CDM projects in China and it therefore turned to the Commission for advice and assistance during the bidding process. According to my interviews with the project manager, he criticised that “the Commission misled the bidding process by providing inaccurate information. The Commission told us that the MFA would play an important role in the CDM approval process while the MOST was not as influential as it should have been. Therefore, we made frequent exchanges with the Regulation and Law Bureau” at the MFA in Beijing<sup>153</sup>. “This was to ensure that we strictly followed the rule of the Chinese Authority”<sup>154</sup>. However, the NDRC and the MOST rejected the Italian company’s proposal because they believe that “the project lacked feasibility; the water desalination process in Venice had little resemblance with that of the water purification process in Tianjin”<sup>155</sup>.

This case was only the tip of the iceberg to illustrate the EU institutions inability to disentangle the intricate bureaucratic turf wars in Beijing. On the one hand, the Commission continued to criticise the lack of transparency in the Chinese decision-making process as well as to accuse China of a protectionist approach in developing its clean energy technology sector. On the other hand, the EU institutions spared no extra institutional and personal capacity to enhance their understanding of China’s climate change policy objectives and its execution process. As a result, the Sino-European collaborations on CDM have largely remained stagnated without much substantial progress achieved at the EU level.

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152 Before DG Clima established. DG Environment was responsible to the overall-European CDM projects initiation

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154 Interviews with Dr Daniele Brombal, Project Manager at “EU-IRSES Project on Global Partners in Contaminated Land Management”, November 2013, Berlin

155 Ibid



In conclusion, this section has revealed the institutional complexities and incapacity in Brussels during collaboration with China. It also illustrated that the EU institutions were not sufficiently prepared to respond to policy changes and bureaucratic shifts in the balance of power in Beijing. To make collaborations even more complicated, the EU institutions faced serious challenges from major member states seeking to forge their own sound relationships with China in the areas of trade and climate diplomacy. The next section will exclusively focus on the MS' policy initiatives and activities in collaborating with China. This will consider whether their activities have enhanced or undermined the overall Sino-European partnerships on CC and RE.

## **Section 6.2 The Role of European Member States in Determining the China-EU collaborations on Climate Change and Renewable Energy**

This section will shift the focus of the thesis onto the individual member states (MS) when they collaborate with China on tackling Climate Change (CC) and developing Renewable Energy (RE). As discussed in the previous section, the major EU MS are better equipped than the EU with their own institutional and financial resources when they pursue their own climate diplomacy agendas with Beijing. Their active engagements have posed a serious challenge to the coherence of the EU's overall engagements with China. On several occasions, they have openly opposed Brussels' position in order to improve their own bilateral partnerships with China

The MS individual engagements with China have not always been very successful. In particular, the larger EU MS have brought up normative issues with Beijing while trying to foster stronger economic ties. As demonstrated by many scholars in the field, "normative issues have always caused severe disputes across at all levels of the Sino-European relationships (Casarini, 2010; Wacker, 2012; Crookes, 2013)". Both large MS and Brussels have suffered from very negative consequences by antagonising the Chinese government on recurring issues such as Tibet, Human Rights and the rule of law. China's increasing assertiveness towards the EU and the MS has been largely reflected upon its policies towards the EU. As argued in Chapter two, its staunch belief on state sovereignty and non-interference principals are at the core of the disputes.

However, China's turbocharged economic growth could not be excluded from global economic integration. Meanwhile, its highly-polluting economic model faces daunting

challenges in the years to come. Instead of exclusively preserving the principals and values of its foreign policy, “the Chinese government has therefore given priority to domestic economic developments and tackling carbon emissions” (NDRC 2007, Ibid, 2013a). While at the same time the Sino-EU collaborations on CC and RE largely fit into China’s national interests. To this extent, despite the persistent disputes over normative issues, Beijing’s relations with Brussels and individual MS come with its own validity. Therefore, climate diplomacy and collaborations on RE have become good remedies to repair the damage caused by normative disputes.

In light of the above, this section will treat the MS as the primary analytical unit. It will seek to understand how the MS respond to the policy changes and bureaucratic shifts in Chinese foreign policy. In other word, it will examine the relationship between the major EU MS and the central government in Beijing. It will use case studies of RE collaborations to illustrate the reasons why climate diplomacy has become an effective means of rapprochement towards China after severe disputes over normative issues. It will also investigate the role of MS in undermining the EU’s overall coherence in dealing with China in the field of RE. This section will present with two case studies. Firstly, it will use the case study of the British government seeking rapprochement with Beijing via civil nuclear collaboration after David Cameron’s meeting with the Dalai Lama. Secondly, it will utilise the case study of the German government undermining the EU’s overall position in the 2013 solar panel dispute.

### **The British Government Engagements with China after 2012**

The British government under David Cameron experienced a drama in its relationship with China. This was mostly due to “David Cameron and Nick Clegg’s official meetings with the Dalai Lama in May 2012 at No.10 Downing Street” (BBC 2012b). The Chinese government

subsequently cut off all above ministerial-level meetings between the two sides and “declined two requests for the British Prime Minister”<sup>156</sup> to visit China. Only in September 2013 did George Osborne visit Beijing and signal a rapprochement between Beijing and London. Following an official visit from Cameron himself two months later, the November’s visit represented that “the Sino-British bilateral relationship has been normalised and is back on track” (People’s Daily 2013b).

The British government's recent disputes over human rights were not a new development for the other EU MS. The Chinese government has always been antagonistic towards states or international organisations which place normative issues at the core of their engagement strategies with China. However, the British government did not expect the Chinese to “shelve” their bilateral relations for such a long period of time. Despite the rapprochement in 2013, the Chinese government still managed to manipulate the visit and arranged many last minute cancellations to indicate its dissatisfaction with the Coalition government”<sup>157</sup>.

The British government has always placed issues such as the respect of human rights and the rule of law at the centre of its foreign policy when it engages with other countries. In the case of China, London had managed in the past to separate trade and human rights when it decided its China policy after the return of Hong Kong in 1997. The previous Labour government had managed to maintain rather amicable relations with Beijing on the one hand. While on the other, also managed to establish an annual ministerial-level human rights dialogue with the Chinese government. Despite the routine nature of such dialogues, it played only a minimal role in the Sino-British bilateral relationships. Britain remained the fourth largest trade partner with China after Germany, France and Holland.

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156 Interview with staff members at the British Cabinet Office, London, July 2013

157 Interviews with FCO staff members who participated in the visit in December, London Dec 2013

After the Coalition government came to power, No. 10 Downing Street aimed to distinguish itself from the previous Labour Government's almost exclusive focus on trade only engagements with Beijing. David Cameron insisted that "the respect of human rights is the best guarantor of prosperity and stability" (BBC, 2011a). Meeting with the Dalai Lama, the Tibetan spiritual leader in exile, had therefore become part of the Coalition government's policy mandate to illustrate the government's willingness to represent this fundamental value.

Yet, the British government had largely underestimated the political sensitivity of its official meetings with the Dalai Lama. Issues such as Tibet and minority rights were seen as a "territorial matter and domestic affairs of the PRC" (MFA, 2012). The Chinese government has often used whether foreign leaders would officially meet the Dalai Lama during his/her term in office as a benchmark to measure how amicable the bilateral relations are. Beijing had already punished the former French President Sarkozy by "cancelling a State visit as well as the China-EU Summit in 2008" (BBC 2008). In addition to the visit cancellations, the Chinese government also withdrew from the purchase of Airbus jets and other noticeable trade deals. China's sense of interplay between political sensitivity and economic deals was heavily criticised by the Western governments, and yet it had proved to be one of the most effective and brutal means by which Beijing conducts its foreign policy. Certainly, the Coalition government did not become fully aware of this until May 2012.

Apart from the political sensitivity of Tibet and human rights issues, the Coalition was also caught in the midst of institutional rifts in the Chinese central ministries. Surely, the Coalition government, like the most European governments, viewed China as a monolithic state, and therefore assumed that decisions were made by a group of seven in Politburo. On the

contrary, as discussed in previous chapters and as noted by other scholars, “the foreign policy making process in China had been much pre-occupied by inter-departmental conflicts amongst all equally important ministries” (Wang, 2011: 78; Jakobson&Knox, 2010: 47). The outcomes of certain foreign policy decisions are often represented by the results of the lowest common denominator amongst relevant stakeholders.

In the case of the Sino-British bilateral partnership after May 2012, Beijing’s abrupt response to David Cameron’s meeting was not a surprise to the rest of the world. Rather, it was the length of the “Deep freeze period” which overwhelmed the British government and other EU MS (Daily Telegraph, 2013). One of the major attributes to such a long freeze period was because conflicts arose between the MFA and the MOFCOM over how the Chinese government should respond to the Cameron - Dalai Lama meetings. As described previously, the MFA was the principal actor in dealing with political bilateral relations whereas the MOFCOM was in charge of economic and trade related matters in Chinese foreign policy.

In the case of the Sino-British relationships, bilateral trade ties were seen as “the vital component, of their bilateral partnerships” (Gov.UK, 2013). To this extent, the MFA had only a minimum role to play apart from coordinating the Sino-UK human rights dialogue and arranging high-level visit. Apart from the competition from the MFA’s ultimate rival, the MOFCOM has taken the full responsibility towards the Sino-British bilateral trade relationship. There were also frequent and fruitful exchanges between the CCP and all three major political Parties, which are directly dealt with by the CCP International Department (IDCPC 2014). “The continuous Inter-Party dialogue was not cancelled by the recent troublesome Sino-British relations, and was held annually either in London or in Beijing. A multitude of issues had been discussed during the dialogue with great honesty and openness.

The dialogue itself seemed to create more impact on the overall bilateral relations than the Human Rights Dialogue”<sup>158</sup>.

Paradoxically, Cameron and Clegg’s meetings with the Dalai Lama offered the MFA a unique opportunity to play a crucial role in the troubled China-UK relationship, in particular in the field of high politics and bilateral political partnerships. The MFA was designated to act as the chief executive on behalf of the Chinese government on this occasion. According to the conventional practice of China’s foreign policy, there were two compelling reasons to argue that China should express its frustration over the meeting. Firstly, the Coalition government under David Cameron had intervened in the domestic affairs of the PRC, and this intervention should be denounced immediately.

Secondly, the British government relied on a sound trade tie with China to revitalise its sluggish domestic economy. Therefore, the bilateral trade and the investments from China were critical to the well-being of the UK economy. Temporarily unplugging the bilateral relations would therefore be a learning opportunity for London. By doing so, the Coalition would be made aware of the importance for respecting the principals of Chinese foreign policy. As a result, the Standing Committee certainly took into consideration the MFA’s proposal. And yet the China-UK trade ties were not cut off totally during this period, but were rather carefully maintained via the Chinese Commercial Consulate in London, which was under the direct control of the MOFCOM. The Consulate had actually actively sought to cultivate the existing trade ties by canvassing for opinions and searching for potential opportunities amongst the UK business community<sup>159</sup>.

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158 Interviews with the person who is directly in charge of the dialogue, the Chinese Embassy, September 2012 London

159 Interviews with the Ministerial Counsellor of the Chinese Commercial Consulate in London, October 2013

The Coalition government had not only accidentally been caught on the bureaucratic rifts within the Chinese policy making process, but also faced a daunting internal challenge itself in terms of how London should engage with Beijing. Conflicts arose amongst the Cabinet Office, the Treasury and the FCO. As some media established, “there were polarised opinions on the Coalition government’s China policy after the Sino-British relationships entered a frozen period” (Stephens 2013; SCMP 2013). My interviews with staff at the UK Cabinet Office also confirmed this internal disagreement on diplomacy towards China.

On the one hand, the Cabinet office headed by David Cameron and George Osborne argued that “they should follow a mercantilist approach to engage with China by doubling bilateral trade as well as attracting Chinese investments. These were the twin pillars of the UK’s China policy”<sup>160</sup>. On the other hand, the Deputy Prime Minister, Nick Clegg and the Foreign Minister William Hague insisted that “the Coalition government should continue to emphasise the UK’s engagements with and concerns over China’s human rights issues. The British government should not give up upholding its fundamental values and principals”<sup>161</sup>. According to my interviews, the Cabinet Office held a meeting each month between January and March 2013 to discuss the possible strategies to engage with China, with none of the meetings reaching agreements between the two sides<sup>162</sup>.

The opportunity for a rapprochement with Beijing came in May 2013 when EDF, the French utility company, planned to participate in bidding for the construction of a civil nuclear power station near Hinkley, Somerset. “EDF invited its long-term Chinese partner, China Guangdong Nuclear Company (CGNPC) to join the bid as a minor shareholder” (EDF 2013).

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160 Interviews with the UK Cabinet Office member staff, December 2012, London

161 Interviews with members at FCO, February 2013, March 2013, London

162 Interviews with a senior British diplomat, July 2013, London



While the EDF sent its proposal to the Cabinet Office and Department of Climate Change and Energy, the Cabinet Office considered the EDF's joint bid with CGNPC as a unique opportunity to organise a rapprochement with the Chinese government. A joint bid in a heightened national security sector also signalled that the UK was very welcoming to foreign investments, in particular from China.

Unlike previous prominent investment projects made by the CIC and the Chinese SOEs between 2009 and 2012, such as Bright Food and Shanghai Automotive, where investments were to come in the form of an equity purchase and in which the Chinese shareholders would not seek to manage the targeted companies or projects (BBC, 2012a; Guardian, 2011; WSJ, 2010).

In this new project the “CGNPC would actively seek to participate in the construction as well as the daily technical management of the Hinkley Point C nuclear power station” (China First Financial Daily 2013c, Ibid: 2014; WNN 2013; Peston, 2013)<sup>163</sup>. However, the Cabinet Office seemed to have more than one compelling reason to be positive towards the EDF-CGNPC deal. Firstly, most infrastructures such as utility and railways in the UK were dated and costly to manage. With the participation from foreign investors, the UK government did not need to spend too much public finance to repair and rebuild the existing infrastructure. Secondly, the UK faced an imminent challenge of energy shortages. Constructing nuclear power stations could be one of the most effective solutions to mitigate the upcoming energy crisis. And thirdly, CGNPC's participation in the UK energy market also signalled that China would very much like to remain as a good trade partner with the UK to profit from London's position as a centre of global finance. The British government should seize this opportunity to

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<sup>163</sup> Interviews with CGNPC staff members, May 2013, Paris

attract more Chinese investors, especially the investments from the energy and utility SOEs. Consequentially, a joint nuclear energy project had become the key to a rapprochement between China and the UK.

However, as established in the British media, “the Cabinet Office’s decision to invite the CGNPC’s participation in the UK nuclear industry was never short of criticism from both within the government, in particular from the FCO, and the wider public” (SCMP 2013). According to my interviews and several meetings with two very senior FCO members directly involved in the Sino-British relationships, they suggested that “the FCO was furious at the sycophancy and kowtowing by the Chancellor and the Prime Minister. We had strongly advised against such a mercantilist approach and believed that it would gain the UK no respect from Beijing. However, our advice was over-ruled by the Cabinet Office”<sup>164</sup>.

The British media had almost universally accused Downing Street of kowtowing to China (Guardian 2014; The Spectator 2013). Besides the criticism of the Coalition government ignoring principles and values, one of main criticisms of the deal was the unprecedented danger involved in national security. The Coalition government was accused of “jeopardising national security to appease an authoritarian government” (BBC 2013). From my in-depth discussions with members of the Cabinet Office, the concern for national security had always been in the mind-set of the UK government. However, with a weak economic recovery ahead, the priority had become to attract the Chinese investors to re-invigorate the British economy.

The British government had used this joint nuclear power station construction as a means to defrost their troublesome bilateral relations. To a large extent, this case reflected how the

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<sup>164</sup> Interviews with two very senior FCO members during EDF-CGNPC commercial consultation meetings, October 2012

British government responded to the changes in Chinese foreign policies as well as to shifts in the balance of power amongst the foreign policy making institutions. Firstly, the Sino-UK investment projects were part of China's attempts to rebalance and restructure their domestic economy. The Chinese government aimed to encourage more and more SOEs to participate in foreign investments in order to establish their reputations, as well as honing their management skills. These twin assets were abundant in the UK and the EU, but relatively scarce amongst Chinese companies.

Secondly, China's assertive responses to the Coalition government's Dalai Lama meeting was a demonstration of China's newly acquired economic strength being used to achieve its political goals. In other words, to respect China's principal of foreign policy was the absolute prerequisite to the cultivating of strong economic ties. Equally important, the MFA's vociferous criticism was a reflection of the shifts in the institutional balance of power amongst bureaucratic actors in shaping the outcomes of China's foreign policy. This case did not suggest that the MFA had fully managed to restore its once powerful status amongst other ministries. Rather, it indicated that the MFA still managed to utilise its limited and yet deployable resources to ensure its proposals were agreed to by the ultimate decision-makers. Yet, the British government had largely misunderstood, and stagnated itself in the conflict. To this extent, it indicated that the Sino-UK bilateral relationships had also been largely dictated by an array of actors which produced some unexpected and damaging outcomes.

## **2. The role of the German government in collaborating with China on climate and renewable technologies**

Unlike the British government who rushed to rectify its relations with China, Berlin has

conducted a rather coherent China policy over the past few years. On the one hand, the German government managed to improve their commercial relations and remained as “the largest trade partner with China in the EU (Xinhua, 2014b)”. On the other hand, the German government has continued to engage with China in regards to normative issues, but with a markedly softer tone.

In recent years, Berlin was fully aware of the Chinese government’s determination to curb their carbon emissions and to establish a competitive renewable industry. Therefore, the German government has successfully combined its expertise in the field of climate science and enthusiasm over curbing emissions as part of its China policy. It established and executed a comprehensive collaboration plan on CC and RE across all levels of the Chinese government apparatus. Meanwhile, both the corporate sector and non-governmental sectors have also developed active programmes to promote German home-grown environmental technologies and emission reductions measures. Most collaborative projects have become major success and have been considered as a great achievement for the Sino-German bilateral partnership. However, Germany’s success was at the expenses of undermining the EU’s overall engagements with China in the fields of CC and RE.

The EU’s core strategy to collaborate with China on CC and RE are mainly through regular policy dialogue and technical consultation. As suggested previously in this thesis, it is rather difficult to measure the success of this policy dialogue as it is a matter of style over subsistence. By contrast, the German government has not only conducted bilateral ministerial dialogues over Climate Change, but more importantly “executed an in-depth collaboration plan with both the central ministries in Beijing as well as the provincial governmental authority simultaneously” (MFA, 2012b; Ecological Institute, 2012a).

The most noticeable and high-level collaborations were initiated by the German International Cooperation Agency (GIZ). In 2010, Angela Merkel paid a visit to China; “GIZ’s collaboration plan was part of her visit’s agenda” (China Daily 2010a). Beijing and Berlin signed an agreement on a joint “Sino-German Climate Change Programme” (SGCC). This Programme aims to “enhance the capacity of national, provincial and local institutions in order to further develop, implement and monitor Climate Change and carbon reduction” (GIZ). The main Chinese collaborative partner is the NDRC, which has been the most influential institution in China’s CC and RE policy formation and execution. The Programme itself covers three broad areas: namely, “the capacity building for Climate Change Mitigation and Adaptation, Low Carbon Development in the Power Sector and Low Carbon Development in the Power Sector” (Ibid). With emphasis on the Transportation sector and Power sector, GIZ’s Chinese partnerships have also been extended to the Ministry of Transportation and several Chinese utility SOEs.

As observed previously, most joint projects between China, the EU and the MS have given a strong emphasis upon technical transfers or scientific innovations. They focused on the technical side of Climate Change whereas the GIZ’s Programme placed their focuses towards policy measures as well as the implementation side of Climate Change mitigation. These engagements by the GIZ have been very successful both at the central ministries and several provincial governments across China. According to the training programme manual from GIZ, “the SGCC Programme hosted monthly seminars to train members of staff at the Climate Change Bureau of the NDRC (Ecologic Institute 2012b; Climate Policy, 2013)”. The training sessions covered a wide array of carbon reduction and climate change policy related areas. They were mostly to introduce Germany’s policy implementation experience in curbing

emissions and experience in increasing the public awareness of climate change.

According to my interviews with the SGCC Programme organisers, they believed that “this particular type of engagement was rather more successful than merely conducting policy dialogue. Such training would facilitate a better understanding of CC and help to result in more efficient policies on curbing emissions in China”<sup>165</sup>. For example, one of the most successful training sessions focused on “Carbon Emissions Measurement, Reporting and Verification (MRV)”. As established by both media and scholars, “MRV had always been an area of dispute amongst the EU, the MS and China when it came to the UNFCCC negotiations (De Matties, 2012: 29; Torney&Biedenkopf, 2013: 11; 21<sup>st</sup> Century Economic News, 2010b)”. Beijing insisted that “the methods of measuring and reporting emissions were subject to decisions by the Chinese government institutions. As asserted by a Chinese scholar, “these processes were matters of Chinese domestic policy which had nothing to do with the Europeans” (Pan, 2010:2).

Therefore, the Chinese government preferred “to calculate the emission units according to its own MRV mechanism rather than adopting the European MRV system (Caixin, 2010b)”. Yet, the refusal to adopt the European MRV mechanism posed a serious challenge to both the Chinese and the European companies that participated in the Clean Development Mechanism projects in China. Under the Kyoto Protocol, “the European MRV system to calculate carbon emissions was considered as one of the accepted standards when it came to qualify the Certificate Emission Reductions (CERs) whereas the Chinese emissions calculating method was not accepted by Kyoto Protocol” (IETA: 3,4; Ibid, 2013:5). Whilst the European MRV lost its validity to Chinese CDM projects, most joint CDM projects between the Chinese and

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<sup>165</sup> Interviews with Marcus Muller at SGCC Programme, GIZ, Beijing August 2013

the European enterprises had encountered great difficulties in converting the Chinese emission units into the European standardised units.

As a result, the participants in some Chinese CDM projects lost its economic incentives to qualify CERs. This was largely due to neither the Chinese Designated National Authority (DNA) on CDM nor the European counterpart accepting the MRV system of each side. Such predicaments in carbon emission conversion had discouraged many European companies from entering into Chinese CDM projects, which in turn prevented the Chinese companies from learning the latest climate change or renewable energy technologies. GIZ's SGCC programme spent "almost six month of training to explain the importance of having a universally accepted MRV system (Ecological Institute 2012a)". As asserted by both foreign and Chinese media, "the NDRC finally decided to gradually adopt the European MRV system in selected industries, such as coal and petro-chemical industries, when it came to launch China's pilot project in emissions trading in 2013 (AHK, 2013;Ideacarbon 2013; 21<sup>st</sup> Century Economic News 2013)". To a large extent, this was deemed as a significant achievement in the German government's effective engagement with China on the subject of CC and RE.

The collaboration under SGCC Programme had not only been carried out at the central level in Beijing. The German government was also fully aware of the division between the central and provincial administration when it came to formulating and executing the decisions on energy and the environment. It was therefore of heightened importance to engage with the provincial governments over the issues of CC and RE. According to SGCC official website, "the GIZ had also conducted a similar training programme at the provincial level of administration. It chose provinces across China, including Guangdong, Hubei, Jilin and Jiangxi (SGCC website)".

According to my own knowledge and analysis, there were a few compelling reasons why the GIZ hand-picked the above four provinces as pilot studies of the provincial engagements. Firstly, the chosen provinces had already experienced the benefit of RE, Guangdong and Jiangxi had built and utilised civil nuclear power stations for electricity generation and Hubei used bio-fuel. A sense of familiarity would make it easier for the GIZ to deliver the training programmes. Secondly, provinces such as Jilin and Hubei were treated as the hubs for China's utility grids. Therefore, training for policy measures would help the GIZ to further enhance its own understanding on China's grids, and the German's smart grid projects could be brought in at a later stage. Thirdly, the above four provinces have large populations. Successful results in training and collaboration could bring a greater impact and substantial commercial contracts to the German companies when they place bids for government public procurement projects. These projects were often very hard to bid for unless the bidding companies or the organisations have had similar working experience with the hosting governmental institutions. According to my interviews with staff members at the GIZ, they considered "their multiple engagements with both the central ministries and provincial governments as a major source of success for the bilateral collaboration on CC and RE between China and Germany"<sup>166</sup>.

However, the major successes the German government achieved had overshadowed the overall Sino-European collaborations on the CC and RE. This was largely because the Sino-European collaborations were finding it difficult to move beyond the annual policy dialogue and policy consultation process. As a NDRC participant of the GIZ training pointed out, she had the impression that "it was the Germans who drove the overall Sino-European

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<sup>166</sup> Ibid



collaborations on the CC and RE”.”<sup>167</sup>. This view was also “echoed by the Chinese Premier Li Keqiang during his trip to Germany in 2013(China Daily 2013)”. Certainly, this was merely an impression, yet it reflected the Chinese perception over the collaborations. Su wei, the Head of Climate Change Bureau at the NDRC argued, “the officials from Brussels came to Beijing to discuss issues and errors within our climate policy whereas the Germans came to China to show us how Berlin executed its climate policy. There were fundamental differences in terms of attitudes on how they worked with China between Brussels and Berlin”<sup>168</sup>. Mr Su’s views were also seconded by some European academics who are researching on this subject, they suggested that “the most intensive EU cooperation came from the MS rather than the Union itself” (Dorney and Biedenkorf, 2013: 11).

Given the German government’s multi-level and in-depth collaborations with China on climate change, the German government had therefore openly opposed the EU Commission’s decision to launch the “Anti-Dumping& Anti-subsidies” investigations over China’s solar panel industry” (FT 2013e). Paradoxically, it was a German solar company that filed the complaint to the Commission because the Chinese government’ substantial amount of subsidies towards the solar manufacturers severely threatened the Germany company’s competitiveness. The German government also treated the solar panel manufacturers as a crucial industry to secure local employment in the Eastern part of Germany. However, Berlin’s opposition towards the EU had not only stunned its solar companies, “but more importantly weakened the overall EU’s position to launch the investigations to China (WSJ 2013)”.

Angela Merkel’s government had several compelling reasons to oppose the investigations. As

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167 Interviews with a NDRC participant of SGCC training seminars, Beijing August 2013

168 Interviews with Su wei, Beijing August 2013

the largest trade partner to China within the EU, the German economy had enjoyed continuous high demand from China on its refined manufacturing products which China could not produce from its own capacity. For example, under the renewable energy development campaign, China had rapidly jumped into the position of being one of the top three global wind turbine manufacturers; as several scholars asserted, “this was all thanks to German turbine technology licenses” (Berger et al, 2012; Lewis, 2008). According to some industrial experts, the growing competitiveness of the Chinese wind power industry depends greatly upon “modularity”, which allows the Chinese manufacturers to purchase turbine licenses from selected leading European design houses, and it was several German companies that were the target of Chinese enterprises (Lema&Lema, 2012; Li& Shi, 2010).

With those licenses in hand, the Chinese manufacturers integrated themselves well into the entire turbine industry supply chains. For example, “Goldwind Electricity Co, a leading wind turbine manufacturer bought the famous German turbine design house, Vensys in 2008” (China Daily, 2009). According to data from the German Development Institute and China Construction Bank, there were at least five leading German turbine design houses which were purchased by Chinese manufacturers in 2011 (DIE 2011, CCB 2011).

This link in the wind turbine industry was merely the tip of the iceberg to illustrate how many German manufacturers and exports relied upon Chinese demand. Therefore, Berlin was rather afraid that agreeing to the EU’s initiative to launch the investigations would harm the German industry to a considerable extent. This would also undermine the previous efforts being made by the GIZ through the SGCC programme. Berlin consequently opposed Brussels’ decisions on the investigations. The German’s opposition to the investigations led to other MS which have stronger trade relations with China to side with Berlin.

To this extent, the EU's authority has already been largely undermined and overshadowed by the commercial successes that some MS achieved by engaging with China economically. It was almost impossible to expect the EU and the MS to speak with a single voice on issues related to China when each actor has rather distinctive interests to pursue. In the case of Germany, the success of collaboration in regards to climate change would certainly lead to strong attempts to achieve fruitful results in other areas of their bilateral relations with Beijing.

In summary, this section exhibited two large MS' engagements with China on CC and RE. These collaborations had become effective remedies to either repair or enhance the bilateral partnerships. To a large extent, such success was particularly driven by the MS' willingness and their carefully crafted collaboration plans. More important, these successful results were driven by changes in the Chinese energy and FP as China faced the daunting domestic challenge of energy shortages and suffering from its highly polluting growth model. As a result, China had to rely upon foreign collaborations to mitigate an imminent environmental crisis. MS' active engagements certainly impacted upon the overall EU position in engaging with China in these two fields. The EU's overall position was weakened and decisions from Brussels were side-lined. In this context, it indicated that the Sino-European collaborations were very much shaped by the interests and activities from a diverse range of actors. Apart from the European governments at different levels, the European companies have continued to play a major role in different areas of engagement with China. This also applies to the fields of CC and RE. The next section will therefore make an attempt to explain the role of European companies in determining Sino-European collaborations.

### **Section 6.3 The Role of the European Companies in Determining the China-EU Collaboration on Climate Change and Renewable Energy**

This section shifts the focus of the chapter to the relations between European companies and their Chinese counterparts when they have collaborated on projects in the fields of CC and RE. The European companies' collaborative partners have not been restricted only to the large Chinese SOEs, but have also extended to the central ministries and provincial governments. Due to the restrictive length of this section, it will only focus on the interactions between European companies and the central ministries in China, and the relations between European companies and the Chinese utility SOEs.

As observed in Chapter Five, the Chinese SOEs are, in part, economic vehicles for the state. They are characterised simultaneously as both corporate organisations as well as governmental departments. On the contrary, the European companies were mostly publicly listed companies that were directly controlled by their shareholders and investors. Their ultimate objective is to maximise their profits and to expand their businesses into new markets. China, for many European companies, is an attractive yet very opaque market. As a result, the European companies would have to formulate amicable relations with the key decision makers as well as the leading SOEs simultaneously in order to set their foot into, and to profit from, the vast market of China.

Given that the areas of CC and RE had been relatively new industries for both the Chinese government and Chinese companies, this sense of unfamiliarity offered European companies a rare and enormous opportunity to act as harbingers to China. A few European companies helped the Chinese government to establish the rules and regulations for the industry, while

some of them introduced the latest cutting edge technologies in the field of RE and carbon emissions.

Yet, not all their collaborations have been free from difficulties and bureaucratic predicaments. As observed by some media outlets, “some of the European companies had to withdraw from the Chinese market because of the increasingly protectionist approach to the RE market undertaken by the Chinese authorities” (Daily Telegraph, 2010; NY Times, 2009). This was largely due to the rapid progress that the Chinese RE manufacturers made in a relatively short span of time.

Beyond this introduction, this section will offer two case studies to illustrate the successes and the failures of the European companies collaborating with Chinese counterparts. By doing so, this section intends to illuminate the overall Sino-European collaborations are very much dictated by a multitude of actors, which have its own distinctive interests to pursue in these collaborative partnerships. Their own interests have certainly impacted upon the dynamics of the collaborations.

As asserted in Chapter 4, the Chinese governmental ministries in Beijing played a decisive role in shaping China’s energy policy as well as determining wider international collaborations. The European companies that intended to secure a lion's share of the Chinese market were fully aware of the enormous power that the central ministries have to shape policy outcomes. They have often treated the Chinese governmental ministries as the first choice of collaborative partners when they initially entered the domestic market. Successful collaborations between the central ministries and the European companies mostly took place at the very early stage of developments for the Chinese RE sector. This was largely because

formulating and executing RE and CC policies were daunting challenges to the central ministries due to their lack of industrial expertise in both sectors. The European enterprises played the role of “information provider” by introducing technological standards and industrial practices to the central ministries. By providing information, the European companies enabled their preferred policies to be introduced; and their products were adopted by the Chinese authorities.

### **1. VESTAS and NDRC collaborations to establish the Chinese Wind Industry Standard**

VESTAS has been the leading global player of wind energy since the invention of wind power generation technology. It entered the Chinese market in 1998 through the exporting of small-scale offshore turbines and gearboxes to Chinese oil companies which have big offshore oilfield operations. VESTAS did not export its entire turbine technology until 2003 when the Chinese authority allowed foreign participation in wind farm constructions (NDRC 2003). Five years later, VESTAS made a joint bid on China’s first offshore wind farm, albeit unsuccessfully.

VESTAS’ clients in China have included all five Chinese major utility companies and two oil companies. It has also acted as a major facilitator to the “the Sino-Danish Renewable Energy Development Programme (RED)” under the governance of Energy Research Institute of NDRC (ERI; NDRC2006a).

VESTAS’ early successful collaborations with the Chinese government are in marked contrast to the mostly troubled cooperation projects between European companies and their Chinese partners. Its initial success in the Chinese RE market was not with a Chinese utility State Owned Enterprises (SOEs). Rather, VESTAS’ most noticeable and successful collaboration

was between 2009 and 2010 when the company helped the NDRC and other ministries to draft “the PRC Wind Energy Equipment Manufacturing Entry Standard”<sup>169</sup> (MIIT 2010; Xinhua, 2010a). Yet, according the interviews, VESTAS did not directly participate in the drafting process run by the NDRC; rather, “it acted as a crucial information provider and experienced consultant to the NDRC in carrying out some feasibility studies of establishing an integrated wind energy industry in China”<sup>170</sup>.

In 2009, the NDRC and other ministries had intensive discussions over “drafting the industrial standards of various forms of Renewable energies” (NEA 2010). As suggested in Chapter 4, most staff members who worked at the NDRC were part of a “revolving door process”<sup>171</sup>. It was this process which allowed them to shift from fossil fuels companies into the NDRC and other energy-related government agencies. However, these staff members had very little knowledge in terms of renewable industry. “They were confused by the technologies of power generation via solar, wind and hydro. Some of them had never even seen a wind farm before”<sup>172</sup>. As a result, the NDRC realised the challenges it faced to formulate appropriate policy proposals for submission to the State Council for further discussions and endorsements. According to my interviews with the NDRC, “its staff members were familiar with a few names of the European companies in the area of RE, such as Siemens, VESTAS and RWE. Therefore, they sought out these European conglomerates for expert advice”<sup>173</sup>.

VESTAS was one of the few European wind energy companies that had entered China by 1999” (VESTAS). It was automatically chosen by the NDRC to give expert advice on

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169 Referred as “The Standard” in the following paragraphs

170 Interviews with VESTAS Government relation manager, September 2012, Beijing

171 Interviews with a staff member at the NDRC, August 2012, Beijing

172 Interviews with VESTAS Government relation manager, September 2012, Beijing

173 Interviews with a staff member at NDRC, September 2012, Beijing

establishing an industrial standard for the Chinese wind energy as well as to carry out feasibility studies of wind energy in China. As my interviewees from VESTAS suggested, “the Company was very surprised that it was chosen by the NDRC to consult on the Standard. Yet, it was enthusiastic about doing so because VESTAS would become an information provider and play a vital role of agenda setting when determining the Chinese wind industry’s rules and regulations”<sup>174</sup>. Combined with four staff members from the NDRC, VESTAS provided a group of 15 wind energy experts and travelled to possible wind farm locations such as, Xinjiang, Inner Mongolia and Gansu provinces for the initial feasibility research.

It had also extensively researched on which types of turbines produced by VESTAS would be most suitable according to the geographic landscape in China. Meanwhile, VESTAS also sent several turbines and gearboxes to test the installation capacity of the potential farm locations. It bore the huge initial financial cost to ship wind energy equipment and to conduct geographic compatibility research. However, VESTAS asserted that “China would begin its wind industry expansion very soon, and the more we used our products to show the viability of wind farms in China, the more we would gain financially as well as politically”<sup>175</sup>.

The above interviews, demonstrated that VESTAS worked hard to establish its own reputation and to build trust with the Chinese government, just like many other Western companies have done in China. As media outlets have asserted, “the main attribute to VESTAS’ success in collaborating with the Chinese government was due to China’s nascent developments of RE” (China Energy Daily, 2011). VESTAS managed to act as an insightful information provider which was similar to the way in which some Chinese SOEs did with their corresponding governmental departments. VESTAS realised that in a semi-market

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174 Interviews with VESTAS Government Relations Manager, August, September 2012, Beijing

175 Ibid



oriented economy like China, the importance of having the trust, and connections, from the central ministries had become vital to the survival and commercial success of a foreign company in the vast Chinese domestic market. Building trust would be even more important than merely transferring the latest technologies or exporting products to China.

After several months of research and testing, the NDRC had finally adopted most of the research findings and conclusions made by the VESTAS team. The NDRC together with Ministry of Industry and Information Technology (MITT) had therefore drafted the final version of China's "Wind Energy Equipment Manufacturing Standard" according to the test results "using almost exclusively VESTAS equipment"<sup>176</sup>; and "the draft sent by the NDRC was finally approved by the State Council" (Xinhua 2010). Arguably, VESTAS had successfully shaped the decision-making process of the Chinese RE policy via an alternative avenue which introduced its wide range of products to the Chinese market. As a result, VESTAS was consistently chosen as a collaborative partner by Chinese SOEs in the later projects to construct wind farms because of the endorsements made by the NDRC. In addition, a number of flagship projects between Chinese SOEs and VESTAS were highlights of the central government visits led by both the Chinese and Danish Premiers (NDRC, 2011a; MOST 2012).

As demonstrated by other scholars and industrial reports, VESTAS' influence on Chinese RE policy between 2009 and 2010 was not a rare phenomenon just at the early stages of China's RE developments", the impact of foreign companies upon the Chinese industrial upgrade also extended into other sectors such as, the high-speed railways and automotive industries (Berger et al, 2012; IRENA). Yet, for VESTAS, its triumph with the Chinese government

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<sup>176</sup> Ibid, and interviews were also complemented by a staff at NDRC and a senior advisor at China Wind Energy Association who participated in drafting the standard, September 2012, Beijing

continued during the period when the Chinese wind industry reached its maturity. It managed to negotiate “a level of policy flexibility” according to its own corporate interests, something which most foreign companies have not succeeded in achieving.

After the Standard was published in 2010, “the NDRC and the newly established NEA made several revisions due to China’s rapid progress in the manufacturing of wind equipment and constructing wind farms” (China Business Journal 2011). In particular, the “NEA paid greater attention to the safety standards of the industry after several incidents occurred” (Wind Power Monthly 2011). At this stage, the NEA consulted neither domestic wind energy companies nor the foreign ones regarding the revisions.

In May 2011, “the NEA required all wind turbines built in China have ‘Low Volta Rod Through (LVRT)’ capacity, which allows turbines to continue spinning when electricity runs very low” (People’s Daily 2011). LVRT capability will avoid turbines stopping abruptly which will prevent potential detrimental damage to the entire turbine. “The NEA required all turbine manufacturers to have the LVRT capacity Certificate by the end of 2011” (China Daily, 2011b), and the testing of the turbines had to be completed specifically at the only NEA designated test centre in Hebei province. As a result, a large number of turbine manufacturers scrambled for testing slots in Hebei.

As established in interviews, “despite VESTAS’ good relations with the NDRC, just like its peers it faced an equally pressing challenge to suspend all of its operating turbines in China following the updated industrial standard from the NEA, and the Danish giant was not even allowed to use its European certificates of LVRT. It was very much afraid of running out of

time because the test involved possible IPR disclosure in the test centre”<sup>177</sup>. After an intensive lobbying process, VESTAS had provided compelling reasons to ask for the LVRT test to take place in Denmark rather than China. “It was finally given permission by the NEA to organise the test outside China as long as staff members from the designated test centre in Hebei were to be present”<sup>178</sup>. As a result, VESTAS had no delay in obtaining the LVRT certificate as requested by the NEA. This case served as a classical example on how the European companies which had familiarised themselves with the Chinese policy making system had managed to successfully negotiate it for their own benefit.

This success in interpreting Chinese domestic policy by VESTAS was rather exceptional. In particular, VESTAS successfully established sophisticated and amicable relations with the key departments of the Chinese energy policy making. It fully understood the power of the NDRC over agenda-setting in China’s RE developments. VESTAS had also managed to protect its IPRs even if it had experienced small difficulties over the updated policy certificate. Instead of protesting through the EU Commission or the European Chamber of Commerce in China, VESTAS skilfully managed to serve as a good information provider to the Chinese government and negotiated some policy flexibilities for its own benefit.

However, the next case will depict more conventional collaborative relations between a European company and a Chinese SOE, with interventions from several central ministries. But nonetheless, both case studies serve the purpose to demonstrate the extent to which the Sino-European collaborative partnerships on CC and RE are often determined by the diverse interests of a wide range of actors participating in collaborations.

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<sup>177</sup> Interviews with a LVRT testing project staff member, Chinese Academy of Science August 2012, Beijing

<sup>178</sup> Ibid

## **2. Siemens and China Hua Neng Renewable Company's collaboration over the construction of China's first offshore wind farm**

The German industrial conglomerate Siemens “entered China back in 1872 (Siemens 2013)”. Its business operation in China included “power generation and transmission, health care, lighting, high-speed railway, white goods manufacturing and renewable energy” (Ibid). Its main collaborative partners consisted of a large number of the Chinese SOEs across several industries. Siemens’ collaborative projects with their Chinese counterparts had often been treated as flagship projects between China and Germany, therefore, “almost every German Chancellor and the Chinese Premier witnessed the signature ceremonies during their frequent bilateral visits” (China News, 2004; Sohu News 2010). The most profitable business units by Siemens in China were located in “the power generation and transmission sector, closely followed by high-speed railways” (Siemens, 2013). After China’s endorsement of the Renewable Law, Siemens longed for a lion's share of China’s RE boom. Unlike VESTAS, Siemens was not a conventional RE company but “aspired to make its renewable unit into a blue-chip business unit” (Ibid). However, as some experts asserted, “it had not established a strong reputation as a global leading renewable player amongst the Chinese RE policy making community” (Berger et al, 2012: 14). It was therefore much harder for Siemens to compete with VESTAS in the field of RE in China.

As demonstrated in Chapter Five, VESTAS and the CNOOC failed to bid together for the first offshore wind farm in China in 2008. The main reason for the VESTAS-CNOOC’s failure was the lack of the requisite license from the State Oceanic Agency (SOA) because CNOOC had not established an amicable working relationship with the SOA. Two years later, “in 2010, the China Hua Neng Renewable Company (CHNRC) began to bid for the

construction of its first offshore wind farm in China, which was located on the coastline alongside the East China Sea” (Sina 2010). Siemens became the joint bid partner with the CHNRC due to its long-term partnership with the China Huang Neng Group (CHN), the parent company of CHNRC.

As media outlets observed, “Siemens had established its long-term and successful collaborative partnership with CHN in 1993” (China Energy Daily, 2014b). CHN is China’s largest utility company both in terms of profitability and fixed assets. CHN was also politically well connected, with a member of the Standing Committee of Politburo within the Chinese Communist Party backing its business operation. Siemens’ collaboration with CHN was mostly placed in the conventional power generation and transmission sector. “It participated in almost all of CHN’s power grids innovation projects as well as the Inter-Generation Combined Gas and Coal technologies project” (Ibid)<sup>179</sup>. Therefore, Siemens automatically became the collaborative partner and acted as the exclusive wind turbines supplier to CHNRC for several inland and onshore wind farms in Inner Mongolia and Xinjiang until 2007. However, as a number of scholars asserted, “Siemen’s turbine supply business to CHNRC was badly affected by the NDRC and the MOST’ policy execution of ‘Indigenous Innovation’ and the requirement of ‘local contents’ for all new RE projects commencing in 2007 (Kuntze&Moerenbout, 2013: 17,18; MOST 2007)”. These two policies mandate “had been heavily criticised by most European companies that were operating in China” (Roland Berger 2010, ECCC 2011, (Economic Observers, 2011a).

In order to expand its own RE business and avoid conflict with the “local content requirement” policy, Siemens made a good attempt in joining CHNRC to bid for the

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<sup>179</sup> A show case project was asked by the NDRC

construction of CHNRC's first offshore wind farm in China, namely the East China Sea Bridge Wind Farm. Until now, "Offshore wind technology was excluded from the NDRC and the MOST' policy mandate of 'local content requirement' due to China's own lack of technical know-how in the area (NDRC 2009e)". Therefore, Siemens realised it again had a large role to play in China's booming RE market.

As suggested in expert interviews, in CHNRC's proposal to the NDRC and the MOST, Siemens was designated to act as CHNRC's exclusive supplier of offshore wind turbines, and CHNRC realised that there were not any other tenders with a real competitive edge necessary to win.<sup>180</sup> Siemens almost certainly enjoyed this exclusivity and the likelihood of becoming a major foreign participant in China's first offshore wind farm construction. Meanwhile, Siemens' partner, CHNRC utilised its omnipresent political capital to convince the NDRC and the MOST to accept the company as the only constructor for the project.

Unfortunately, the Siemens-CHNRC's joint bid was refused by the NDRC and the MOST. Instead, the NDRC and the MOST suggested that the "CHNRC should collaborate with a home-grown Chinese wind turbine manufacturer to build a 100% home grown offshore wind farm"<sup>181</sup>. As a Chinese newspaper observed, "the NDRC/NEA recommended a company called, Sinovel as the potential supplier to CHNRC's offshore turbines" (China Daily, 2011a). In addition, the NEA and the MOST also advised CHNRC to have "the Shanghai Electric Company, another power generation SOE, to co-develop the project" (Ibid). Based on interviews with CHNRC, they asserted that "the new offshore wind farm should be located on the coastline near Shanghai; therefore, it was crucial to have a local government-owned

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180 Interviews with a staff member at Siemens Renewable Unit, August 2012, Beijing

181 Interviews from a staff member at CHNRC, August 2012

company as a partner to facilitate the project”<sup>182</sup>.

Moreover, the other Chinese turbine manufacturers also criticised the German industrial giant because Siemens had entered all government-led projects and benefited enormously from China’s favourable policy towards foreign direct investments. It was now time for China to encourage its own home grown technology to flourish” (Economic Observer, 2011b). Despite offshore wind energy being excluded from the policy requirement of “local content”, the NDRC and the MOST still insisted on their preferred domestic suppliers for this particular project. As a result, Siemens withdrew from the joint bid and Sinovel became the turbine supplier for CHNRC with Shanghai Electric Company’s participating in the construction of the wind farm. Instead, Siemens set up “a Joint Venture with Shanghai Electric Company” to produce the blades and became a minor supplier of CHNRC (Siemens 2011). To date, it was not possible to completely ascertain the reasons for the NDRC and the MOST to insist on having Sinovel and Shanghai Electric Company participate in the project. Such a decision does, however, indicate the opaqueness of the Chinese energy policy decision making system as well as the arbitrary process of bidding for government-led projects.

Siemens became a victim of its own success in the Chinese market. Its expansive business engagements across various state-led industries had certainly alarmed both decision makers in Beijing and its existing Chinese competitors. Siemens was furious about a failure due to the Chinese government’s arbitrary and ad-hoc interpretation of the “local content requirements” policy mandate. As a number of media outlets observed, it filed complaints with both the German government and the European Chamber of Commerce in China (ECCC 2011; 21<sup>st</sup> Century Economic news 2010a). In 2011, the Chinese Premier Wen Jiabao was on

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182 Ibid

a goodwill trip to Germany. During his visit, “Chancellor Merkel pointed out the unfair treatment encountered by Siemens and other German companies; and she made similar comments in her 2012 China visit” (BBC, 2011b; WSJ, 2012). Meanwhile, the ECCC published a series of policy documents and a market survey, which were funded by Siemens and other German professional services firms, to indicate that a “lack of openness in government decision over several infrastructure projects had been the biggest obstacle for European companies operating in China” (Roland Berger 2011, 2012). According to the survey, “the European companies mostly feared that the updated investment policies were no longer in favour of foreign enterprises. The European companies had to take more risks to operate in China than five years ago” (Ibid). Despite the protests from Siemens and other European conglomerates, the NDRC and the MOST had continued to execute this policy of “local content requirement” in the fields where it was not mandatory to do so.

However, as the media and experts have asserted, the Chinese government’s protectionist approach in the RE sector had triggered “a severe symptom of production overcapacity in the industry and a cross-sector industrial disaster loomed” (Hu, 2013; NY Times, 2012). Whilst Siemens remained in close collaboration with China Hua Neng Group in the power generation sector, it did not continue to fulfill its ambition to become a major player in the Chinese RE market. Siemens learnt from its failure with the CHNRC that the RE sector in China was largely dominated by the government-subsided Chinese enterprises without any real competitiveness in the global market. It could have still set its foot firmly into the Chinese RE sector at the expenses of accepting the price distortion by the Chinese government and by lowering their profit margins. However, Siemens became far less willing to do so.



The above case reflected the fact that Siemens failed to adapt to changes in RE policy executed by the Chinese governmental ministries. Shifts in China's RE policy were mostly driven by the rapid and yet unsustainable developments in China's own RE sector. Once China became self-sufficient in certain industries, such as renewable sector, it would begin to take a protectionist approach to its newly established industries. Despite Siemens' long term experience in the Chinese market, it failed to recognise that the purpose for developing a strong RE sector in China was to achieve its own industrial upgrade from "Made in China" to "Invented in China". Therefore, the Chinese government would not allow stiff competition from foreign companies to undermine its own early success even if such a protectionist approach triggered a staggering volume of production overcapacity in the RE sector.

The Chinese government knew well that the European companies would not completely retreat from China's vast domestic market even if the market condition had largely deteriorated compared to five years previous. However, this protectionist approach was a discouragement for further Sino-European collaboration over climate change and RE. Siemens' vociferous criticism to the Chinese government had only prevented further progress in the areas of collaborations for both sides.

To conclude, this section disentangled the European companies' relations with the Chinese central government and the Chinese SOEs when they collaborated in the areas of RE. The above two case studies illustrated the responses, the successes and failures of the European conglomerates in dealing with their Chinese counterparts. Some of the companies had adapted well to the policy shifts in the Chinese government and continued to act as an invaluable partner to both the government and the SOEs. Whilst others had failed to recognise the changes in market condition and shifts in the industrial upgrade in Beijing, and

therefore became bitterly involved in disputes over various issues.

These two examples also demonstrated that the European corporate sector had played a decisive role in determining the quality of the Sino-European RE collaboration. Their success in the Chinese market accelerated the overall collaborations to achieve fruitful results whereas their failure had triggered other European RE companies' hesitation to enter collaborative partnerships with Chinese counterparts. These observations thoroughly tested the hypothesis of the thesis, which is that "the Sino-European collaboration on CC and RE are largely determined by distinctive interests of a diverse range of governmental and corporate sectors". It is therefore a multi-level relationship, not a one-dimensional bilateral partnership between Beijing and Brussels.

## **Conclusion for Chapter Six:**

In conclusion, this chapter investigated the EU's responses to the overall climate change (CC) and renewable energy (RE) collaborations with China. It did not treat the EU as a singular analytical unit. Rather, it disentangled the relations between the EU institutions and ministries in Beijing; the partnerships between the member states (MS) and the Chinese governments across different levels; and the ties between European companies and their Chinese counterparts, either the governmental partners or the corporate ones.

This chapter observed that the EU institutions mostly lacked the sufficient institutional resources and political willingness to accelerate the Sino-EU collaborations on CC and RE. It failed to recognise and to respond to China's own enthusiasm to curb emissions and to develop a fully-fledged RE sector. The EU institutions had largely restrained its collaborations within Beijing to a form of superfluous policy dialogue. Meanwhile, the EU institutions' capacity to engage with China were seriously challenged by the policy agendas and activities conducted by the MS.

However, the MS' engagements with China have not been a total success. A number of large MS complacently underestimated the controversies that would be caused over Tibet and human rights dictating bilateral relations with Beijing. Using RE collaboration as a rapprochement was part of the British government's solution to "normalise" the Sino-British relations. The rapprochement was also much driven by China's own interests in developing a world-class competitive RE sector. Therefore, collaborating with countries such as the UK, with a strong RE industry would be a good learning experience for both the Chinese government and companies.

Whilst the UK was busy at repairing its bilateral relations with China, Berlin had managed to maintain sound commercial ties with China without becoming involved too much in normative issues. Germany had formed a well-established carbon emissions reduction framework as well as a robust RE sector. It had actively engaged with China by sharing its own CC mitigation experience rather than antagonising China on certain irreconcilable issues such as obligatory emission targets. Germany's collaboration with China was not restricted to the central government in Beijing but was also extended to some of the most populous provinces in China. It had responded well to changes in the Chinese government's attitude towards climate change.

The European companies had played an indispensable role in facilitating the overall collaborations on the one hand. However on the other hand, they had also undermined the prospects of further collaborations due to their own lack of understanding of changes in the Chinese RE policy making. Most successful collaborations occurred between the European companies and the Chinese governments when Beijing wished to have European companies acting as information providers and experienced consultants. While a small number of European conglomerates had successfully maintained their reputations and commercial prosperity from their good relations with the Chinese government and companies.

Yet, most European companies did not have the good fortune to develop amicable relations with the governmental ministries and companies in China. This was in particular in the RE sector where China experienced a rapid progress in developing RE. As parts of an "Indigenous Innovation" campaign, the Chinese government took a strong protectionist approach to ensure the home grown manufacturers were treated favourably. However, most European companies became the victim of this policy mandate carried out by Beijing. As a

result, they were disenchanted by the “magic” of the Chinese domestic market, and withdrew from their plans to enter the Chinese RE sector.

Overall, this chapter tested the hypothesis of the thesis and dedicated itself to investigating the role of each European actor in determining the outcomes of the Sino-European collaboration on CC and RE. It concluded that the distinctive interests of each actor greatly impacted upon the results of the collaborations. Some of their interests were irreconcilable with China, as well as amongst themselves.

## **Chapter Seven: Conclusion for the Thesis**

### **Introduction:**

This thesis provided an in-depth and detailed examination of China-EU relations between 2001 and 2013. Specifically, this thesis investigated the collaborations on Climate Change and Renewable Energy between China and the European Union. It departed from the conventional academic literature in the field, which has treated Sino-European relations as bilateral ties between Beijing and Brussels, as well as between China and the national capitals of the EU member states (MS). Therefore, this thesis embarked on a research mission to study Sino-European relations by focusing on individual institutions and corporate organisations.

To achieve this, this thesis investigated the foreign policy formation and execution process in Beijing. It examined the extent to which changes in foreign policy priorities and the growing numbers of players involved in Beijing's foreign policy making process have altered China's EU policy. It has also investigated individual actors from the European side. In particular, it has focused on whether the European actors recognise changes in China's foreign policy agenda as well as whether they have responded effectively to shifts in the institutional balance of power in Beijing. This thesis used Sino-European collaborations on Climate Change and Renewable Energy as case studies to answer the key research question "To what extent China-EU relations are pre-dominantly determined by the interests of a diverse range of foreign policy actors?"

This thesis identified who shaped the bargaining process; on which policy each actor bargained with, and the outcomes of the relevant bargaining process. This thesis was conducted under qualitative research methods where in-depth interviews, triangulations of

information, and elite interviews were widely applied.

With a strong focus on individual foreign policy actors, either institutional or corporate ones, this thesis adopted a process-oriented approach of Foreign Policy Analysis to examine Sino-European relations. In particular, it drew on the existing literature of the Bureaucratic Politics Model and the Fragmented Authoritarian Model to interpret the subject. Throughout the thesis, each chapter demonstrated several compelling reasons to use BPM and FAM to analyse Sino-European relations. Unlike some existing literature, this thesis did not take a holistic approach to analyse their partnerships with IR grand theories. Instead, it proved that each individual participant in their partnerships plays a crucial part in determining the outcomes of those partnerships.

Besides a theoretical contribution, this thesis also enriched the studies of Sino-European relations from several empirical perspectives. It offered a detailed examination of the relations between elements of the Chinese Communist Party (CCP), as the ultimate decision maker and the Chinese governmental institutions. Examining the CCP-government relations also revealed the changes in the CCP's domestic priorities and how such changes were largely reflected in shifts in Beijing's foreign policy.

This thesis has not only restrained its research scope to the Party-government relationship. It also investigated the interaction between the CCP and the State Owned Enterprises; and the bargaining process between the central governmental agencies and the SOEs. Some of the existing literature portrayed "the SOEs as part of the Chinese government vehicles to achieve its political goals" (Downs, 2008; Jakobson, 2010). Whilst this thesis did not deny the claim, it rather also proved that the SOEs have utilised effectively their expertise to alter the

decision outcomes by both the Party and the government.

This thesis has also paid great attention to the relations between the provincial government and the large private owned enterprises (POEs). This area is a new subject of detailed academic research in regards to the Sino-European relations and the Chinese foreign policy in general. None of the existing literature has focused on this particular pair of relationships. Yet, as exhibited in Chapter 5, a tense and unpredictable provincial-POEs relationship became a major source of the Sino-European solar panel dispute. Given the ever increasing significance of the Chinese POEs overseas direct investments, their activities have indeed proved to influence Beijing's overall foreign policy decision making.

Meanwhile, this thesis also examined the EU's policy making process on its climate diplomacy towards China. In particular, it investigated the EU institutions, the member states (MS) and the European corporate sector's responses towards a fragmented policy making process in China's external affairs. This thesis discovered that the disputes over climate diplomacy amongst the EU institutions and the MS could be applied widely to analyse other areas of the Sino-European relations. However, the major difference between climate change and other policy areas lies in the innovation of technology. The European companies had enjoyed several initial successes while later failing badly when China's renewable sector reached its own maturity.

Beyond this introduction, this chapter is largely divided into three sections. The first short section will conclude the theoretical findings of this thesis, and contributions to the area of the Sino-European studies. Given the strong empirical research of the thesis, the second and longer section will summarise the empirical contributions. The final section will outline the



difficulties of conducting the research as well as how this thesis could enlighten further studies in the field.

## **Section 7.1 Theoretical Contribution**

This section will summarise the theoretical findings of the thesis. It will justify the reasons why some parts of the theories of International Relations lack sufficient explanatory value to observe and understand the narratives of the foreign policy decision making processes both in China and within the EU. In particular, both China and the EU have been treated as non-monolithic analytical units in this thesis. It is therefore important to adopt some specific Foreign Policy Analysis approaches which are neither derived from grand IR theories nor inspired by a rational choice model. This section will also justify the reasons why the Bureaucratic Politics Model and the related Fragmented Authoritarian Model have been particularly useful and illuminating to investigate the FP making process in China and in the EU.

As referred to in various chapters, the current literature on Sino-European relations have almost exclusively treated their relations as bilateral ones, with both China and the EU as unitary actors when they conduct their own foreign policies. In contrast, this thesis has extensively tested the hypothesis that the Sino-European relations are mostly determined through a diverse range of foreign policy actors, either institutions or corporate. The current state of the Sino-European relations is the outcomes of interactions amongst those actors. As a result, this thesis has mostly focused on the behaviour, intentions and interactions amongst each individual actor. This thesis does not intend to deny the bilateral dimension of the China-EU relations. Rather, it suggests that the complexities of their relations are best examined through observing the process and the behaviour of individual actors which shape the outcomes of their relations.

Treating the Sino-European relations as bilateral in nature has largely ignored the significance

of each institution in determining relations. In the case of China, despite the ultimate decisions being made by the members at the Standing Committee of the Politburo (SCP) of the CCP, it is impossible for the SCP to decide every detail of the policy mandate. The SCP members usually outline the broader policy priorities whereas the relevant institutions have enjoyed the autonomy of interpreting policies. In the process of interpreting policy mandates, some of departments or corporate organisations have inevitably overlapped their policy domains or responsibilities. As a result, bargaining often arises in the occasions when budgetary and political powers are contested.

In case for the EU, the Union is renowned for its complex bureaucratic structure in Brussels. The EU has also consistently faced severe challenges from the MS in most policy areas. I have given numerous examples to indicate that the MS have often overridden the EU institutions when they came to develop their own relationships with China. Therefore, it would be too simplistic to conduct the academic research exclusively at a bilateral level of Sino-European relations.

This thesis offered a detailed account of the bureaucratic bargaining process within the Chinese foreign policy making framework. The Bureaucratic Politics Model (BPM) design makes it the most appropriate approach to disentangle the complexities of policy making process and to investigate the source of bureaucratic disputes in Beijing's foreign policy making. Unlike the conventional wisdom inspired by a Rational Choice Model of analysis, foreign policies are not necessarily being made under careful considerations of national interests. Rather, the outcome of a specific foreign policy is a result of numerous bargaining amongst relevant stakeholders. Officials who are involved in the foreign policy making process have always manipulated decisions according to their personal, or more often,

departmental preferences.

For example, the Chinese government's Copenhagen fiasco and its disagreements with the EU institutions over issues on climate change have been extensively interpreted through the BPM. Each institution that is involved in climate change policy making in China has had its own particular departmental interests. The NDRC and the MFA lacked a sufficient consensus before attending the UNFCCC Copenhagen Conference. They fought over the appointment of the chief negotiator of the Chinese delegation. Their bureaucratic rifts generated considerable controversies and a negative impact on the EU, creating the impression that China was unwilling to play a greater role in curbing carbon emissions. China's inconsistency in Copenhagen was not a result of rational choice and careful strategy planning, but instead strongly dis-coordinated efforts made by self-interested governmental institutions.

The BPM has become even more suitable for application when interpreting European institutions dealings with China when it came to matters on climate diplomacy. As discussed in the last chapter, there are a number of equally important EU institutions which engage with China over issues on climate change and renewable energy. Each institution has wanted to pursue its own distinctive interests with Beijing. Some institutions have argued that China should establish an obligatory emission target whereas others insisted emission targets were technical details. The EU should focus on its overall long-term relations with China without over-exaggerating the technical details. The result of this diverse range of departmental interests has therefore generated a confused and incoherent foreign policy towards China.

Interestingly, this lack of coordination has not only been exhibited in the EU's climate diplomacy. It has been widely demonstrated in the EU's overall China policy. The EU

institutions and MS have had bitter spats over how the Union should engage with China more effectively. Their climate diplomacy with Beijing has been only the tip of the iceberg which illuminates the complexities of the EU's policy making process. To this extent, one cannot treat the EU as a monolithic entity with only one coordinated interest in the development of its relations with China.

Most scholars who have used the BPM to interpret particular foreign policies believed that the BPM is equipped with solid explanatory value for liberal democracies. However, this thesis discovered that the BPM could also be of invaluable assistance to investigate non-liberal democratic states' foreign policies, such as in the case of China. Despite being without a multi-party system, the Chinese political institutions consists of a number of equally important vested interests groups. These groups are initially formed for the interests of the CCP and have constantly lobbied the Party to ensure their interests are represented in the decisions made by the CCP.

The vested interests groups come in the forms of central governmental institutions, provincial government agencies, the PLA and the State Owned Enterprises (SOEs). With regards to Sino-European relations, this thesis focused on the groups such as central governmental departments, provincial authorities and the SOEs. Throughout several chapters, this thesis investigated various bargaining scenarios amongst these groups as well as their intricate relations with the CCP. Within the bargaining process, this thesis discovered that the relations between the Party and the relevant interests groups have not always been straightforward and are not of the top-down model as often perceived. The interests groups have been effective in their attempts to shape final decision outcomes.

This thesis also discovered that the BPM has also presented a distinctive explanatory value to interpreting both Chinese domestic and external affairs. The main reason for this is due to a consensus-building style of decision-making being widely practised amongst members of the SCP in the CCP. Achieving a consensus requires one, or a few, SCP members to trade off some favours with other SCP members over disagreements on a particular issue. In the process of bargaining, relevant interests groups would seek to influence the opinion of some SCP members to ensure their interests are represented. As a result, consensus amongst the SCP members have become the lowest common denominator of various interests groups. The BPM has exhibited its great relevance in interpreting Sino-European collaborations on renewable energy. In the case of the CGNPC, it successfully persuaded two members of the SCP to ensure its new model of nuclear reactor with France was the chosen model, which left its corporate competitors empty handed.

Throughout Chapter Two, Four and Five, this thesis emphasised the importance of the Fragmented Authoritarian model (FAM) to interpreting the Chinese FP making process. The FAM derives from the BPM and aims to explain changes in institutional power distribution and intricate bargaining processes amongst relevant actors when it comes to the formulation of decisions. It examined relations between the actors at the very peak of the power structure and those stakeholders who are aiming to constantly seek to influence the ultimate decision makers.

Within this thesis, the FAM allowed one to investigate the complexities of decision-making within the Chinese political system. In particular, it enabled one to examine the relations between the Party and the various bureaucratic actors. Their interactions have resulted in different kinds of Chinese foreign policy that one would not be able to interpret through a

Rational Choice Model. I used the FAM throughout the thesis to explain both policy formation and implementation processes. In the process of policy formation, the Party allowed bureaucratic, or corporate, actors to provide expertise for decision-making. While at the implementation stage, the Party allowed greater institutional autonomy to transform broader policy guidelines into detailed rules and regulations. Each institution and corporate organisation has extensively adapted this policy making system and made attempts to shape the policy outcomes at both stages. Moreover, neither the formation nor the implementation stages are static. A particular policy implementation has often paved the way for policy updates or further reforms.

Related to the empirical subject of the thesis, the FAM is also equipped with a particular value in interpreting China's climate diplomacy. The reasons are twofold: firstly, climate change and energy security are twin priorities of the CCP. They are also dominating both China's domestic and foreign affairs agendas. Within the Chinese policy making process, there are a number of equally important institutions and corporate actors involved in China's domestic environmental policy and climate diplomacy agenda-setting. Given the expansive quality of environmental policy making, the Party mostly relied upon individual institutions' expertise to formulate the relevant energy or climate change policies. As a result, the actual policy outcomes and China's collaborations with the EU are the results of balancing the interests of, and bargaining, amongst a number of relevant stakeholders.

Secondly, unlike some other areas of foreign policy making, environmental diplomacy does not involve territorial disputes and military deployments. Therefore, climate diplomacy does not require the CCP to make swift decisions on the subject. This nature of climate diplomacy allowed various institutions to participate in the process and to make bargains back and forth

with the Party as well as amongst themselves. To this extent, the FAM has been of invaluable assistance in interpreting each individual bargaining process. While in states of emergency, the FAM has its own limitations to interpreting China's foreign policy.

As observed throughout these chapters, the scope and contents of the Chinese foreign policy have expanded rapidly since China's admission to the WTO. The roles of economics and non-traditional security have shifted from the peripheral to the centre of China's external affairs. Because of the nature of these new subjects, they deviate from the conventional diplomacy such as territorial disputes and political exchanges, and therefore require the decision makers to have sufficient expertise on every single subject to formulate appropriate policies. As a result, the numbers of institutions that participate in decision-making have expanded correspondingly to meet the criteria of seeking advice from the experts. These shifts have offered various institutions a unique opportunity to shape China's foreign policy.

In particular, those institutions such as the MOST and the NDRC, which are not conventionally perceived as foreign policy actors, have flexed their muscles to shape the final decision according to their preferences. Their influence has become even more substantial as their expertise is required more and more often from the very top of the CCP leadership. As a result, institutions that are conventionally seen as foreign policy actors have been marginalised in the process of policy consultation and formation. The FAM has proved to be particularly useful when examining the shifts in political gravity and balance of power amongst corporate actors. Similarly, the FAM could be used to interpret monetary diplomacy and other non-traditional security domains of external affairs in China. There will be sufficient room for conducting further research on the Chinese foreign policy from a FAM perspective.



In summary, this thesis proved the usefulness of the BPM and the FAM in interpreting China's foreign policy making process. The BPM has also reinforced the observations of a bureaucratic EU in making its China policy. Both models have acted as effective tools to investigate the complexities of Sino-European relations. Yet, this thesis does not deny the validity of grand theories of International Relations in interpreting the China-EU relations. Rather it suggested that a combination of BPM and FAM had provided a good alternative to examining the process of making a state's foreign policy.

## **Section 7.2: Empirical Conclusion**

This longer section will summarise the empirical research findings of this thesis. It aims to justify the relevancies of those case studies discussed throughout this thesis. In particular, this thesis has disentangled the intricate relations between the Party as the ultimate decision maker, and the various relevant stakeholders in shaping China's EU policy. It has also focused on the conflicts and various bargaining scenarios that have occurred in the policy formation and implementation processes amongst various institutional, and corporate, actors. In doing so, this thesis used case studies on the China-EU collaborations on climate change and renewable energy to test the main hypothesis that: China-EU relations have been largely determined by a diverse range of interests from a multitude of foreign policy actors. It has enriched the current literature by focusing on the policy making process from a bureaucratic politics perspective.

### **1) The Party as the Ultimate Decision Maker and the Central Governmental Institutions as Foreign Policy Actors**

As outlined in Chapter One, this thesis intended to examine the complex relations between the Party and the various levels of governmental institutions when they come to take considerations on China's EU policy. It concluded that the relations between the Party and the governmental institutions are not always formed in a top-down and static style as is often perceived amongst the scholars and foreign policy practitioners in the West.

The self assumed legitimacy of the CCP has shifted from ideology to an effective governance and problem solving capacity. Therefore, the CCP has to respond to newly emerging challenges and to change its policy priorities accordingly, in order to improve its effective

running of the state. This in turn helps the CCP to retain and reinforce its governing legitimacy. Climate Change and environmental degradations have recently emerged as two of the most daunting challenges for the CCP's capability of governing. Therefore, the Party has prioritised tackling environmental challenges in order to address public grievances driven by a deteriorated environment.

In responding to the changes in policy priorities, the CCP has restructured the existing central governmental institutions and created some new agencies to fulfil the tasks of curbing carbon emissions and maintaining a sustainable level of energy supplies. As a result, the emergence of climate change as an imminent political challenge has triggered profound changes in the distribution of bureaucratic power.

The Party sets the bureaucratic status of each central and provincial institution. It also grants the specific authority of producing certain policy measures, to each institution. This authority that is given by the CCP has often been accompanied with responsibilities and budgetary powers. Certain policy responsibilities are inevitably shared by several governmental departments. Consequentially, relevant departments have competed for influence with the top leadership of the Party and tried their best to retain their share of power.

This thesis gave detailed analysis in Chapter Two and Four to exhibit how relevant government departments have utilised their expertise to make sure they are vital parts in the formulation and execution of China's foreign and energy policies. It has discovered the two major reasons why new FP actors have emerged while some conventional FP actors have declined. Firstly, as argued above, the scope and contents of Beijing's foreign policy have expanded enormously due to changes in the policy priorities of the CCP.

Secondly, and a related reason, is the making of China's FP has required more professional expertise than general knowledge. This demand in expertise has corresponded to the expanding scope of China's foreign policy agenda. As a result, those institutions that are equipped with the requisite expertise have gradually become the agenda-setter whereas others have been marginalised. This in turn has led to a considerable shift in the institutional balance of power within the Chinese foreign policy making process.

This thesis has discovered that policy changes and institutional power shifts have generated a greater impact upon China's EU policy. As Chapter Two observed, the Sino-European relations have developed towards an ever more economic and trade focus in the wake of the global financial crisis. The year of 2008 marked a sea-change in Sino-European relations. Mostly, the normative issues that the European governments used to emphasise, have become less relevant to their relations than when compared to the pre-2008 period. Instead, policy areas on monetary policies, China's direct investments to Europe, technology cooperation and tackling climate change have been at the core of the policy agendas on China and the EU.

Accordingly, under China's FP making framework, the role of the MFA as Beijing's FP chief executive has been severely undermined by other economics and science focused institutions when China has sought to forge closer relations with Brussels and the EU Member States (MS). China's participation in the Sino-European ministerial-level dialogues has clearly demonstrated this institutional power shift. For example, the MFA was previously at the centre of almost all China-EU policy dialogues. Yet, the MFA's general knowledge of China's FP has become insufficient to conduct dialogues when those policy dialogues have become more technically focused and areas specific. The most obvious example given in this thesis

was in the Sino-European Climate Change Ministerial Dialogue in 2009. China's National Development and Reformation Commission (NDRC) began to dictate the composition of the Chinese participants as well as the contents of the Dialogues, something which the MFA was initially responsible for between 2007 and 2008.

In the area of economic and trade affairs, the MFA's role has been largely challenged by its long-standing ultimate rival, the MOFCOM, and other economic-oriented institutions. The Sino-European solar panel dispute has been particularly illuminating to indicate this institutional rift. The MOFCOM was the chief negotiator to oversee and to resolve the dispute, whereas the MFA had little to get involved with except delivering the negotiation results from the MOFCOM's delegates table.

In the midst of European sovereign debt crisis, the newly emerged FP actor, the PBOC, China's central bank had assumed its position to champion the debate on whether the Chinese government should save the Euro. The other FP actors, such as the MFA and the MOFCOM, could not compete for influence over the final decision outcome even if the MOFCOM aspired to persuade the Chinese government to increase the proportion of the Euro governmental bonds held by China. This is largely because monetary policy certainly requires the decision-maker to have a considerable amount of knowledge on macro-economics. The CCP top leadership has always trusted the PBOC's prudence for managing monetary policy. It had no objection to the PBOC when it decided not to make any further investments in the fragile European bond market.

Beside those conventional FP actors detailed above, the expansion of China's EU policy has also triggered the further involvement of some institutions that were not previously seen as

FP actors. The most noticeable institutions are the NDRC and the Ministry of Science and Technology (MOST). Throughout these chapters, this thesis has ascertained that their prominences in the Sino-European collaborations were mostly driven by shifts in domestic political priorities. None of the institutions in the past played major parts in the formulation and implementation of Beijing's foreign policy. However, both institutions have recently utilised the imminent environmental challenges as a unique opportunity to become the chief executives in China's climate diplomacy and international collaborations on curbing carbon emissions.

Meanwhile, the nature of tackling climate change (CC) and developing renewable energy (RE) are derived from scientific innovations, in which both institutions have been at the forefront of driving the technology innovations of China's RE sector. The NDRC has enjoyed its undisputed power due to being involved in almost all domestic economic decision-making processes. It has argued that curbing carbon emissions should be an integral part of cultivating industrial innovation. Therefore, the NDRC should naturally become the chief policy executive on China's climate policy.

Based on several interviews from relevant officials, this thesis discovered that the NDRC's determinations were also a result of the MFA's lack of awareness towards the concept of CC. As showed in Chapter Four, since the mid-1990s, the MFA did not think CC would become a major transnational issue which would be placed at the core of international politics. It mistakenly gave up the responsibilities for overseeing China's UNFCCC negotiations between 2001 and 2006. As the importance of tackling CC grew, the MFA made several attempts to restore its authority over dealing with China's climate diplomacy. However, it had largely failed to do so as the NDRC had established its own centre of gravity in the area.

The NDRC's authority over CC has been severely challenged by the MOST. This thesis discovered that the MOST had successfully secured its own lion share of power when it came to collaborating with the EU institutions and the EU member states. The main attribute to the MOST's success was because of their expert role in specific policy areas. The CCP top leadership considered that the MOST is at the forefront of running China's scientific innovation policy. CC is an issue where science and high politics have inexorably intertwined. As a result, the MOST has taken the initiative in charge of most international scientific collaborative projects.

The MOST has effectively utilised its role as the chief science advisor to the top leadership. Alongside the reins of international collaborations, the MOST has established itself as the leader of the Sino-European flagship collaborative projects on nearly-zero carbon emissions, a project which has boosted the MOST's budgetary power and reinforced its bureaucratic status within the policy making process. As the world's second largest carbon emitter, China has inevitably been required to increase in its responsibility to tackle CC. To this extent, CC has gradually become a major component of China's ever expanding FP agenda. Therefore, the MOST has become an indispensable FP actor in the process of formulating FP and forging collaborations with the EU.

Throughout these chapters, this thesis has particularly emphasised the role of "expertise" in determining China's EU policy. The role of "expertise" has become even more prominent when it comes to examining the role of the Chinese state owned enterprises as a type of foreign policy actor in forging collaborations with the EU. This thesis has provided narratives on the formats that the SOEs adopted to persuade the central government, as well as for

whom the SOEs chose to lobby at the top leadership of the CCP.

## **2) The SOEs as foreign policy actors and their relations with the central government and the Party**

This thesis has devoted detailed analysis to the role of the SOEs in determining Sino-EU relations as well as the SOEs' impact upon the overall China's FP making process. In particular, it has retained a strong focus on the SOEs' participation in determining China's policy in the non-fossil fuels sector. In recent years, much literature has investigated how the Chinese SOEs have shaped policies in the fossil fuels sector as well as determined foreign policies related to energy security. However, little research has been conducted in the SOEs' interactions with the central government in the non-fossil fuels sector.

Within the non-fossil fuels sector, this thesis has discovered that the relations between the SOEs and the CCP and the central government are not straight forward top-down or bottom-up approaches. Their relations vary significantly depending on individual cases. The key difference between the SOEs in the fossil-fuels sector and those at the renewable sector are their commercial interests are not always in conflict with those of the Party and the central governments agencies. Instead, the role of expertise has been vital to the elimination of the potential conflicts amongst the SOEs, the central agencies and the Party.

As established in Chapter Two and Five, the SOEs are characterised as a hybrid of government departments and corporate organisations. In recent years, the Chinese government has required, and encouraged, the SOEs to become more profitable in international markets as well as at the domestic market. In particular, those SOEs that are



located in the fossil-fuels sector have had long term overseas operations. In the process of profit maximisation, these groups of SOEs have often jeopardised themselves in politically unstable quasi-states and contested waters in the search for raw materials for both political and commercial purposes. Most of these raw materials were directly sold in the global market without being shipped back to China.

To this extent, their corporate activities have caused many controversies both at home and afar. The Chinese government has been in frequent disputes with some of the SOEs in the fossil fuel sector. The SOEs have therefore formed as a formidable vested interests group to bargain with the CCP and the central government when they executed the policy mandates made by the very top. They have intensively lobbied the members at the SCP to ensure their commercial gains are sustained and that they are allowed to continue their overseas operations. As a result, there have been inevitably frequent spats amongst the decision makers from the Party, the central agencies and some SOEs in the fossil-fuels sector.

However, the picture looks rather different in the renewable sector as investigated in Chapter Five. The renewable SOEs act as invaluable information providers to both the CCP top leadership<sup>183</sup> and the central agencies. Developing RE has been a very recent phenomenon in China's energy policy making process. Neither the top leadership nor the officials in the central government is familiar with the RE industry, and both of them have turned to the renewable SOEs for advice and guidance.

In the process of providing advice, the renewable SOEs have often skilfully managed to combine their own commercial and political interests into the top leadership or relevant

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<sup>183</sup> Refers to those seven members of the SCP

agencies. Throughout my interviews, I discovered that the renewable SOEs were particularly close to the top leadership within the Party. And they have often by-passed the central governmental departments and directly advised the very peak of the Party. On most occasions, their proposals are unlikely to be declined by their recipients, primarily because most of their renewable projects have not involved gauging geo-political risks like most overseas fossil-fuels projects have required. The top leadership and the central government agencies are more than happy to follow the policy proposals that were carefully drafted by those renewable SOEs.

Like any other process for making China's foreign policy, competition has often occurred amongst the similar ranked bureaucratic organisations and corporate bodies. There is no exception in the process amongst the renewable SOEs when they come to provide expertise and advice to the ultimate decision makers. They are in fierce competition amongst one other to elevate their bureaucratic standing and grander corporate reputation. The process of advising the top leadership has inevitably become what Nina Halpern has described as a process of "competitive persuasion" where each SOE makes its own best attempts to shape the final decision outcomes (Halpern, 1992: 125).

Such a competition has been particularly relevant to the study of the Sino-European RE collaborations. Chapter Five examined the competition between the CNNC and the CGNPC in searching for European partners to develop China's first locally designed nuclear reactor. The success of this collaboration has been a rare occurrence amongst the many Sino-European projects. One of the key factors for the success was due to the CGNPC's successful persuasion of two members in the SCP of the CCP and the by-passing of the central government agencies. By doing so, the CGNPC became the chosen company to design

China's first home grown civil nuclear reactor. It was distributed a generous amount of financial assistances and made its name known in Europe. It also reinforced its long-term partnership with EDF, the French utility conglomerate; this in turn has further assisted its construction projects in the UK. In this context, it indicated the extent to which a SOE's successful persuasion of decision makers could accelerate Sino-European RE collaborations.

Despite the difference in the various sectors, one cannot deny that the Chinese SOEs formed strong vested interests groups to lobby their superiors in order to ensure their corporate interests. Many SOEs are ranked equally to a ministry or a vice ministry. Therefore, their relations with the central agencies also deserve to have detailed examinations. The central agencies constantly intervene in the business activities of the SOEs. On most occasions, interventions from the central agencies are not welcomed and have caused grave financial damage to the SOEs.

This thesis has also examined the interventions conducted by the central agencies in the SOEs and their severe impacts upon overall Sino-European RE collaborations. It concludes that: firstly, interventions made by the central ministries were driven by the blurring responsibilities of various governmental departments. Despite the SOEs being powerful, they could not insulate themselves from interventions and therefore often become the ultimate victims of the interventions.

Secondly, interventions made by the central agencies are for the purpose of competing for political importance and the large budgetary power of the government department. The central government departments have no direct objections to the business activities from the intervened SOEs. Their interventions in the SOEs are purely for political reasons.

Thirdly, such interventions have often undermined the prospects for international collaborations. This is largely because most foreign partners lack sufficient knowledge of the Chinese political system, and the conflicts between their Chinese SOE partners and the relevant government ministries. In addition, these interventions have mostly occurred at the central government level where the SOEs are overseen by the central agencies.

This thesis provided two detailed case studies on CNOOCs and its collaborations with BP and VESTAS in the RE sector to illustrate that the main attribute to the failure of the collaborations were driven by government intervention and a lack of clarity of institutional responsibilities. These interventions and confusions have inevitably prevented further fruitful collaborative initiatives. It illuminated how much internal conflicts amongst various foreign policy actors could generate negative impacts upon the outcomes of external affairs. It further indicated the study of domestic sources of the foreign policy has been of vital importance to investigate the overall FP making process.

As mentioned previously, scientific innovation and expertise have played a crucial role in facilitating China's renewable energy boom. This renewable renaissance has provided a unique opportunity to allow smaller growth-driven private companies to participate in technology and industrial innovation. Unlike in the fossil-fuels sector, the RE sector is not a state-controlled, monopoly sector. Participations from the private enterprises are encouraged. As a result, private enterprises activities in RE have also deserved to become a subject of academic research.

### **3) The Relations between the Provincial government and the Private Owned**

## **Enterprises (POEs)**

This thesis has explored the relations between the provincial governments and large renewable POEs in the process of participating in Sino-European collaborations. It discovered that the unprecedented commercial success of the large renewable POEs has triggered fierce competition, and not collaborations, with European renewable manufacturers. The provincial government's price manipulations and subsidies have also become another main attribute to the Sino-European solar panel dispute. There are occasions where the POEs are directly influenced by the central agencies. However, this thesis has only studied the relations at the provincial level due to the relevance of the subject matter.

By examining the relations between the renewable POEs and the provincial governments in determining the Sino-European relations, this thesis has made a modest contribution to the existing literature in the field. This is largely because there is a dearth of literature that has examined the role of provincial governments and the POEs as influential foreign policy actors in China's external affairs. Related to the study of the Sino-European relations, this thesis has tested the hypothesis that their relations are shaped by a diverse range of interests from multiple foreign policy actors. As Chapter Five observed, both renewable POEs and their respective provincial governments have emerged as significant foreign policy actors that have generated a considerable impact upon Sino-European relations. Therefore, it is of the vital importance to examine their motivations and deeds in participations in the Sino-European RE collaborations, or more accurately, in their competition with the Europeans.

This thesis also concluded that the bargaining relationships in Chinese energy policy making

have not only existed in the traditional fossil fuels sector between the SOEs and the central bureaucracies but have also largely played out between the POEs and their respective provincial authorities. Despite these bargaining activities occurring at the provincial level, the rules of the bargaining process have largely remained the same as that which takes place at the central level.

Just as the SOEs studied in this thesis are subject to interventions in their business plans by the central government, most POEs are under the direct influence of their respective provincial governments when it comes to their business activities. This thesis discovered that the POEs and their respective provincial governments have forged semi-submissive relations. On the one hand, the POEs are the main contributor to the provincial GDP growth and tax revenues. These POEs' respective provincial authorities have then heavily relied upon their financial contribution to boost the local economy. Therefore, these POEs are offered, and have enjoyed, a whole range of concessions from their provincial authorities.

On the other hand, the provincial governments have mostly retained their autonomy to dictate the proportion of local enterprises revenues shared between themselves and the enterprises. As a result, the provincial governments and local enterprises have formed a classic bargaining relationship under this particular institutional setting. The latter have always wanted to retain a larger proportion of their own profits whereas the former indulged in all sorts of policy tools to extract the profits or to control the prices according to their own political preferences.

In the process of bargaining, the provincial governments have still retained the autonomy to indulge in price manipulations of certain products, and financial resource distribution for enterprises. The local POEs have made their best attempts to access additional financial

resources from the authorities. For the local POEs, losing such a bargain could undermine their prospect to obtain state-owned bank loans and favourable tax concessions. In contrast to the SOEs, the local POEs are in a weaker bargaining position with less political capital and allies in the government at their disposal. As a result, the local POEs are more likely to accept the bargaining conditions that are initiated by their provincial authorities, even if such conditions would severely minimise their profitability and cause damage to their corporate brand image.

This thesis offered a detailed case study to disentangle and to expose the complex relations between the provincial governments and the POEs. The Jiangsu provincial government and Suntech, one of the largest solar panel manufacturers in the world, were the main protagonists in that case study. By doing so, this thesis discovered that the companies like Suntech relied upon the provincial authorities' fiscal and political support. Suntech has never acquired a strong bargaining position, even if the Jiangsu Provincial government once relied upon its commercial success to boost the local economy.

Suntech did not voluntarily become involved in the Sino-European solar panel dispute. Rather, it had a very weak bargaining position and was dictated to by the Jiangsu Provincial government's planned solar panel price manipulation. The Jiangsu government's intervention to Suntech's business development strategy was not based on careful business consideration, rather, Suntech served as a convenient vehicle for fulfilling the provincial government's policy target.

The case study of Suntech has only revealed the tip of the iceberg when it comes to the complexities between the provincial governments and their respective local POEs. Yet, it

illuminated the extent to which individual provincial government could trigger substantial influence on overall Sino-European RE collaborations. The Jiangsu government's coercion had already been repeated by other provincial governments on their own local renewable manufacturers. As a result, the price of solar panels dropped drastically in the global market. This was because China accounted for almost 90% of solar panel manufacturing and was under renewed pressure from their European competitors.

To a large extent, the Jiangsu provincial government's price manipulation has decisively undermined the prospect of further Sino-European RE collaborations. Its motivation to do so was not driven by foreign policy considerations. Rather, it was driven by political interests to fulfil a policy target. The provincial government on this occasion inevitably participated in China's EU policy making. It would be impossible to examine the provincial government's motivations through the rational choice model of foreign policy analysis because its motivations have been almost exclusively driven by domestic considerations.

This thesis has given a very strong focus on China's EU policy making process as well as attention to individual Chinese foreign policy actors, either conventional ones or newly emerged actors. Yet, the thesis has also evaluated the responses from the European side; the focus was not exclusively on Brussels, but extended into the larger member states and the European renewable conglomerates that have been heavily involved in the EU's climate diplomacy to China.

#### **4) The EU institutions response to their Chinese counterparts on Climate Change and Renewable Energy Collaborations**



It would be impossible to complete this thesis on the Sino-European relations without examining the role of the EU in the relationships. Therefore, the thesis has also dedicated itself to investigating the role of several European foreign policy actors in determining the outcomes of the Sino-European collaborations on Climate Change and Renewable Energy. In particular, it has thoroughly examined the extent to which the EU institutions have responded to the changes in China's EU policy, and the institutional shifts in the balance of power within China's foreign policy making process.

Throughout Chapter Three and Six, this thesis reaffirmed that the EU institutions were renowned for its complex bureaucracies. There was no exception when Brussels formulated its climate diplomacy towards China. It has sided with many other scholarly works in the field, and argued that the EU institutions lacked a "Horizontal Consistency" to reach agreements on the Union's China policy amongst various institutions (Nuttall, 2001). Meanwhile, it also summarised that the EU institutions suffered from "Policy Inconsistency" when each aspect of the EU's China policy were in conflicts against one other (Ibid). Related to the climate diplomacy, each institution in Brussels viewed the overall policy objective very differently. As a result, inter-departmental conflicts lingered and deepened in Brussels.

This thesis has contributed to the existing academic literature by specifically investigating how the EU institutions respond to the ever increasingly complex foreign policy making process in China. In particular, it departed from examining the Sino-European relations as a bilateral relationship, which most existing scholarly works have done. Instead, it has investigated the relations between the EU institutions and their Chinese counterparts in the Chinese central government.

This thesis has treated each EU institution and member state as individual foreign policy actors. It observed the motivations, behaviour and interactions of each actor to respond their Chinese counterparts. By doing so, it concluded that the distinctive interests of each European actor greatly impacted upon the outcomes of the collaborations. Some of their interests were neither reconciled with China nor amongst themselves.

Throughout Chapter Three and Six, this thesis discovered that the symptom of inconsistency in the EU not only existed in the EU's climate diplomacy but was also persistent in almost every aspect of the EU's China policy. Climate Change (CC) and Renewable Energy (RE) collaborations were not excluded from this condition. It demonstrated two major institutional failures from the EU when it came to their engagements with China on CC issues, namely a lack of institutional resources and insufficient personal capacity.

This thesis concluded that all the examined EU institutions have demonstrated institutional constraints and personal incapacity when they conducted climate diplomacy towards China. Based on various research interviews, it discovered that a large numbers of officials and staff members within the EU were not equipped with sufficient understanding of China's energy policy making process. They could not distinguish the role of the NDRC and the MOST in the process of formulating China's CC policies. None of the officials or staff members have a reasonable level of Mandarin with which to follow the latest updates and shifts in China's CC policies, which are usually only announced in Chinese. Their lack of knowledge of the Chinese language has undermined their ability to gauge and to respond to, the latest policy and bureaucratic shifts in the field of energy and environmental protection in China.

Besides their institutional constraints and personal incapacity, each EU institution that has

been involved in conducting climate diplomacy holds very different views on how they should engage with China. Each institution stood for its own departmental interests. This thesis gave plenty of examples to exhibit a lack of policy coordination and inconsistencies amongst those EU institutions. One of the most obvious examples is when The DG Clima insisted that China should set up obligatory targets whereas the EEAs dismissed the DG Clima's persistence on the subject. The EEAs believed that CC mitigation should become a strategic objective without creating too many disagreements on technical details. Yet, the DG Clima claimed that no obligatory target of curbing emissions indicated China had no willingness to tackle CC issues or to collaborate with the EU.

The DG Trade was seen as the most important institution in dealing with China in Brussels. It insisted on imposing stricter standards on the Chinese renewable manufacturing exports to the EU. It was the initiator and chief operator of the controversial Sino-European solar panel dispute. It relentlessly dismissed all other EU institutions' objections to its high profile accusations towards the Chinese solar panel imports into the Common Market.

This thesis also discovered, like any other aspects of the Sino-European relations that the Ministerial-level policy dialogue on Climate Change was the regular mechanism used by the EU institutions to engage with China. However, this policy dialogue has largely remained superfluous and has shown a lack of subsistence as the years have gone by. Part of the reason for this was because the DG Clima's authority as chief organiser of the dialogue was severely challenged by the other institutions dealing with China simultaneously. Their inter-departmental conflicts on climate diplomacy have sent their Chinese counterparts a confusing message. This in turn triggered the Chinese central institutions to question the willingness of the EU to collaborate with China in these areas. Without trust on both sides, collaborations

were hardly able to progress much further.

## **5) The EU member states and China collaborations on Climate Change and Renewable Energy**

Apart from the symptom of inconsistencies in Brussels, the EU institutions' authorities dealing with China have been severely challenged by the major EU Member States (MS) that have clear climate diplomacy agendas. This thesis selected two large MS as examples to investigate their engagements with China on issues of CC and RE.

In Chapter Six, this thesis chose the United Kingdom and Germany's CC and RE collaborations with China as its case studies. The reasons for Germany and the UK's selection as the analytical objects are threefold. Firstly, both countries have long established, and sound, economic ties with China. Secondly, both countries have had strong competitive edges in CC and RE sectors. They are the front runners for the carbon reduction and renewable technologies which China has long desired. Last, but not least, normative issues have undermined the bilateral relations of both countries with China. They have utilised CC and RE collaborations as a means to repair, or to reinforce, their relations with China. Their renewable collaborations with China have been largely representational of other MS's China strategy in the process of minimising normative issues engagements.

From these two case studies in Chapter Six, and some other examples in Chapter Three, this thesis has concluded that China's perception of interplay between political sensitivity and economic deals was heavily criticised by the European governments, and yet it had proved to be one of the most effective and brutal means by which Beijing conducted its foreign policy.

Therefore, progresses in CC and RE collaborations could not be made without amicable bilateral relations between China and the other European countries. The Chinese government's tactic of using normative issues to postpone business deals has been extended into collaborations in CC and RE sectors. This observation has been reinforced by other scholars' remarks that Sino-European relations are the outcomes of intertwined high politics and business contracts. Despite China's own willingness to develop CC and RE technologies, its collaborations with the EU MS could not progress further without overall amicable political relations.

Part of Chapter Six compared and contrasted the UK and Germany in the process of their collaborations with China. The UK had suffered from the consequences of Prime Minister David Cameron meeting with the Dalai Lama, which antagonised the Chinese government. As a result, Beijing had frozen Sino-Britain relations for nearly 18 months as a means to retaliate. The British government offered an invitation to a state-owned Chinese civil nuclear company, CGNPC, to jointly build a civil nuclear power station with EDF, as a rapprochement. Yet, still the Chinese government utilised all sort of diplomatic means to express its dissatisfaction to London. The collaboration on RE has progressed, yet it was much troubled and disturbed by their problematic bilateral relationships.

In contrast, the German government has carefully separated the normative issues with other collaborations with China. Berlin was fully aware of the Chinese government's determination to curb emissions and to establish a competitive renewable industry. It has therefore successfully combined its climate science expertise and enthusiasm over curbing emissions as part of its China policy. Unlike the EU institutions, the EU-China Ministerial Climate Change policy dialogue had only touched the surface of tackling CC. The German government had

set up and executed a comprehensive and well thought-out collaboration plan across all levels of the Chinese government apparatus.

Yet, the German's success in China was at the expenses of undermining the EU's overall engagements with China in the fields of CC and RE. Germany also openly opposed the EU Commission's launching of an investigation against the Chinese solar panel exports even if some of the German companies were the main advocates to the EU Commission on this occasion.

This thesis has also compared and contrasted these two major MS' responses to changes and shifts in the Chinese foreign and energy policy-making process. For the UK, it became caught in an inter-departmental bureaucratic rift between the MFA and the MOFCOM in Beijing. According to several of my interviews, the British government and some of its policy pundits have long viewed China as a monolithic state in which the decisions made by the SCP of the Party would be delivered timely, and without much bargaining, within the decision-making process. However, the British government did not realise that Beijing's foreign policy-making process has gradually evolved from decisions being made by one single committee, to a system where decisions are instead the lowest common denominator amongst the stakeholders.

The MFA in Beijing intended to use the controversies around the Sino-UK relations to compete with its nemesis, the MOFCOM, in terms of influencing the top Party leadership's policy mandates to the UK. It aimed to show both the Party, as well as its rival, that the Sino-UK bilateral political relationship was of equal weight to their trade partnership. The MFA's vociferous criticisms and abrupt response to freeze the China-Britain bilateral ties reflected

its success in persuading the top leaders to take a hard line towards the British government. Based on the research interviews I conducted for Chapter Six, the officials from London seemed not to be aware that such a bureaucratic dispute could generate the most disruptive impact upon its relations with Beijing. To this extent, one can conclude that the British government has failed to recognise and to respond effectively to the institutional shifts in the balance of power in the Chinese foreign policy making process.

In contrast to the clumsiness of the British government, Berlin had prepared and conducted effectively its climate diplomacy agenda with China. As observed in their CC collaboration plans, the German government had not only engaged with the central ministries in Beijing that were in charge of China's CC policy, but also simultaneously engaged with individual provincial governments that possessed sufficient experience in tackling CC issues.

Such provincial level engagements exhibited the German government's understanding of the Chinese energy policy making process. It recognised that the provincial governments did carry considerable political and economic weight when it came to the execution of the central government's climate and environmental policies. Therefore, the German government paid particular attention to, and effectively communicated with, some of those chosen provinces in order to implement its own climate diplomacy agenda with individual provinces.

The MS' individual climate diplomacy has certainly undermined the EU's overall collaboration plan with China. Each MS only stood for its national interests. Brussels' lack of institutional capacity has set up a clear contrast with the MS enthusiasm and in-depth knowledge when engaging with Beijing over CC and RE. Moreover, one cannot ignore the role of the European RE conglomerates in determining the outcomes of their collaborations.

## **6) Relations amongst the European companies, the Chinese central government and the Chinese State-Owned Enterprises**

The last pair of relations that this thesis examined was amongst the European RE conglomerates, the Chinese central governmental agencies and the Chinese SOEs. Due to the restrictive length and limited research resources, this thesis did not examine the equally significant ties amongst the European companies, the provincial governments and the local private enterprises even though these sets of relations are also worthwhile areas in which to conduct further research.

Unlike in the existing literature which has focused upon the extent to which the European conglomerates developed troubled relationships with both the Chinese central government and their partnered Chinese SOEs. This thesis discovered that several European conglomerates have developed amicable relations with the Chinese central government and their collaborative SOEs simultaneously. Surprisingly, some of the European conglomerates became invaluable information providers and experienced consultants to the central agencies that were responsible for the making of China's RE policy. Yet, such occasions were rare occurrences, which only happened at the nascent stage of China's RE development.

This thesis had also discovered that a number of European conglomerates were familiar with the Chinese RE policy making process and quickly gauged the shifts in the RE policy. They had successfully interpreted and responded to policy changes according to their own commercial preferences. Unlike some of the EU institutions and the studied MS, the conglomerates responded to changes in RE policy priorities and institutional shifts far more



effectively than the other European actors investigated throughout the thesis.

However, this thesis has not completely disagreed with the existing literature. The European conglomerates collaborations with their Chinese counterparts were not free from difficulties and bureaucratic predicaments. Collaborations with China at the RE sector had not been insulated from the conventional difficulties that European conglomerates encountered in China, such as the increasingly protectionist approach undertaken by the Chinese authorities, the lack of transparency in RE governance and IPRs violations. The main reason for the predicaments that the European companies encountered was due to the rapid progress that the Chinese RE manufacturers made in a relatively short space of time.

Part of Chapter Six offered two in-depth case studies to illustrate the successes and failures of the European conglomerates involved in the process of collaboration in China. Both their successes and failures have made certain impacts upon the overall Sino-European collaborative partnerships on CC and RE. By giving these case studies, part of Chapter Six has extensively tested the hypothesis of this thesis, as the overall collaborations have been largely determined by the multiple interests of a diverse range of actors.

This thesis used a detailed case study to examine the key to the success of VESTAS, a Danish wind energy conglomerate and the Chinese central governmental ministries. This thesis surprisingly discovered that VESTAS managed to act as an insightful information provider that was similar to the way in which some Chinese SOEs do with their corresponding governmental departments.

In contrast to the EU institutions and some MS finger pointing to China's RE sector, the

ultimate goal for VESTAS was to expand its own market share in an ever increasingly competitive wind energy sector in China. VESTAS' assistances to the NDRC over the drafting of the Chinese Wind Energy Industry Standard showed it had gained itself sufficient trust from the Chinese central ministries. VESTAS realised that in a semi-market oriented economy like China, the importance of having the trust of, and connections with, the central ministries had become vital to the survival and commercial success of a foreign company in the vast Chinese market.

Yet, the case study of Siemens and the China Hua Neng Renewable Company (CHNRC) demonstrated that overly relying upon its political connection in the Chinese policy making system was a double edged sword. Siemens became a victim of its own unprecedented success in the Chinese market. Its expansive business engagements across various state-led industries had certainly alarmed the top Party leadership in Beijing and its existing Chinese competitors. In this case study, Siemens was abandoned by the central ministries in Beijing and its potential partner CHNRC during the development of the first offshore wind energy farm.

Siemens was furious about the Chinese government's arbitrary and ad-hoc interpretation of the "local contents requirements" policy mandate. Despite its long term experience in the Chinese market, Siemens failed to recognise that the purpose for developing a strong RE sector in China was to achieve its own industrial upgrade from "Made in China" to "Invented in China".

As part of an "Indigenous Innovation" campaign, the Chinese government took a much stronger protectionist approach to ensure that the home grown manufacturers were treated

favourably. It dismissed Siemens and other European conglomerates claims that that they were undermining European companies' commercial interests, and their futile efforts to protest against their decisions. Such discrimination against European enterprises also largely exists in other sectors in which the Chinese government would like to give priority for development. The RE sector is just one of these affected industries.

Therefore, this thesis concluded that while the European companies had played an indispensable role in facilitating the overall collaborations. They had, however, also undermined the prospects of further collaborations due to their furious responses to the stronger protectionist efforts made by Beijing in an attempt to develop its own home grown renewable industry. Their responses not only affected the renewable sector collaboration, but also presented a resemblance to other areas of the Sino-European relations.

## **Section 7.3 Further Research Prospects**

This very short section will explain the difficulties of conducting research during the investigation process for this thesis. Yet it does not suggest that this thesis will shed no light for further research of a similar nature and scope of studies. Rather, this section will outline potential research prospects for the near future.

### **Research Difficulties:**

This thesis was devoted to the studies of the policy making process in Beijing and the responses from Brussels and the EU MS in the ever changing dynamics of Sino-European relations. It sought to disentangle and to investigate the interactions amongst individual foreign policy actors. It has also examined the relations between the ultimate decision makers at the very peak of the Party and those who seek to influence the decisions made by the top leadership. Due to the nature of the research, conducting this particular type of research requires the author to gain access to various central governmental ministries in Beijing and to interview the key personnel. Elite interviews have been extensively used throughout the thesis. During the interview processes, some interviewees indeed provided good insights into the subject.

However, this thesis does not suggest that interviews are the only method to gain access to the information. Yet, it is perhaps the most effective method to disentangle the complexities of the Chinese foreign policy making process. Therefore, the first and foremost reason to utilise elite interviews in Beijing is because the Chinese political system is renowned for its opaqueness. It is rather difficult to gauge who takes the main responsibilities for a certain policy domain, even if the official documents have clearly defined who is in charge. As a result, interviewing the right personnel becomes an effective method to demystify Beijing's

policy making process.

During the research process, some of the potentially insightful interviewees declined to be interviewed as they feared that such interviews would jeopardise their own political careers and departmental interests. On several occasions, the author sent interview questions to interviewed officials before the actual interviewing process. Yet, they declined to answer all the questions, as had been agreed in the first place.

The second crucial reason why this thesis has heavily relied upon interviews is because there was a dearth of academic literature on Sino-European relations being written to examine the process of China's EU policy making. One has to rely upon media sources to filter certain relevant information so as to interpret the case studies. Conducting interviews is seen as an effective means to corroborating media sources that have been referred to. In some occasions, those in-depth interviews have become the missing parts of the jigsaws with which to fill the gap where the media sources were insufficient to help the author to investigate a particular policy making process.

This thesis also relied upon the many previous commercial consulting experiences the author acquired prior to the PhD research. This is largely due to the nature of this research subject. Both Chinese enterprises and European conglomerates have formed into formidable foreign policy actors throughout the years. Therefore, the research on the Sino-European relations is not complete without detailed examination of corporate actors' motivations and behaviours to influence the ultimate decision maker.

Yet, one may criticise some chapters of this thesis relating to corporate actors because of a

lack of sufficient secondary sources. The main reason for a lack of secondary sources in these chapters is because none of the interviewed enterprises would like to expose own corporate failures. Also most companies' records and secondary resources contain only the released financial data to their shareholders, and to attract media attention. As this investigation is based on a qualitative methodology, their published financial data could be of little assistance to the research. One cannot evaluate the success of a company's collaborations with their partners purely based on either a Profit and Losses sheet, or a Balance sheet.

Rather, the corporate interviewees would much more prefer to express their own success, rather than offer candid opinions on their business operations in China. The case study of VESTAS has proved my argument here. VESTAS was much happier to exhibit its tremendous success both at the interviews and in the press while they kept silent on their own failure to collaborate with CNOOC. In respect of commercial sensitivities about information revealed in this thesis, most corporate case studies used in the thesis are now beyond the confidentiality stage.

Gaining access to the Chinese political system has been very difficult. Yet, reaching some of the EU institutions for comments has proved to be almost impossible too. The most accessible EU institutions are the Trade Commission (DG Trade) and the EEAs, whilst the DG Clima as the primary institution which conducts the EU's climate diplomacy has consistently refused the author's interview requests. The author has therefore relied upon the Chinese diplomats' views towards the DG Clima to gauge the extent to which the DG Clima has acted as a powerful actor in determining the outcomes of the collaborations. Throughout the chapters, the method of triangulation and cross-referencing has been widely applied.

**Potential Research Prospects:**

Despite these difficulties mentioned above, this thesis has exhibited potential for the conducting of further research within the nature and the scope of the subject. The reasons for elaborating the further research are in threefold. Firstly, this thesis has departed from the conventional approach to the study of Sino-European relations which is topic based and outcomes-oriented. This research has instead largely concentrated on the process of policy making.

This is not to deny the validity of topic based and outcomes-oriented research on Sino-European relations. Rather the author suggests that the studies of Sino-European relations could be enriched by retaining a focus on the process and the interactions of individual stakeholders. In doing so, the research would be able to generate insights into how the particular outcomes of China's EU policy or Brussels' China policy are shaped.

Secondly, this thesis has enlightened the examination of Chinese foreign policy. As referred to in the early chapters, the study of decision-making in Chinese foreign policy has rapidly gained popularity in recent years. This is largely because the expansion to the scope and contents of China's external affairs have encouraged a wider participation in Beijing's FP decision making by various institutional actors and different vested interests groups. China's foreign agenda has gradually become more inclusive, changing from conventional state to state relations, to a wider focus on global issues.

Yet, this particular area of research has not progressed corresponding to the shifts in Chinese foreign policy. The main reason to the slow progress in research is a lack of sufficient information and valuable insights into the Chinese political system. This thesis made its

modest contribution by examining two very small, yet rapidly developed areas of China's foreign policy, namely China's climate diplomacy and the related renewable energy collaborations. It observed the process that non-conventional foreign policy actors such as the NDRC and the MOST managed to create their own centres of gravity in deciding China's climate change and energy policy. As these two areas becoming increasingly important, both institutions have emerged as indispensable foreign policy actors in China. By applying to a similar bureaucratic approach, the further research could be conducted in other policy areas where the departmental or corporate expertise play a determinant role in shaping Beijing's foreign policy agenda. The academic curiosity to discover all the various processes of decision-making in Chinese foreign policy are still to come.

Thirdly, this thesis chose the area of climate change and energy policy which do not involve the examination of military security and geo-politics. These two hard security areas have been dominated within the field of studies of Chinese foreign policy. This has left enormous academic potential to adopt the bureaucratic politics model and the fragmented authoritarian model to investigate the process of making decisions such as on China's disputes with its South East Asia neighbours. Equally, the similar model could examine a pair of the most significant bilateral relations in international politics, namely Sino-US relations. Therefore, this thesis has only opened the first few pages of the book.

Last but not least, this thesis examined the China-EU relations, which are not conventional state to state relations. It treated China as a non-monolithic unit which engages with an entity that is not a sovereign state but a hybrid of inter-governmental organisation and states. Conducting academic research on this particular type of diplomatic relations could equally shed some further light on China's relations with other regional and inter-governmental



organisations such as the ASEAN and the African Union.

In doing so, further research could depart from the conventional understanding on China's relations with regional and inter-governmental organisations as a unitary state, to an inter-governmental organisation. Rather, the further observation of such partnerships could identify individual institutional actors and non-state actors in China, and analyse their motivation and behaviour when they formulate particular sets of foreign policies to an inter-governmental organisation.

## **Conclusion for Chapter Seven:**

To conclude, this thesis has departed from the conventional academic research on China-EU relations. In particular, it has focused on the process of formation and execution of China's EU policy. It utilised case studies on their climate change and renewable energy collaborations to examine the relevant foreign policy stakeholders. This thesis has tested extensively its original hypothesis, with a strong focus on individual foreign policy actors and the process of making foreign policy. It concludes that the China-EU relations are indeed mostly determined by diverse interests from a wide range of foreign policy actors.

Theoretically, this thesis has proved that both the Bureaucratic Politics Model (BPM) and the related Fragmented Authoritarian Model (FAM) has been of invaluable assistance to the analysis of the policy making process within China's foreign policy making framework. By examining foreign policy making through the BPM, this thesis discovered that China's foreign policy is far from what the Rational Choice Model claims, namely that "Foreign Policy is based on careful and considerate calculation of national interests".

Rather, Beijing's foreign policy agenda is the outcomes of intensive bargains amongst a wide array of foreign policy actors. Some of these actors are located in the traditional territory of foreign policy making, while others have recently become prominent and decisive without being inside the realm of conventional external affairs. Both the BPM and the FAM allowed the author to observe the process of these newly emerged actors shifting from periphery to the centre of China's foreign policy formulation.

The BPM has also reinforced my observation on the process of making the EU's China policy. As many scholars pointed out, the EU is fundamentally incoherent and inconsistent

when it comes to deciding a particular set of policies. This thesis has illuminated that its collaborations with China on Climate Change and Renewable Energy could not be exempt from this symptom, even if the EU believed that Climate and Renewable collaborations has the biggest potential to become the most fruitful collaborations in their partnership. The BPM helped the author to disentangle the intricate relations amongst institutions in Brussels as well as to investigate disagreements between Brussels and the Member States.

Empirically, this thesis departed from viewing the Sino-European relations as bilateral in nature. It argued that China is not a monolithic entity as some of the western policy practitioners and scholars perceived. It made a modest contribution to the study of the China's EU policy by examining six pairs of relationships in the Sino-European collaborations on climate change and renewable energy. Most noticeably, this thesis has observed the relations between the Party as the ultimate decision maker, and the relevant actors, either institutional or corporate ones. This thesis has discovered that the CCP has played an omnipresent role in every aspect of policy making. Yet, its relations with governmental institutions at both the central and provincial level not always have been the top-down approach as is often believed.

At the central level, the Party has retained the absolute final decision-making power. Yet, the Party has made decisions largely relying upon various central ministries' policy proposals and agenda. As a result, competitions to influence the ultimate decision makers have been a frequent occurrence. In particular, the Party has prioritised tackling climate change and environmental degradation, both problems which have threatened the governing legitimacy of the CCP.

Making domestic environmental policy and conducting climate diplomacy have involved a large number of ministerial departments. As observed throughout this thesis, each department has managed to create their own centre of gravity to utilise their own expertise to influence the final decision outcomes. Each department's interests have been largely reflected in China's policy agenda when collaborating with the EU as well as in clashes with the Union over tackling Climate Change. The intensive bargaining activities have largely undermined the prospects of further collaborations.

Apart from central governmental institutions, the Chinese SOEs have emerged as a formidable vested interest groups in determining China's foreign policy. Unlike the recent literature on the relations between the SOEs and the Chinese government, this thesis discovered that the corporate interests of the SOEs have not always been in conflict with those of the Chinese government.

Such conflicting scenarios often happen in the traditional fossil-fuels sector. However, in the field of Renewable Energy, the SOEs have often acted as insightful information providers to the top Party leadership. They have combined their interests together with those of the CCP. Yet, some other SOEs have continued to experience tense relations with the central governmental departments. Their conflicts of interests have undermined possible fruitful collaborations with the EU.

At the provincial level, this thesis has made a modest contribution by analysing the extent to which challenging provincial-private enterprises relations have become a major source of the Sino-European dispute. Neither the provincial government nor private enterprises have previously been studied in the current China-EU relations literature. This thesis examined

their intricate relations to illustrate the reasons why they have inevitably influenced overall Sino-European relations. To a large extent, their relations have proved that each actor has pursued its own distinctive interests without considering the overall Sino-European partnerships on climate change.

Besides the above detailed examinations on the process of China's EU policy making, this thesis also explored the expansion in content and scope of Chinese foreign policy. It also observed institutional shifts in balance of power which were triggered by the expansion. It investigated the sources and motivations of policy changes and institutional power shifts. By doing so, this thesis has assessed the overall impact of such changes to Sino-European relations.

This thesis has also paid a great attention to the European actors in their responses to changes which have occurred in China. It did not assess the responses of the EU as a single entity to the related changes. Rather, it treated the EU institutions, the MS and the European conglomerates, as separate analytical units to observe their responses to policy shifts in Beijing. On most occasions, the EU institutions have suffered from a lack of institutional capacity to deal with changes inside China. Some of the MS managed to conduct their climate diplomacy more effectively than others.

The European conglomerates have had a very different fate with their business operations in the Middle Kingdom. Some of them have acted as effective information providers to the Chinese government, whereas others have become victims of their own success. Overall, the EU has had grand ambitions in acting as the global leader of curbing climate change, and wished to collaborate with the world second largest carbon emitter to fulfil its aspirations.

Yet, it has found itself with insurmountable difficulties to overcome, namely the institutional inconsistency and incoherence between Brussels and the MS. But, ultimately; the European renewable corporate sector is a victim of China's rapidly developing renewable industry.

Overall, this thesis has offered a non-orthodoxical approach to examine China's EU policy making. It also evaluated the EU's ability to adapt to changes in Chinese foreign policy. Despite the research difficulties, this thesis has enriched the study of Sino-European relations by retaining a focus on individual FP actors. In doing so, this thesis has illuminated the analysis of decision-making process in China's foreign policy and has widened the avenues for the further research projects in the field.

## List of Interviewees for the Thesis

Please note that interviewees' positions and institutions may change over the four years of research process

<b>Name</b>	<b>Position</b>	<b>Organisation</b>
Professor Liu Jianfei	Professor in International Relations	the CCP Central Party School
Mr Shen Jianping	Deputy Director at International Economics Division	MFA
Mr Wu Jianmin	Former Chinese Ambassador to France	MFA/People's Consultative Committee
Ms Yu Hailing	First Secretary at China Embassy to Sweden	CPC International Department
Mr Dong Zhenyu	Deputy Director of European Division, the 5th Bureau	CPC International Department
Mr Yang Jun	former Political Councillor at the Chinese Embassy to the UK	MFA
Ms Wang Lvxin	First Secretary at the Chinese Embassy to the UK (Policy Analysis)	MFA
Mr Han Wei	Third Secretary at Chinese Embassy to the UK on Parliamentary Affairs	CPC International Department
Mr Lan Tianshan	Deputy Director of Service Trade Bureau	MOFCOM
Dr Liu Dong	Lecturer in Global Economy/Deputy Director of Bank of China, Hong Kong	the CCP Central Party School
Ms Wang Xiaolin	Councillor on Climate change at China Mission to the EU	MFA/NDRC
Ms Wang Xiaoyao	First Secretary at China Mission to the EU (Political affairs)	MFA
Mr Su Wei	Director of Climate Change Bureau	NDRC
Mr Chen Deyu	Division Director at Jiangsu Economic Planning Bureau	Jiangsu Provincial Government
Mr Xiang Hua	Staff member at Renewable Division	NEA/NDRC
Professor Pan Jiahua	Director of Environmental Science	Chinese Academy of Social Science
Professor Zhou Dadi	Senior Fellow on Environment	Energy Research Institute of NDRC

Professor Zhou Hong	Director of European Studies Institute	Chinese Academy of Social Science
Professor Zha Daojong	Professor of International Relations	Peking University
Professor Zhang Jian	Professor of International Relations	Peking University
Professor Li Junfeng	Senior Advisor	Chinese Association to Wind Energy
Mr Liu Yuxing	Government Relations Manager	Suntech
Mr Xu Xiangdi	Analyst of Corporate Strategy	Suntech
Mr Li Songlin	Project Manager, CNOOC Renewable Energy Company	CNOOC
Mr Tom Pellman	Government Relations Manager, Head of China, Chairman of EU Chamber of Commerce China	VESTAS, China
Dr Jeorg Wuttke	Staff member/DG Clima	BASF
Miss Miriam Gutzke	Director at Asia Directorate	EU Delegation to China
Mr James Moran	Senior Advisor to Lady Ashton	the EU Commission
Sir Robert Cooper	Director	the EEAS
Mr Fredrik Erixon	Senior Fellow	ECIPE
Mr Guy de Jonquieres	Senior Fellow	ECIPE
Ms Theresa Fallon	Research Fellow	EISA
Dr Nicola Casarini	Head of Political Section, British Consulate in Taiwan	EUISS
Ms Fleur Willson	Desk Officer, China Team	FCO
Mr Sammuel Gosland	Former Head of UKTI/ Board members at Huawei, UK	FCO
Sir Andrew Cahn	Professor of International Relations	UKTI/Huawei
Professor Shaun Brelin	Senior Fellow	University of Warwick
Dr Gudrun Wacker	Head of Government Relations, Berlin Office	SWP
Mr Wolfgang Niedeirmark	Project Manager	BASF
Dr Daniele Brombal	Postdoctoral Research Fellow	EU-IRSES Project on Global Partners in Contaminated Land Management
Dr Diarmuid Torney	Principle	Freie University, Berlin
Mr Stefan Haid	Project Manager of SGCC	Roland Berger Strategy, Munich Office
Dr Marcus Muller	Head of Renewable engineering	GIZ
Mr Arjen de Leeuw de Bouter		Siemens



Professor Men Jing	Professor of International Relations, China-EU Chair	College of Europe
Mrs Sylvie-Agnes Bermann	Ambassador of France to the UK	French Foreign Ministry
Professor Francois Godement	Senior Fellow	ECFR, SCI-PO
Dr Denis Depoux	Head of Corporate Strategy	AREVA, Paris HQ
Dr Richard Youngs	Director	FRIDE
Dr Jurgen Stutten	Director of Asia Division	ELBERT Stiftung
Mr Clauze Kuntz	Environmental Analyst	Henrich Boll Stiftung
Dr Torsten Ploss	Project Manager of Coal Liquefaction/Partner at Roland Berger Strategy	BP
Ms Jodi Roussel	Director for Public Relations	Trina Solar, GmbH
Ms Vera Philips	China Team manager	Mercator Stiftung
Mr Axel Berger	Head of Asia Research	DIE Stiftung
Professor Simon Hix	Professor of Politics	LSE

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