

FOREIGN POLICY

Engaging China: EU on the Path towards Reciprocity with a Global Power

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What will be the price of rare earths? The next outcome of future sanctions on Iran? And the possibility of progress in the Doha-round or on climate change negotiations? When China reduces cars licences, it dents German car exports, a driver of growth in the European Union (EU). In all of these, China is a significant factor. China is a ubiquitous presence in international relations. It should play a similar role in the EU's policy formulation.

The EU should seek to engage China as the global and realist power it has become. The strategy should also be one of reciprocal engagement, giving something when China gives something in return. Such a reorientation demands that the EU sits down and lists its priorities for what it wants to get from China. Should it be increased market access, better protection for technology transfer, human rights improvements, cooperation on Iran or joint development aid cooperation in Africa? A long Christmas list with dispersed wishes has gotten the EU nowhere for years. A short, focused and prioritised list could provide inroads in negotiations with China. That would also provide the basis for possible trade-offs with China. The responsibility rests with the Member States to agree on such priorities. The next step is for the EU's leaders to negotiate these so China is met by a coherent negotiation partner.

Realism and trade-offs are not a substitute for a continued value-based approach by the EU. When it comes to defending democracy and human rights, the popular uprisings in Tunisia and Egypt demonstrate that Europe has to move on the right side of history. This is also a lesson for Europe in its dealings with China, where the human rights dialogue has almost grinded to a standstill and few Member States raise their voices any longer.

What do the EU's dealings with China look like? The EU does not yield as much concentrated power in the relation as it could. China uses a divide-and-rule policy when it needs to, using differences between Member States within the EU. China knows that southern European countries will dilute EU human rights policy. It knows that free-traders in the north, spearheaded by the United Kingdom (UK), Netherlands, Denmark and Sweden, will work to block strong retaliatory moves on trade that smack of protectionism. And some

Member States will even be more Chinese than China. One example is last year's decision to lift visa requirements for Taiwanese passport holders entering the EU. The EU's move was first put on hold by some of China's loyal allies inside the EU not even realising that the Middle Kingdom had moved on to a more forthcoming approach to Taiwan since 2008. Bottom line: the EU's policy continuously ends in a lowest common denominator comfortable for China.

Furthermore, the current Trio Presidency has been occupied with the euro-crisis and with the institutional rearrangement following the Lisbon-treaty (with the new President of the European Council, as well the High Representative for Foreign Affairs and the on-going establishment of the External Action Service). This is an understandable prioritisation. Yet, it leads to the perception abroad, also in China, that EU has continued a phase of navel-gazing that was supposed to be over with Lisbon. As an Asian commentator put it, it corresponds to rearranging the deck chairs on the Titanic.

The Trio Presidency seems to be off the hook concerning China-policy since the strategic partnership is now run by meetings chaired by the President of the European Council, Herman Van Rompuy and the High Representative for Foreign Affairs, Catherine Ashton, and by the Commission when it comes to the High-Level Economic Dialogue and the Executive-to-Executive meeting. Yet, concerning China, the Trio Presidency still has work to do (see recommendations below).

In principle, the removal of the rotating presidencies from international Summits should entail better coherence and less six-month thinking. Still, the EU-China summit in 2010 – chaired by the Van Rompuy and the President of the European Commission, José Manuel Barroso – was low-calorie on both content and results. So far, the confusion and coordination between a new EU Foreign minister and two Presidents is not pushing the EU in the right direction.

Talking tough with your Chinese banker

Keeping in line with Europe's inwardness, the big events of the last Trio Presidency have been defined by China.

The first was China's bond diplomacy. With the onset of the euro-crisis, China started on successive high-level tours around Europe, coming to the rescue of debt-ridden countries like Spain, Greece and Portugal. That was the story that China wished to tell. Western media happily helped diffuse it.

The reality is a much more interdependent relation between Europe and China. Europe is China's largest trading partner and it needs a stable European market. A break-down of the euro or a prolonged euro-crisis makes the currency go down and China's exports less

attractive. On top of that, China makes a virtue out of necessity because it needs to – slowly – diversify from its main reliance of dollar holdings.

China's astute bond diplomacy in Europe was also enhanced by opacity on both sides. Europe makes it easy to give it a bilateral tweak as saviour of Spain, Greece and Portugal. For example, there was no official Chinese announcement on investment in the eurobonds issued by the new EU emergency fund to sustain Ireland. The auctioning of those bonds coincided with China's bilateral declarations in Spain in January 2011. China knows that dealing bilaterally with the political dwarfs of Europe, as labelled by Wikileaks, leads to larger pay-offs than bolstering multilateral European initiatives. Japan, on the other hand, made a public announcement of purchases of the mutual European Fund.

The European reality is that, although there is a common currency there is no communal bond market, so each country meets with its creditors, like China, on a stand-alone basis. China does not reveal the composition of its purchases in bonds, only the total amount of foreign currency reserves. European countries have no harmonisation in this area. The European Central Bank only gives figures for non-domestic buyers of sovereign debt, which includes intra-European purchases. My own estimate, based primarily on news sources, was that the actual purchase in the three countries amounted to around €20 billion. This sum is quite small when compared to China's overall addition of more than \$500 billion from June 2009 to September 2010 even in a year of international economic crisis.

Europe should welcome larger purchases by China, but mitigate any political effects by increasing transparency. The inspiration should be the United States (US) Treasury's monthly publication disclosing foreign purchasers of bonds. Europe should also develop joint messages for bilateral Chinese visits, so that bond purchases and feelings of vulnerability do not impact a coordinated European message. Europe must learn from the US to talk tough with its banker.

China's dream of empty chairs in Oslo

The second China skirmish was on awarding the Nobel Peace Prize to Liu Xiaobo. The initial European reaction to the award was piece-meal and hesitant. Some countries published strong bilateral statements and others stayed silent. France was notably absent at the top-level, busy preparing for the state visit of the Chinese President Hu Jintao. In the statement by Barroso, there was not even a demand for the release of Liu, which is a constant element when the EU raises his case with the Chinese authorities. China could have left the EU in that disarray, but it decided to push further, which back-fired.

Vice Foreign Minister Cui Tiankai threatened that there would be repercussions for European countries attending the award ceremony, and similar messages were relayed through China's

diplomatic network in Europe. This new version of non-interference – telling the Europeans which meetings to attend inside Europe – galvanised the Europeans to decide on securing attendance at the level of ambassadors. Sources say that some countries like Romania had been ready to down-grade their presence to accommodate China. The EU even extended the value fight and got Serbia, a country with EU aspirations, to show up. The first report was that Serbia was going to defer to China in its quest for empty chairs.

Yet, in a relationship where the balance of power has tilted, this was a short hour of glory for Europe. This Europe – which in the 1990s, after the crack-down on Tiananmen Square, put sanctions on China and orchestrated human rights resolutions in the United Nations (UN) – is now facing “soft sanctions” by China to discourage high-level meetings with the Dalai Lama and a China-led block in the UN that dilutes European influence and pressure concerning human rights.

Can Europe change from paper-diplomacy to genuine strategy?

Simultaneously, and outside of the limelight of the euro-crisis, Europe has actually been working quietly on improving strategy and coherence when facing China. The right moves have been taking place – on paper.

The EU has reassessed its strategic partnership with China. The foreign ministers debated China in September 2010 – a novelty – last conducted back in 2004-2005 in the divisive years of discussing the arms embargo. Ashton held in September her first strategic dialogue with Dai Bingguo, the Chinese state councillor dedicated to foreign policy.

In December 2010, the European Council adopted a new approach based on reciprocity, trade-offs and interests. As Van Rompuy has explained, reciprocity is no longer a “bad word”. The aim is to define Europe’s principal interests and negotiate these with China. This specifies an urgent need for the EU to define clear priorities and stick to them in negotiations, in order to match China’s consistent demands and so-called “core interests”.

That is easier to write in a strategy paper than enact in practice. Dealings with China by individual Member States show that short-term benefits for national capitals are often preferred to joint European priorities. China will work actively to continue that state of play. And on top of the 27 Member States, China can now also exploit the potential creaks between two Presidents and the High Representative. Not to forget the European Parliament, also with a role to play in foreign policy post-Lisbon. China has already foreseen that development and sent its eloquent Vice-Minister of Foreign affairs to address and lobby the Parliament in October 2010.

This more hard-nosed approach is mostly evident in EU’s trade relations with China. It also has origins going back to the 2006 Communication on China from the Directorate-General (DG)

for Trade, realised during Commissioner Peter Mandelson’s reign, which sharpened the pen and tone of the EU’s trade relationship with China. And now the financial crisis has increased European impatience, waiting for better market access in China while the economic boom of the world’s self-proclaimed developing country continues unhindered. Asymmetries in the relationship are no longer tolerated to the same degree. When a Chinese company got the public tender for rebuilding a high-way in Poland, it highlighted the openness of the European system. There is a stark contrast to the lack of access for European companies in China, particularly in public procurement. In the new draft trade policy issued in November, DG Trade suggested the possibility of a new instrument that will encourage reciprocal opening and, if not, will also envisage the possibility closing Europe’s public procurement market.

Likewise, the EU did push back on China’s desire to make its coming innovation policy purely home-grown. China softened its stance on this at the High-Level Economic Dialogue in late December 2010. Later in January 2011, with much larger publicity, it gave the same concession to Obama at the meeting with Hu.

Yet, events – like Chinese bond diplomacy, the flow and ebb of bilateral visits and the short-term desire for new contracts to be inked – seem still to overtake any new European strategy. Ashton and the European External Action Service (EEAS) cannot be expected to salvage this. She can give consistency to a joint approach. Yet to be solidly grounded, the new approach still has to overcome Member States’ bilateral reflexes, which favour short-term benefits to joint European messages.

This demands a genuine reality check as to what serves the national interest. The big players in Europe have been bypassed economically in the last decade by China. They still have traction individually, but much less than their national egos would like to think – this is true even for Germany, which is currently accelerating its large-scale exports to China. Bilateral state visits must be employed to amplify European priorities. Germany could find a new role here as a natural leader and the *primus inter pares* among the big three European players, amplified by its own burgeoning trade relationship with China that gives it traction in Beijing. The stake here is for Europeans to streamline and rationalise their demands and amplify European messages at the bilateral level in order to obtain what they want.

Europe has to work hard to be taken seriously as a global player – or just as an equal negotiation partner – by Beijing and not just as a large market with opportunities for investment and high-tech acquisitions, similar to how Africa is needed for China’s search for commodity access.

The coming period during the Trio Presidency of 2011-2012 will show if the new strategy process can overcome bilateral tendencies, China’s shrewd negotiation-style of “divide and rule”, and EU-bureaucracy. Poland, Denmark and Cyprus can play a role in this. Neither of the presidencies will be in the front seat in Summits with China. Instead but equally important for the success or failure of EU’s approach to China there will be tasks in the machine room of

the EU. A coherent China strategy has to combine elements from trade, climate change and foreign policy in order to be successful and create the possibilities for linkages and interest-based trade-offs.

Recommendations

What does Europe want from China? Define European priorities in the strategic partnership to match the Chinese “core interests” and consistent demands on the arms embargo, Market Economy status and the One-China policy. This debate has to be led by Ashton. Yet, the Trio Presidency can play a role in nudging the debate on among Member States as well as linking it particularly to the trade policy still run by the rotating presidencies. It requires a good team player and coordinator behind the scenes. Belgium played this role well during its Presidency.

Connect the dots in the China-strategy. Internal EU policy changes have impact on over-all China strategy. For example, agreeing to an instrument on public procurement targeting third countries that close off their markets to Europe will have broader positive ramifications for negotiating with China. Likewise, on climate change and energy. The coming presidencies have a stake here and in seeing in the broader light of EU-China relations.

Greet Chinese bond diplomacy with transparency and common messages. Europe’s debt woes will not go away. China, with extra reserves, should be a welcome part of the solution. Yet, Europe must learn to talk toughly with its banker as well. Standards should be introduced in Europe – like those of the US Treasury on publishing foreign countries’ purchases of sovereign debt – so that opacity cannot be employed to enhance political influence. This could be promoted by the Trio Presidency. Joint European messages should be delivered at bilateral visits to ensure that purchases do not affect policy.