



EU-China Think Tank Roundtable

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Stanley Crossick
Fraser Cameron
Axel Berkofsky
Cathryn Clüver

The Roundtable was an initiative of the European Policy Centre, Brussels, and the China Institute of International Studies, Beijing. The meeting was held in conjunction with the Netherlands Institute for International Relations and with assistance from CECOFORMA.



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Foreword

This EPC Issue Paper provides a record of the first EU-China Think Tank Roundtable held in The Hague, 6-7 December 2004. Our partner institute was the Chinese Institute of International Relations, Beijing, and our hosts were the Netherlands Institute of International Relations (Clingendael).

The Roundtable took place on the eve of the EU-China summit on 8 December and the previous evening participants had the unique opportunity to engage in a frank and open discussion with Prime Minister Wen Jiabao on future prospects for EU-China relations. The Prime Minister, who came direct from the airport to meet with academics and researchers, said that although there was much common ground between the two sides, there were also many misconceptions. He quoted approvingly from a recent speech by Peter Mandelson that “we all had to become China experts.”

The Roundtable itself was a considerable success bringing together some 20 leading academics and researchers from Europe and China. The main focus was on global governance and the timing was highly fortuitous in that the report of Kofi Annan’s High Level Panel on the future of the United Nations was published just before the Roundtable meeting. The report provided the background to several interventions with participants discussing sensitive issues such as proposals to expand the UN Security Council, the ‘responsibility to protect’ and the changing nature of sovereignty in the modern world.

Participants were optimistic about the prospects for EU-China relations, partly due to the large increase in trade in recent years and partly because of many shared views on international issues. There was general condemnation of US unilateralism. The Chinese participants, however, made clear their displeasure at the continuation of the EU arms embargo on China and the Union’s continued refusal to grant China ‘market economy’ status.

Overall this first Roundtable provided a unique opportunity for the intellectual communities in the EU and China to discuss a range of sensitive political issues. This was an important step in promoting Wen Jiabao’s call for greater mutual understanding. There was also unanimous support for a return event in China during 2005, perhaps focusing on a narrower agenda.

Fraser Cameron is Director of Studies at the EPC.

Chinese Prime Minister Wen Jiabao meets participants of first ever EU-China think-tank roundtable

7 December 2004

Opening the meeting, Chinese Prime Minister **Wen Jiabao** quoted an old Chinese saying that he was ready to “give advice and take advice from others.” The sharing of views and advice should govern interpersonal and inter-governmental relations alike. Turning to the basis of Chinese-EU relations he underlined the common interests and broad understanding on both sides. Mutual trust and mutual understanding were the underpinning of this relationship. The development of closer ties between the largest developing country and the largest association of developed countries in the world should be seen as beneficial for both and beneficial for the overall global situation.

Stanley Crossick recalled the Prime Minister’s call for a strategic partnership between Europe and China in 2003. The EU Commission was expected to respond positively to these plans. He suggested that the 30th anniversary of the opening of diplomatic relations between China and the EU should be used as an occasion to launch this long-term strategic partnership. Reflecting on the earlier discussion with think tank partners from Europe and China, he noted that achieving mutual trust and understanding had to be built around mutual exchanges of views and while the Sino-European partnership had to be forged government-to-government, this needed to be “enthusiastically supported” by all elements of civil society. He pledged the willingness of the think-tank community to engage further. Overall, he saw China and Europe “in the same boat.”

Fraser Cameron noted that the think tank roundtable had spent time discussing the meaning of the key principle of ‘effective multilateralism’ for international security, as enshrined in the European Security Strategy. This had been a timely discussion not least in light of the recent publication of the findings of UN Secretary General Kofi Annan’s High Level Panel. There were many areas of agreement between China and the EU with respect to global governance but a key area of difference was in the understanding of sovereignty in international relations. The High Level Panel had underlined the ‘responsibility to protect,’ stressing the right of the international community to intervene in the domestic affairs of a country in the case of genocide or a gross violation of human rights. He suggested that Chinese and European academics and officials discuss the implications

of this difference further, as well as the recommendations of the High Level Panel report.

Jan Rood picked up on the political dimension of Chinese-European relations, which had intensified both with the constituent Member States of the Union as well as with EU institutions over the past few years. Although there was an increasing convergence of views on a wide range of issues, differences still remained over China's human rights record and lifting the arms embargo – which had caused dissension between EU Member States themselves. He agreed with Dr. Cameron that the issue of sovereignty was seen very differently by China and the EU. While China saw sovereignty as absolute and a means of protection of the state from outside intervention, Europeans believed that in an increasingly interdependent world absolute sovereignty no longer existed. This difference in views was fundamental and could be a serious obstacle to cooperation, and these divergences needed to be addressed in an open dialogue.

Wang Ziang said that the think-tank dialogue had proven that the EU would play an even bigger role in international affairs in the coming years. Nevertheless, China had to take a “two-ply” approach to Europe, dealing with it in the multilateral framework as well as in the bilateral framework of its constituent Member States. This could mutually reinforce one another.

The EU had a unique historical development and shared many of China's strategic views. China could learn more about ‘effective multilateralism’ from Europe. China could also profit from the European lessons learned on regional integration and on shaping the framework for a functional market economy.

In her presentation, **Leila Fernandez-Stembridge** addressed the economic dimension touching on a gradual progression from “yesterday to tomorrow.” Yesterday's economic relations between China and Europe had been based on silk and tea export from China and opium import from Europe via India. Today, both sides were partners but this relationship was not without difficulties particularly with respect to textile trade and serious problems concerning intellectual property rights. She hoped that in the world of ‘tomorrow’ mutual understanding would pervade the relationships, with minor conflicts only a sign of the normal trade ties between the two. She pointed to the fact that Europe could also serve a bridging function for China as it reached out to other global regions, such as Latin America.

Antionette Primatarova reflected on cultural ties between Europe and China, noting that while EU Member States were highly integrated with respect to the political and economic realm, they insisted on cultural independence. Knowledge about China in Europe and of EU Member States in China would thus only be transmitted in a bilateral

framework. She suggested a pooling of Chinese expertise in the elaboration of a compendium of Chinese history, culture and politics, which could serve as a basic tool to those experts in Europe working on Chinese affairs in an effort to spread greater knowledge of the country in the EU. Increased people-to-people contacts were important through science and research, academic exchange and tourism.

Prime Minister Wen Jiabao thanked participants for the role they played in promoting peaceful China-EU relations and noted that indeed, from this perspective, both sides were in the same boat. He acknowledged existing differences, which both sides had not been able to bridge over the past few years, but underlined the necessity of focussing on the common ground both shared in international relations including the belief in democracy and the prevalence of the rule of law in governing international affairs as well as the importance of effective multilateralism. Additionally, China and the EU Member States had a strong desire to increase their bilateral trade volume, with the EU already China's biggest trading partner. He stressed that despite all differences, China and Europe had enjoyed uninterrupted contacts. From the ancient Silk Road to today's high-tech communication revolution both Europe and China had always been in touch with one another. Problems and differences between the two on a range of issues were perhaps not surprising, given the different perspectives both had given their geographical and historical developments. There was no reason to fear these differences, as different social systems could develop side-by-side in the world. He hoped that both would accept each other as equals and move forward objectively and openly. Understanding between the two sides needed to be increased – while many Chinese knew little about Europe, Europeans did not have enough appreciation for China's history, current state and culture. This understanding would have to be increased by exchanges on the ground. The Prime Minister highlighted a range of figures, which many Europeans seemed to ignore: China had a population of 1.3 billion, with 750 million people at working age. 250 million people had been lifted out of poverty thanks to 20 years of consistent, successful reform. The state, meanwhile, also had to assist 60 million Chinese with disabilities and had to assure welfare payments to 22 million urban residents. Additionally, the government had to create 24 million jobs each year for people in urban areas.

He referred to a recent speech by EU Trade Commissioner, Peter Mandelson, urging Europeans to become China experts. Greater understanding was the basis for cooperation but respect for one another's differences came first. He hoped to see more Chinese experts knowledgeable about Europe and more Europeans with a profound understanding of China at future roundtable meetings in the near future. Next year marked the 30th anniversary of diplomatic relations and these had sometimes been marked by "twists and turns." As things stood now, the China-EU relationship had bright prospects despite

some challenges. How to seize the opportunities and challenges and take the relationship forward was a key task for all that had shown interest in Sino-European ties, the Prime Minister said. Referencing a Chinese saying, he noted that “a good beginning is half way” – joint efforts between think-tanks on both sides would do much to support mutual understanding and he encouraged the representatives present to further increase their travels and exchanges. More specific issues raised in the five presentations would be discussed further at the summit, for which he had “every confidence of success.”

Cathryn Clüver is Communications Executive at the European Policy Centre.

EU-China Think Tank Roundtable

Introduction

The first ever China-EU think-tank roundtable featured participants from the Chinese Institute of International Studies, Renmin University of China, the China Institutes of Contemporary International Relations, the School for International Studies at Beijing University and the Shanghai Institute for International Studies. On the European side, the EPC was joined by representatives from the United Nations University, the Netherlands Institute of International Relations, Clingendael, the Centre for Liberal Strategies, Bulgaria, Notre Europe, Paris, the Universidad Autonoma de Madrid and the Copenhagen Business School. The meeting took place at Clingendael on 7 December 2004. The meeting was divided up into four thematic discussions, including The Contemporary International Scene: the EU, China and Global Governance, European and Asian Integration Compared, EU-China Economic and Trade Relations and The Future of EU-Chinese Relations. This is not an official transcript of the meeting and specific remarks are not necessarily attributable.

I. The Contemporary International Scene: the EU, China and Global Governance

The first panel was introduced by **Dr. Fraser Cameron**, Director of Studies at the European Policy Centre. **Mr. Wang Zaibang**, Vice President of the China Institute of Contemporary International Relations served as a respondent. **Qiu Luming**, Guest Research Fellow at the CIIS, Professor **Jan Rood** of Clingendael and **Tania Felicio** of the UN University in Bruges, Belgium served as discussants.

Summary

Dr. Cameron opened his presentation by outlining the main recommendations of the UN Secretary General's High Level Panel on UN reform, which – if implemented – would have a profound effect on the use of force, the application of international law through the UN system and the structure of the organisation itself. Both the EU and China were facing an uncertain world as a result of major changes to the global environment during the past 15 years: the collapse of the Soviet Union and communism as an ideology, the rise of a unipolar, powerful America, the events of September 11 and with it a greater threat of terrorism and radical Islam. Other problems remained unresolved, including the Arab-Israeli conflict in the Middle East and the ever-expanding gap between rich and poor. The last decade had also seen a growing importance of the EU and China, both undergoing

processes of profound transformation, such as EU enlargement and China's peaceful rise. Thus, reforming the United Nations to reflect these changed realities had to be in the interest of both.

He also pointed to a number of questions on global governance both EU and China were facing, including whether or not the World Trade Organisation (WTO) should be equipped with greater resources, whether the structures of the Bretton Woods institutions such as the International Monetary Fund (IMF) and the World Bank could still face up to current challenges and whether the G-8 should be abolished or reformed to reflect new global economic realities. EU priorities in global governance included the realization of 'effective multilateralism' in international relations – the fundamental principle of its European Security Strategy. Its goal was to become a more coherent, more active and more capable single actor in international affairs.

He noted that the High Level Panel had placed issues of "hard security" including weapons proliferation alongside "soft security measures" such as poverty relief and humanitarian aid, often cited as a forte of the European Union in its international activities. The US had to be convinced of the benefits of a multilateral approach and the importance of the use of a 'holistic' concept of security, which included human security and failing or failed states.

Mr. Wang said that 9/11 and Iraq were hugely significant events since the end of the Cold War. The US was the top superpower. The end of China's planned economic model paved the way for regional integration and for globalisation but many people were not profiting from the benefits of globalisation. The gap between rich and poor was widening. Given US unilateralism and a worsening of international security through terrorism, we needed a stronger UN but it was important that a reformed UNSC should not be paralysed. The EU and China had many common interests and should be natural partners in global governance.

Qiu Luming agreed that there were many areas of convergence. China was now promoting sustainable development, good governance and the rule of law. In addition, China was more positive toward UN peacekeeping. EU enlargement had brought more diversity, more difficulties and also experience on how to govern a much larger territory.

But the two sides also had their differences, including different views of threat perception. China's focus was on threats to sovereignty and the nation state. The EU was a security community. Europe was peaceful, while the Asian region was marked by separatist tendencies and civil strife. The role of the nation state was also seen differently in Asia and Europe. While Europe had created a modern nation state

system and the rest of the world had followed suit, it was now charting new grounds with the integration of sovereign nations in the European Union. This was met with a reversion to nationalism in other parts of the world from East Timor to the US. China and Europe also had differences in their ways of promoting multilateralism. China was more cautious with regard to intervention in a third country.

Jan Rood said that EU interest in effective multilateralism followed logically from Europe's geography, history and growing economic interdependence. Europe was also dependent on secure energy supplies, particularly oil and gas. The EU was surrounded by unstable areas and hence vulnerable to problems there. An important task of the European Security Strategy (ESS) was to promote a ring of well-governed countries to the East and South of the Union. The EU could make a significant contribution as a 'quiet superpower.' It had a broad range of resources in the area of 'soft power' but these instruments were only really effective within a strong, rules-based international order. The Union had not been able to use and capitalise on its potential as a result of lack of coherence of policy and also because of its underestimation of its own potential, e.g. in Ukraine, where it had come too late and offered too little.

Tania Felicio touched on the role of regionalism in promoting global governance and asked what were the implications of the High Level Panel's report for China? What were the prospects for an East Asian Security Community? Could China be seen as taking the lead? How would China react to a Japanese seat in the UN Security Council? She also asked whether the proposal for a 24 member UN Security Council based on four regions (Europe, America, Africa and Asia Pacific) was equitable. An alternative proposal by CRIS would involve 8 regions, four of these in Asia (central, southeast, South Asia and East Asia). In either case, each region would require a regional structure.

Discussion

Chinese discussants

The Chinese participants began the discussion by focusing on recent developments in US foreign policy and US/ China relations. **Zhang Jianxiong**, for example, said that China faced a terrorist problem and this was why it sought to collaborate with the US. On Iran, he said that the international community should have monitored developments in Teheran more closely. Nevertheless, Iran should be able to develop nuclear power for peaceful means.

Staying with the topic of the US, **Zhang Tiejun** expressed doubt about whether the Bush doctrine would last forever. It was not a part of US historical tradition to act unilaterally. **Zhu Liquin** asked how a

potentially divided Europe – as seen in the Iraq crisis – could react to a unilateralist US.

Turning to more general issues of global governance, **Hu Dawei** asked who would take lead in promoting effective multilateralism? The US did not seem interested in sharing that principle. Even if the EU played the leading role, divisions in Europe remained.

Qiu Luming pointed to the need for a balance between sovereignty and the requirements for humanitarian intervention.

Song Xinning suggested that it would be difficult to have effective global institutions without effective regional institutions. On UN Security Council reform, he said China preferred the status quo with minor changes.

European Discussants

On the European side, **Alfred von Staden** agreed that multipolarity might be used to restrain US unilateralist energies but one should not use multipolarity to create divisions and rival power centres. Multipolarity should be put in the context of sharing responsibility. Reform of the UN was necessary. While he understood China's position on sovereignty, given the security issues in the region, the High Level Panel had put the Westphalian state structure in the context of human security on a global scale, encouraging intervention on humanitarian grounds as the 'responsibility to protect.

Leila Fernandez argued that China's need for energy security would strengthen its links to the global economy. It was currently searching for alternative oil providers, aside from the Middle East and thus looking toward Latin America and South Asia.

Frank Umbach emphasized the impact of the European Security Strategy as a first step forward in conceptualising the global interests of the EU. Certainly, Iran had the right to use its nuclear power for civilian use. One had to ask oneself though why such an energy- rich country would wish to go down this path.

Dirk Sterckx warned of nationalist tendencies re-emerging throughout the world, even in Europe. He wondered whether there could be a reversal to authoritarianism in China because of the dangers of openness.

Stanley Crossick asked how the EU and China should deal with US unilateralism. He also questioned the right of the West to stop Iran from acquiring nuclear capacities, when the former had broken the non-proliferation treaty themselves. A bigger danger was nuclear weapons falling into the hands of Islamic extremists in Pakistan.

In closing the discussion, **Fraser Cameron** said that Europe could only deal with the US if it was united. It had already shown some successes, e.g. around the International Criminal Court (ICC) and the Kyoto Protocol. Since the Iraq crisis there had been significant advances in the Union's Common Foreign and Security Policy (CFSP). Developments in the EU always had to be seen as a process. What was the alternative to good global governance? The answer could only be anarchy or hegemony and neither could be in the interest of China or Europe. "We do have different views of security and sovereignty, which has an impact on how we deal with humanitarian missions." Sovereignty could not be the answer, as absolute sovereignty no longer exists. "We need a new balance and must work together on seeking this balance."

II. European and Asian Integration Compared

The panel was chaired by **Ambassador Ma Zhengang**, President of the China Institute of International Studies, CIIS. **Dr. Axel Berkofsky**, Senior Policy Analyst, EPC and Professor **Zhu Liqun**, Director of International Relations at the China Foreign Affairs University (CFAU) offered introductory remarks. **Zhang Tiejun**, Head of the Division of American Studies at the Shanghai Institute of International Studies, Professor **Yang Baoyun**, Deputy Director of the Center for Asia-Pacific Studies, Center for South-East Asia Studies at Beijing University, Mr. **Frank Umbach**, German Council on Foreign Relations and Mrs. **Antoinette Primatarova** of the Centre for Liberal Strategies in Sofia Bulgaria all served as discussants.

Chairman **Ma Zhengang** noted that China attributed considerable of importance to regional cooperation and was engaged in ASEAN through the ASEAN+3 process and other regional organizations, such as the Shanghai Cooperation Council. He wanted to see the EU have one voice in everything, but that seemed unrealistic for the time being, thus relations with the Union's Member States reflected this reality and the different attitudes of EU Member States toward China.

Axel Berkofsky underlined that economic and political integration were distinctive features of contemporary international political and economic relations. Whereas the EU was fully integrated economically and increasingly also politically, with its increased efforts on foreign policy and defence, Asia still lacked the impetus to integrate economically and politically. He briefly highlighted the evolution of European integration, underlining the gradual process leading up to current realities over sixty years. He argued that EU-style political integration processes would not take place in East and Southeast Asia any time soon and Asian governments would continue to favour

bilateral over multilateral trade and free trade agreements for the foreseeable future.

Essentially, the two regions followed two different models, with Asia showing a preference for “pragmatic integration” or “open regionalism” and an integration process not supported by formal institutions. The difference in international norms and domestic state structures could be linked to these developments. For example, the principle of non-interference was key to the functioning of ASEAN, but also significantly limited the influence the association could have on its member states’ policy-making.

Nevertheless, he cautioned, Asia would have to integrate further – at least economically, if it wanted to increase its share in world trade. Closer ties between Asian countries were necessary in tackling wider problems, including poverty, environmental pollution and water shortage. Many analysts were now arguing to further engage China – already pursuing a certain degree of multilateralism, with its recent free trade initiatives – in any future integration processes in the region. This could allay fears of other regional powers when confronted with the economic powerhouse, while offering a range of positive opportunities for China itself. He noted that China, overall, still preferred to deal with its neighbours bilaterally, practicing “conditional multilateralism,” which suited Chinese interests and did not jeopardize Beijing’s room to manoeuvre. He underlined the centrality of stable Chinese-Japanese relations for any further regional integration in Asia.

Given the different cultural backgrounds and history, it would be a mistake to compare the success of the EU integration process with the less impressive state of Asian economic and political integration, he concluded.

Zhu Liquan said that East Asia was not a pioneer in developing regionalism – only launched really after the Asian financial crisis in late 1990s. But since then regional integration in East Asia has progressed quickly. China was a fast developing economy and had proposed a number of free trade agreements in the region to recognize the interdependence of countries in the area. This was an important driving force in constructing a community in East Asia. China had already become a proponent of multilateralism and was positively engaged in promoting these efforts on a regional level, including practicing self-restraint vis-à-vis ASEAN. Its efforts on Korea were further evidence of Chinese commitments.

On the significance of China’s contribution to ASEAN, he noted that his country would further develop the Asian way of pragmatic integration including gradual institutionalisation, non-interference and consensual diplomacy. East Asian integration was a socially constructive process, as rapid growth in the region stipulated

collaboration. He noted that common identity could only be forged gradually. China's integration would reduce regional fears of China. The country would prove to pose no threat to others as it could only fully complete its 'peaceful rise' by collaborating with others – an experience derived from Europe.

China's long-term goals in Asia involved building an East Asia economic, security and social community. The initial focus was to be on functional sectors and then to move on to other areas. A key question was how to transcend Japanese-Chinese historical differences?

Frank Umbach said that the Asian model of integration did not need to be built around the EU model to succeed in the long run. Nonetheless, further integration in the region would need some form of institutionalisation. A pragmatic integration approach excluding legally binding decisions would have a doubtful long-term future. He disagreed with Dr. Berkofsky saying that non-binding status of agreements could be a weakness, not a strength over the long term. Was Beijing still overly focused on bilateral rather than multilateral agreements? ASEAN was in a similar situation with respect to security – it extended rather than deepened its external policy front. This may have been a negative decision in retrospect. There was no discussion on effective multilateralism in Asia-Pacific. There was a need to overcome core principles of sovereignty and non-intervention.

Zhang Tiejun said that 'open regionalism' could be institutionalised at some point. People in the region have realized that an element of institutionalisation might be necessary, e.g. East Asian Community. A first step in this process could be the East Asian Free Trade Area. One important factor missing from Dr. Berkofsky's paper, he noted was the impact of EU integration on Asia. Europe was a trigger and promoter of Southeast Asian regionalism.

Antoinette Primatarova viewed the institutional problems as the core difference between European integration and Asian integration. Institutions are the policy-generating entity, hence are an added value, though over-bureaucratisation can have a negative impact. The EU would enlarge further in the coming years and there was an obvious debate over the final shape of the EU. The European Neighbourhood Policy was already elaborated in its roots in earlier debate about enlargement – sharing everything with neighbours aside from institutions – offering a 'silver carrot.' Europe and China might have a common Russian neighbour in the near future and this again would raise new issues for the EU and China.

Yang Baoyun agreed that Asian and European integration differed fundamentally. Promoting Asian integration was important for Europe.

In East Asia most countries were former European colonies and there remained concern about European “teaching.”

Discussion

One discussant noted that the level of integration was also linked to the countries driving the process. There were differences between integration and cooperation on both sides but countries in Asia had to deal with a number of common problems including water shortage, poverty, environmental effects, etc. Institutions were needed to address these issues. Was it not in the interest of other Asian countries to rein China in, as Germany was in Europe? There were also differences between the integrated and cooperative models. Cooperation in Asia had furthered dialogue, which could lead to common ideas and over the long-term overcome diplomatic differences. Creating new institutions did not necessarily imply a weakening of global multilateral institutions. The EU model was very relevant to the Southeast Asian model, where so far there was no real regional integration just closer cooperation.

Another discussant raised the question of the role of the smaller countries in Asia in bridging problems between larger countries and also in term of hosting institutions. Perhaps Asia could learn from the EU here?

A further participant said that the security assurances of NATO had been fundamental for the European integration process. Asia did not have such a security safeguarding system and thus Asian integration would take a long time.

Frank Umbach said that the establishment of new institutions did not necessarily lead to duplication in the international system but there was a proliferation of meetings in the ASEAN context that brought little added value.

Leila Fernandez pointed out that China was now using its comparative advantages to the benefits of all WTO members. China becoming a member of the WTO was seen as an important step of ‘rapprochement’ for the region. The EU had proven the importance of the integrating force of a single currency and could serve as an example for Asia. On the use of informal links, she reminded participants that the entire China - Taiwan economic relationship was based around informal links. This could be taken further via informal economic and political linkages. Existing plans for free trade areas (FTAs) had to be further extended for regional cooperation. China and ASEAN had to at least engage in an institutionalised dialogue.

Regarding the impact of culture on integration, she noted that for outsiders European culture seems more homogenous than perhaps these

were in reality, but Christian roots had had an impact in forging identity. In Asia, these common roots did not exist.

Looking back at the development of the European Union, **Dr Cameron** pointed to the existence of strong political will to move ahead, based on shared objectives and common institutions. None of these three elements existed in Asia. Reconciliation between Japan and China was a sine qua non for progress in integration.

Zhu Liquan responded by stressing that China was involved in multilateral organisations and thus in a limited degree of sovereignty sharing. In Asia progress had to be based on consensus. Last year's proposal to create an East Asian Community showed that there was a political will to move forward.

Axel Berkofsky noted that there may be a possibility that an FTA might lead to institution-building but for now all we had was ASEAN. Institutions are policy-makers but the lack of such was a deliberate decision by Asian countries. Energy shortages will create a greater need for integration. There was double-speed integration in Asia with Singapore far ahead of the game and Vietnam far, far behind.

Closing the session, **Ma Zhengang** said that one had to see the long-term prospect of integration processes. Europe had started on coal and steel and full development took 50 years. It was evolving further with the ten new Member States having joined in May. He speculated that perhaps the current state of affairs in Asia was is a basis for a good, step-by-step integration.

China was a pragmatic nation. It noted the differences in the pace of development of its neighbours and has thus built its contacts around bilateral relations. But multilateralist diplomacy was now a principle of China's policy.

III. EU-China Economic and Trade Relations

Professor **Leila Fernandez-Stembridge** of the Centre for East Asian Studies of Universidad Autonoma de Madrid and **Song Xinning**, Director of the Center for European Studies at the Institute of International Relations at Renmin University of China offered introductory remarks. **Li Hua**, Chief of the Division of European Studies at the CIIS, **Bertrand Largentaye** of Notre Europe and **Kjeld Erik Broedgaard** of Copenhagen Business School served as discussants.

Song Xinning centred his presentation on China's global economic relations. The EU was now China's main trading partner, with the bilateral trade volume exceeding 170 billion dollars this year. The EU

was also the main resource for the transfer of technology and high tech, the main resource of governmental loans and the most important investor in China. The EU was also the main resource of foreign aid to China through more than 30 cooperation projects running throughout the country.

He acknowledged that there were problems regarding China's market economy status and the prevalence and frequency of anti-dumping cases but noted that these developments were perhaps symptomatic of countries that had 'normal' economic relations. Other problems have had an impact on EU-China economic relations and Chinese domestic development. The outdated structure of the 1985 EU-China agreement, with its 'single-channel system' no longer worked very well and should be changed, he suggested. Closer European integration had undoubtedly had an effect on China-EU relations and held valuable lessons for China's regional integration as well as its domestic development with regard to social security, environment and regional policy. Increased dialogue and mutual understanding of the respective economic and political situations had had an impact on the relationship and he called for academic, media and people-to-people contacts to be facilitated further. Proposals had already been made to promote European Studies in China at a joint-research centre. The Ministry of Education had issued a positive response and had also asked top Chinese universities to set up Chinese language training programmes throughout Europe. All of these efforts would make a difference in enhancing mutual trust and understanding. The Chinese side would make every effort to promote this understanding and he hoped that Europeans would do the same.

Leila Fernandez stressed two functions of the WTO system with important implications for EU-China relations: the handling of trade disputes and training for developing countries. Understanding the Chinese economy to assess EU-Chinese economic relations was crucial. China already represented 25% of the global economy and was growing exponentially. The working population would soon reach 1 billion people. In terms of GDP growth in absolute terms, it was the 6th largest world economy and ranked fifth in terms of trade. By 2010, it was projected that China would surpass that of Germany.

Commenting on the 'China risk,' she said that while solid performance was there, Europe could also easily be overestimating China's growth. She projected that if the bubble in the real estate and stock exchange market burst, this could lead to real crisis. State sector reforms were also a risk to continued, stable growth as was a possible energy scarcity. These risks however could all be controlled.

Commercial risks in the Chinese-European relationship centred around intellectual property rights (IPR) protection, which influenced European investments in China. EU investors were cautious about

situation. There was a need for greater IPR effectiveness. Turning to China's role in the global economy she noted that it was exploiting its comparative advantage now, which was a major change. Regarding EU-China bilateral trade and investment she noted that China was the greatest beneficiary of preferred nation status. While the EU used to have surplus trade economy with China, it was now in deficit. EU enterprises has set up 18, 000 branches/companies in China to date. There was a major interest in extending a European presence in China. On the other hand, products 'made in China' were proliferating the European markets and the dynamics of this flow was changing: while northern and larger European countries had a steady history of trade with China, southern European countries had only been recently targeted by China.

Turning to China's entry into the WTO she noted that it had followed US leadership, when perhaps it should have shown much more of its own initiative. China had made a commitment by joining the WTO and was currently not living up to certain promises. The overall Chinese WTO record was quite mixed, with the most crucial problem being enforcement. The key question was how to achieve greater compliance. The EU-China Cooperation Programme to support China's integration into the world trading system was a concrete initiative to help China along this path. EU had an increasing trade intensity with China but this was still below Chinese trade volume with Japan and the US.

Li Hua said that greater European integration and the launch of the Euro had brought new cooperation possibilities to EU-China economic relations. China was now a major trading nation thanks to its gradual transformation over 20 years. The boosting of the EU's single market had increased both its own competitiveness and EU investments in China. China was dedicated to opening up, while the EU was integrating further. Problems and disputes did, however, exist and China had fervently criticised the barriers to entry into European markets, which some of its products still faced. Divergent views should not have a negative impact on the relationship but should instead encourage further trust building and dialogue. China's progress would offer more benefits to the EU, while continued EU expansion and integration would also offer more to China.

Bertrand Largentaye reflected briefly on economic theory before turning to the specific Chinese case. He noted that a more economically advanced and mature country would have less marginal efficiency than in a less developed country. The richer a country, the greater its propensity to save and spend. The Chinese, however, had a large savings rate. He agreed that the issue of outsourcing was a sensitive one, because of growing unemployment rates in Europe.

He also wondered how both sides might approach the emerging new economic world order. Former Commission President Jacques Delors

and former EU Trade Commissioner Pascal Lamy had advocated a global regulation system to compensate for negative consequences of integration. They had also suggested the expansion of the WTO's conflict resolution mechanisms. Combining the G8 and aspects of the UN ECOSOC in a new body could also be a possibility. They had proposed that the Bretton Woods institutions should report to this new global economic council to avoid competing agendas. The organisation would play an advisory role at first but could take on regulatory role in due time, as part of establishing a new economic order. With respect to China and the Bretton Woods institutions he noted that the country had not had to undergo convertibility and had thus been spared the "woes" of many other developing countries.

Kjeld Erik Broedgaard praised China's "tremendous" development. This had clearly not gone unnoticed in Europe, with all major European companies having set up a presence in China. Increasingly, small and medium-sized enterprises (SMEs) were developing China strategies and moving offices to the country. These developments and recent statistics pointed to the creation of a new economic axis. At the same time, many were fearful of the dangers of outsourcing and saw China as a threat. The situation was being over-dramatised he said. The European side had penetrated the Chinese markets to a much greater extent than China had infiltrated the European markets. Companies in China could not yet fully compete in the global playing field. The country was still at the lower end of the global production. EU trade with Switzerland and Norway was still bigger than that with China. Looking ahead he did note that if China's development progressed as rapidly as today and it moved toward representing 1/3 of the global economy then the world would face far greater challenges with respect to energy.

Discussion

A number of participants agreed that the scaremongering in the press concerning China's growth was merely political and did not fully reflect economic realities. **Yang Baoyun** pointed out, that the Airbus agreement China had signed with Germany, would in fact benefit Europe as a whole, as Airbus was a EU cooperation project. Europeans failed to see it that way, it seemed. While US industries were scared of China's competitive power in high-tech products and in training engineers, many Americans seemed concerned that they may not be able to compete with China in certain sectors.

Zhang Tiejun underlined that China's labour intensive products were now facing challenges and restrictions on the EU market.

Frank Umbach said that the German government was paying a lot of attention to China both through the multilateral framework of the EU and through bilateral relations. The same was true for France. It would

be a mistake to see bilateral relationships as a zero-sum game. He also asked Chinese colleagues, whether the ‘go West’ policy introduced by the Chinese government to ease domestic tensions and to attract more FDI for hinterlands versus coastal regions had been a success.

Leila Fernandez said that there was a complementarity between the EU and China and that Ricardian theory still applied in reality. China was in a transitional process and it was adapting to meet the challenges of the global system. China was indeed a major attraction for outsourcing, but this had affected the deficit trade level. However, she noted that EU and US multinationals are responsible for this development – not China. Wal-Mart, for instance, was responsible for 20% of the deficit trade level between US and China. She acknowledged that China’s economic statistics regarding trade with different countries could lead to confusion and often they were a matter of skilled interpretation. She also said that China was in the midst of a “branding obsession,” particularly with regards to consumer goods to the US, such as home appliances. Chinese companies in labour intensive industries did have means to compete internationally. She agreed with Frank Umbach that wealth distribution as a result of economic growth was a major problem in China. The disparities exist everywhere in China: non-tariff barriers, for example, had increased, which had become problem for investments into the hinterlands, so the ‘go West’ policy really had not worked. **Li Hua** noted that these disparities in distributing wealth and increasing the flow of FDI to Western parts of the country was in part linked to the lack of infrastructure.

Bertrand Largentaye noted that if there was a serious monetary disruption, US relationship with China would be much more deeply affected than the European relationship, because of the large amount of US bonds held by the Chinese government.

IV. The Future of EU-Chinese Relations

The final session of the day was chaired by **Wang Zaibang**, of the CIIS with introductions by **Stanley Crossick**, Founding Chairman of the EPC and **Zhang Jianxiong**, Research Fellow at the Institute for European Studies at the Academy of Social Sciences (CASS) Beijing. Discussants included **Dr. Hu Dawai** of the Division of European Studies, CIIS, **Dr. Cesar De Prado**, UN University Bruges.

Stanley Crossick said that any planned strategic partnership had to long term and comprehensive and based on mutual trust. He asked how such a partnership might affect their respective relationships with the US. He also wondered what could be done to strengthen the EU-China relationship institutionally. The 1985 agreement was clearly outdated. 2005 marked the 30th anniversary of the opening of diplomatic

relations between the EU and China and he suggested this historic moment be used for the signature of a new agreement. The think-tank community had to work to intensify contacts at all levels of society. His paper presented at the roundtable offered a number of practical solutions, including plans for a further roundtable in Beijing in 2005, the active promotion of regulatory convergence and common standards through private-public partnerships and the creation of a joint Chinese-European law school to emulate the success of the joint Shanghai Business School. He also encouraged an in-depth examination of the feasibility of commercial dispute settlement mechanisms, including a mediation process. The EU Commission had already proposed a directive on mediation in the European Union in October. This could be a first step in defining simplified arbitration, which could then be extended internationally. Chinese and European civil societies should be brought together in a closer dialogue, by setting up a website in which Chinese and European organizations wishing to develop a closer relationship could form first mutual relations and create linkages. Civil society leaders could be brought into a 'committee of understanding' – a small but high-level EU-China group to coordinate the joint strategy, which he suggested be outlined in 2005.

Zhang Jianxiong said that while China's growth was currently centred mostly in the East and on coastal regions, he projected that in the coming two or three years, China's development would spread westwards and expand its reach, rather than increase its intensity. Overall, the size of China's economy had quadrupled over the past 25 years and this kind of growth was expected to continue. Both sides – the EU and China – would reap the benefits of this extended growth pattern.

In early 1990s, there had been only 300.000 cars on China's streets, now there were 2.3 million. China would become the largest car market in the world in the future, with thousands of families replacing bicycles with cars. Currently, three brands of cars made up 60% of the market, all of which were manufactured in China. Volvo, Mercedes and Citroen all had a presence in China. To forge a closer comprehensive partnership would be beneficial to China and the European Union, as China would speed up its knowledge and use of technology in the future, opening up new investment possibilities for European companies. Common ground between the two outweighed the number of disagreements between China and the EU. Both parties are in favour of a multipolar world order and a strengthened the role of the UN. The EU and China both emphasised the role of UN in working against weapons proliferation, trafficking in humans and drugs and poverty alleviation. He noted that while EU-Chinese relations were more mature than EU-Japanese relations, they were still less stable than China-US and China-Japan relations.

In the next decades, both sides should strengthen their cooperation to reflect the growing role even the two play in international affairs, extend this cooperation to more areas and work toward actively overcoming negative factors between the two parties, which could impede the creation of a comprehensive partnership. Forging a strategic partnership required strong political will derived from mutual trust. The think-tank roundtable was a first step in this direction.

Hu Dawei said that China-EU relations had rapidly intensified since the first EU paper on China in 1995. 1998 saw the launch of the China-EU Summits. China and the EU were highly complementary in the international sphere. Their shared common ground would continue to be the basis for future relations. Multilevel and multi-issue dialogue should be set up to address the problems that did exist between the two in an effort to prevent misunderstandings or misconceptions that could negatively affect the relationship as a whole. China had to overcome the challenges it faced in terms of social and welfare policies. Different views on the best way forward with respect to these policy areas were bound to emerge between China and Europe, given different societal values.

Cesar De Prado said that the European Union itself was multilevel process. All levels of governance interacted with one another, while also having an external dimension. This was true for Asia as well as ASEAN+3, tripartite collaboration but also sub-regional relations within China's 30 provinces. The ASEM process had enhanced the level of understanding between Europe and Southeast Asia. Interregional process were developing, including APEC, FEALAC, SCO, TICAD, ACD.

Both the EU and China agreed on the benefits of sharing knowledge on science and technology. A new dialogue could evolve from here and include social issues, the environment, etc. He said governments on both sides needed to pay more attention to the role of think-tanks in this relationship.

Discussion

Ma Zhengang questioned whether sufficient trust had been established between the two sides. Most still saw China as a rival. Does Europe really treat China as an equal partner? Europe often spoke of wanting to engage China further. One needed to be careful of the language used in this context. 'Engage' is often a problematic term. Many still believed that China had not reached Western status and wanted to reach out to China to lift it to their level. If this was the attitude in Europe, he warned, "we will not succeed." The arms embargo as such did not have a huge effect on China, as it did not have plans to purchase a great number of weapons from Europe. China saw it as a sign of unequal treatment, however and he warned that "if China is not

treated as an equal then we will have problems.” The EU was a body of 25 countries and in many cases, the leaders of these countries had different views on China. “If we cannot move with the EU as a whole we will still pursue bilateral relations,” he said.

Axel Berkofsky said that the European Security Strategy had defined China as a strategic partner. The Chinese did not understand how a strategic partner could be subject to a weapons embargo. China had to understand the human rights rationale behind the weapons embargo. There was a lot of frustration and disappointment on the Chinese side about the dialogue on the weapons embargo but one needed to look at the reasons why the weapons embargo had been issued in the first place.

Hans Maters returned to the issue of energy and economic growth. Supply security for oil and gas was absolutely crucial in ensuring continued growth. He noted, that in the absence of constructive dialogue between Europe and China, a struggle for resources might be foreseeable. Additionally, one should not ignore the relationship between CO2 emissions in the production and consumption of energy. Think-tanks needed to examine the questions that could provoke tensions in the future including energy security, climate change and arms proliferation.

Kjeld Erik Broedgaard said that the Taiwan issue might derail relations in the future. Also, US could have a divisive impact on the EU-China relationship. The EU was under tremendous pressure from the US not to lift the arms embargo. He also wondered about economic and trade development with respect to corporate social responsibility practices, which essentially did not exist in China. What of sustainable development? He also agreed with previous speakers that the research work done on China in Europe needed to be better coordinated and the knowledge that derived from this research disseminated more widely to businesses, institutions and other interested parties. Finally, he asked if European thinking really mattered to Chinese policy makers.

Dirk Sterckx underlined that quarrelling was part of every relationship and applied to transatlantic ties as well. The quality of growth is important in all of this. Energy efficiency – China and EU have realized that improvements need to be made and in that we are ahead of the US. He noted that both China and the EU had problems with respect to social development. Europe lacked social adaptability and flexibility. Perhaps there was a way of bringing the Chinese and European experiences together in an effort to compare functionality.

Xinning Song said that perhaps the Sino-European relationship should best be described as a working relationship, not a strategic partnership. Mutual understanding applied to both governments and the respective societies. The Chinese government now faced increased pressure from

public opinion and recent changes in the policy toward Japan were a good example of the impact of social pressure on even the Chinese government and the Communist Party.

Li Hua took up Stanley Crossick's idea on electronic networks, noting that NEAT (www.neat.org.cn) was a mechanism for research and academic exchange in East Asia which could be interesting for European scholars.

Ms Fernandez pointed out that the EU and China had stood side-by-side against the US on a recent occasion - the steel dispute. This had been significant for bilateral relations. The joint Chinese-European business school at which she had been a professor was indeed a success story. This idea of other joint-ventures in education and exchange of human capital should be followed up. She noted that China was becoming a centre for research and development in its own right and many European firms (Alcatel) were creating R&D hubs in the country. Additionally, knowledge about international practices and research was flowing back to China in form of Chinese students returning after having been educated abroad. On market economy status she said this had been agreed as part of China's joining of the WTO and while there was progress on the commercial sector in China, other sectors were not coming together as seamlessly.

Fraser Cameron said that the US always needed an external motivating force. The old concept of sovereignty was no longer tenable. The EU interfered in internal affairs of its Member State economies all the time. The old concept of sovereignty was no longer tenable. He agreed with previous speakers that there were a myriad of issues, including energy security, the environment and UN reform that could form an agenda for the future.

Concluding the roundtable, **Mr Crossick** again underlined that a strategic partnership needed mutual trust, which in turn needed mutual dialogue and think tanks had an important role to play in this. "We can be frank and open with one another and a key element of a strategic partnership has to be just that."

Chairman **Wang Zaibang** concluded by saying that EU-China relations were comprehensive and complex. The roundtable had certainly contributed to improving mutual trust and he looked forward to a return event in 2005.

Cathryn Clüver is Communications Executive at the EPC

Programme

09:00 Opening remarks by Ambassador Ma Zhengang, CIIS, Stanley Crossick, EPC and Alfred von Staden, Clingendael- Netherlands Institute of International Relations

09:15 Session I: The Contemporary International Scene – The EU, China and Global Governance

Chair: EPC

Introduction I: Dr. Fraser Cameron, Director of Studies, EPC

Introduction II: Wang Zaibang, Vice President, China Institute of Contemporary International Relations

Chinese Discussant:

Qiu Luming Guest Research Fellow, CIIS

European Discussants:

1. Prof. Jan Rood, Clingendael, The Netherlands Institute for International Relations
2. Ms. Tania Felicio, UNO University Bruges, Belgium

11:15 Session II: European and Asian Integration Compared

Chair: Ma Zhengang President China Institute of International Studies (CIIS)

Introduction I: Dr. Axel Berkofsky, Senior Policy Analyst, EPC

Introduction II: Professor Zhu Liqun, Director, Institute of International Relations, China Foreign Affairs University (CFAU)

Chinese Discussants:

1. Zhang Tiejun Head of the Division for American Studies, Shanghai Institute of International Studies
2. Yang Baoyun Professor of School of International Studies, Deputy Director, Center for Asia-Pacific studies, Center for South-east Asia Studies, Beijing University

European Discussants:

1. Mr. Frank Umbach, German Council on Foreign Relations Berlin, Germany

2. Mrs. Antoinette Primatarova, Centre for Liberal Strategies, Sofia, Bulgaria

14:00 Session III: EU-China Economic and Trade Relations

Chair: Alfred Van Staden, The Netherland Institute of International Relations

Introduction I: Leila Fernandez-Stembridge, Professor of the Chinese Economy, Centre for East Asian Studies, Universidad Autonoma de Madrid

Introduction II: Song Xinning, Director, Center for European Studies, Institute of International Relations, Renmin University of China

Chinese Discussants:

1. Li Hua, Chief, Division of European Studies, CIIS

European Discussants:

1. Mr. Bertrand Largentaye, Notre Europe, France
2. Mr Kjeld Erik Broedgaard, Copenhagen Business School

15:30 Session IV The Future of EU-Chinese Relations

Chair: Wang Zaibang, China Institute of Contemporary International Relations

Introduction part I: Stanley Crossick, Founding Chairman of the EPC

Introduction part II: Zhang Jianxiong, Research Fellow, Institute of European Studies, Chinese Academy of Social Sciences (CASS) Beijing

Chinese Discussant:

Dr. Hu Dawei, Division of European Studies, CIIS

European Discussant:

Dr. Cesar De Prado, UN University Bruges, Belgium

17:15 Close of session at Clingendael

20:30 Meeting and discussion with Prime Minister Wen Jiabao

Moderation: Stanley Crossick, EPC

European Policy Centre

Comments by Leila Fernandez (economics), Antoinette Primatarova (culture), Fraser Cameron (security) and Jen Rood (politics)

Questions to Prime Minister Wen Jiabao

2. List of Participants

Serge Abou	EU Delegation in China
Yang Baoyun	Peking University
Alex Berkofsky	European Policy Centre
Jan-Willem Blankert	European Commission
Erik Brodsgaard Kelj	Copenhagen Business School
Fraser Cameron	European Policy Centre
Stanley Crossick	European Policy Centre
Hu Dawei	China Institute of International Studies
Bertrand De Largentaye	Notre Europe Association- France
Cesar De Prado	United Nations University- Belgium
Sterckx Dirk	Member of the European Parliament
Klaus Ebermann	Ambassador and Head of the EU to China and Mongolia
Tania Felicio	United Nations University- Belgium
Leila Fernandez	Universidad Autonoma de Madrid
Henriette Geiger	European Commission
Xu Heming	China Institute of International Studies
Jouanjean Hervé	European Commission
Li Hua	China Institute of International Studies
Zhang Jianxiong	Chinese Academy of Social Sciences
Zhu Liqun	China Foreign Affairs University
Qiu Luming	China Institute of International Studies
Hans Maters	Netherlands Institute of International Relations
James J. Moran	European Commission
Antoinette Primatarova	Centre for Liberal Strategies
Ana Ramirez Fueyo	European Commission
Jean-Christian Rémond	European Commission
Gao Riu	Chinese Embassy, Belgium
Jan Rood	Netherlands Institute of International Relations
Frank Schmeidel	European Commission
Andrew Small	Foreign Policy Centre
Zhang Tiejun	Shanghai Institute for International Studies
Franck Umbach	German Council on Foreign Relations
Alfred von Staden	Netherlands Institute of International Relations
Song Xinning	Renmin University of China
You Yi	Chinese Embassy, Netherlands
Wang Zaibang	China Institutes of Contemporary International Relations
Ma Zhengang	China Institute of International Studies
Tang Zhiwen	Chinese Embassy, Belgium

Prospects for the future of EU China Relations

Executive Summary

This paper assesses the current state of EU-China relations and prospects for the future.

It first summarises the recent history of the relationship, highlighting the two key Chinese and European strategy papers, giving a brief overview of the numerous regular meetings within the EU-China Dialogue.

The two principal problem areas – the arms embargo and the granting of market economy status to China – are considered.

The development of a strategic relationship is discussed, but not to the detriment of bilateral ties between China and the 25 Member States of the Union.

The paper then takes a closer look at the rule of law, civil society, regional development, regulatory convergence, energy and economic development in China.

Finally, it looks forward to the 8 December EU-China summit and next year's 30th anniversary of the start of diplomatic relations between the EU and China and makes a number of recommendations.

Current state of the relationship

The current state of the relationship between the Peoples' Republic of China (PRC) and the European Union is warm and friendly, maturing but not yet fully mature. The frequency of high-level political contacts between China and the EU is impressive. Chinese Premier Wen Jiabao has recently visited a number of Member States. His European visit was preceded by trips to China by former European Commission President Romano Prodi and several Commissioners, including Philippe Busquin (research), Loyola de Palacio (transport & energy), Franz Fischler (agriculture), Pascal Lamy (trade), Erkki Liikanen (enterprise), Mario Monti (competition), Poul Nielson (Development), Viviane Reding (education & culture) and Margot Wallström (environment), as well as the EU's High Representative for Foreign Affairs Javier Solana. French President Chirac and German Chancellor Schröder were also recent visitors to China. This all confirms the increased cooperation between China and Europe in many areas, as reflected in the trade figures. The EU is now China's largest trading partner while China is the Union's second largest.

Both parties have produced strategy papers on their maturing relations, which demonstrate their interest in developing a long-term partnership. The Council of Ministers endorsed on 13 October 2003 the EU's latest policy paper, *A maturing partnership: shared interests and challenges in EU China relations* – the fourth such paper in nine years, which underlines the intensity of the relationship. But the Commission's 1998 Communication on *Building a Comprehensive Partnership with China* is still the reference for the Union's thinking. This established the aims of engaging Beijing through an upgraded political dialogue; supporting China's transition to an open society based upon the rule of law and respect for human rights; integrating China further into the world economy and supporting economic and social reform as well as sustainable development, and; raising the EU's profile in China.

Beijing released its first ever policy paper on the EU in October 2003, at State Council level, which recognized the importance of the Union as a strategic partner for China. This Chinese paper argued that the common ground between China and the EU “*far outweighs their disagreements*. Both stand for “*democracy in international relations*” and an enhanced role for the United Nations. Both are committed to combating international terrorism and promoting sustainable development through poverty elimination and environmental protection endeavors. The paper concludes that the political, economic and cultural common understanding and interaction between China and the EU offers a solid foundation for the continued growth of China-EU relations. “*China is committed to a long-term, stable and full partnership with the EU*. Its policy objectives are: to promote China-EU political relations under the principles of mutual respect and mutual trust and contribute to world peace and stability; to deepen economic cooperation and trade under the principles of mutual benefit, reciprocity and equal consultation; and to expand cultural and people exchanges and promote East-West cultural harmony and progress.

High-level EU-China political and human rights dialogues have existed for some time, to which high-level trade policy, textile and competition dialogues have just been added as well as substantial development cooperation activity.

There are over 100 full-time and part-time Commission officials, in at least 15 Commission services, dealing with China. Political and technical dialogues proliferate. However, the institutional relationship is based on an outdated structure. The 1985 Trade and Economic Cooperation Agreement essentially addresses trade issues. Areas such as foreign & security policy, justice & home affairs cooperation and human rights are addressed within the political dialogue at annual summits and ministerial/official troikas but there is a disconnect between the obsolete institutions of the 1985 agreement and these dialogues, and in particular the Joint Committee. The need to move to a new EU-China framework agreement, including joint commitments on

non-proliferation, anti-terror cooperation, migration, human rights etc is recognised by both sides. A more coherent structure is clearly required. The EU-China annual summit does not compare with the EU-US one and there is not the structure that facilitates a comprehensive debate.

The following is a brief overview of the regular meetings within the 'EU-China Dialogue':

Political

- Summit (annual)
- Troika Ministerials (1-2 pa)
- Presidency Foreign Minister and Chinese Ambassador (one per presidency)
- Chinese Foreign Minister and EU Heads of Mission (one per presidency)
- Troika Regional Directors (one per presidency)
- Human Rights Dialogue (one per presidency)
- Illegal immigration high-level consultations
- Asian affairs (regular expert meetings)
- Non-proliferation (regular expert meetings)
- Conventional arms exports (regular expert meetings)

Economic & sectoral

- Joint Ministerial Committee
- Economic and Trade Working Group
- Trade Policy Dialogue (high level)
- Environment (High level dialogue and Working Group)
- Energy (Working Group)
- Nuclear research cooperation (agreement)
- Space cooperation (dialogue)
- Satellite navigation cooperation (agreement)
- Information Society (Working Group)
- Industrial policy and regulation (dialogue)
- Science and Technology (Steering Committee under S&T agreement)
- Maritime Transport (agreement)
- Customs cooperation (agreement)
- Human resources development (cooperation)
- Competition policy Dialogue (high level)
- Sanitary and phytosanitary standards (working group)
- Intellectual property rights (dialogue)
- Tourism agreement
- Textile Dialogue (high level)

The approach to all these issues is practical, beginning with an exchange of experiences. Progress varies between them but a mutually constructive approach pervades.

Problem areas

There are, however, current problems over the lifting of the arms embargo which the Union imposed on China following the repression of the Tiananmen Square protests in 1989, and the granting of market economy status.

A majority of the Member States favors the lifting of the embargo but all are sensitive to the views of national and European parliaments; the need to demonstrate a further clear improvement in human rights; and not to further exacerbate already strained EU-US relations. Before a decision is likely to be made, a strengthened code of conduct will need to be in place and a clearer distinction agreed between ‘offensive’ and ‘defensive’ arms.

The Union has yet to follow Argentina, Brazil, Malaysia, New Zealand, Philippines, Russia, Singapore and others in granting market economy status to China and thus reducing the number of anti-dumping and other trade remedy measures brought against the country. The EU wishes first to be satisfied that the Chinese afford equal treatment to all companies, improve accounting practices and ensure adequate property and intellectual property rights.

Despite understandably putting pressure on the Europeans, the Chinese leadership appreciates the difficulties facing the Union and that favourable decisions are only a matter of time.

There is concern in Europe over the rapid increase in Chinese textile and clothing exports and the Union has expressed the need for this increase to be controlled.

Developing a strategic relationship?

The new generation of Chinese leaders is keen to look towards the EU as an emerging strategic partner in foreign policy. But although the Sino-European ties are in good shape, the Union does not appear to be taking a sufficiently strategic at its relationship with a country that should one day become the world’s foremost economic power. Prime Minister Wen Jiabao called for an “all-round strategic partnership” in a “ten to 15-year perspective.” The proposed new framework agreement by the Commission is intended to meet this perspective but it is by no means certain that the Chinese see it that way. The forthcoming summit is expected to consider whether further examination is needed as to its

feasibility. It is not yet clear whether China feels ready to accept the necessary commitments. Conversely, some Member States question the need to change the 1985 agreement.

Only maintaining the status quo would be disappointing in the light of China's increasing political leverage of its economic power. Chinese trade with south-east Asia is expected to exceed US trade with the region within a few years. These factors have implications for Chinese energy requirements, Beijing's Taiwan policy and the development of a powerful regional and economic grouping, such as the proposed East Asia Community, in which China would be the dominant member.

Taiwan is not a major issue as the EU is committed to a 'one-China' policy. The time, however, is never likely to be more opportune. Political and trade relations are good and the two sides share concern over the unilateral direction of US foreign policy and its effect on global stability and governance.

China and Europe pose no threat to each other. On the contrary, shared experience of war and reconciliation are mutually reinforcing. Both share a commitment to cultural diversity and multilateralism. Visitors to China are struck by the preoccupation of political leaders and opinion-formers with broader geopolitical considerations, whether in relation to EU enlargement or other policies. The Chinese are renowned for taking long-term views when formulating and pursuing policies, and European policy makers should be encouraged to do the same.

The development of a strategic relationship between the EU and China should not be to the detriment of bilateral ties between China and the 25 Member States: on the contrary they are mutually reinforcing. EU enlargement has given this further impetus.

A close Sino-European relationship should also not be promoted at the expense of the United States. There are no indications that, in the foreseeable future, China will seek to – or could – match US military supremacy. The key to regional stability is that China neither feels threatened nor that it threatens others. While the Taiwan issue is worrisome, Beijing is most unlikely to have fixed a time-limit for reunification. There appears to be no likelihood that the present leadership will seek a military solution. In the absence of Taiwanese provocation (e.g. by declaring independence), the only risk is that war accidentally breaks out across the straits, which is not unimaginable. It would be catastrophic if this were to happen and the US felt compelled to go to Taiwan's defence.

Rule of law

China appears to fully appreciate the importance of ensuring the application of the rule of law both to comply with its WTO obligations

and to ensure continued inward investment. It is broadly understood in Beijing that economic liberalisation is likely to lead to political reform and democratisation. However, the government clearly seeks to control its pace and manner, arguing that economic rights have priority over human rights, or, put another way, bread comes before freedom – a reasonable assertion if not used as an excuse for repression. It is, therefore, essential that the Union treats the human rights dialogue as an ongoing priority, but using old-fashioned discreet diplomacy rather than the megaphone, media-driven version: a good starting point might be press freedom, access of the Red Cross to prisons and accurate information on the application of the death penalty.

Chinese ratification of the UN's Covenant on Civil and Political Rights is long overdue. Although EU foreign ministers see the Chinese trend towards full respect for human rights as positive, concern remains over freedom of expression and religion, the right of association and the treatment of minorities. The government's use of its influence to slow down democratisation in Hong Kong has also given rise to concern – this cannot be in the interests of China's economic and Taiwan policies. However, it does not require much knowledge of the Chinese to know that 'carrots' are likely to succeed, whereas 'sticks' can be counterproductive.

An unsung Sino-European success is the China-Europe International Business School in Shanghai, set up by the Commission and the Chinese Foreign Trade Ministry in 1994. This has, in little more than a decade, gained high international recognition and has become self-supporting financially. It is hoped that the subsidy will in future be used to fund another high profile project. The possibility of setting up a China-Europe Law School, which would be well received in China and do much to promote the rule of law, is one that is now being actively considered and should be regarded as a priority.

The Union is assisting the PRC in law enforcement in a number of areas, the most important of which is probably intellectual property rights.

A second project worthy of time is to examine the feasibility of introducing an improved dispute settlement mechanism in China, including a mediation process. This would help reassure foreign investors regarding the application of a fair system of justice.

Civil society

The creation of a strong civil society is in China's long-term interests because of its participatory nature and its thus stabilising influence. International contacts between NGOs are important: Companies, academia and non-governmental organisations should be encouraged to

join in a major, coordinated effort by all the European stakeholders to support the new Sino-European strategic relationship.

A website should be set up in which Chinese and European organisations wishing to develop mutual relations can register.

Regional development

China has huge regional imbalances. The Union has responded positively to the Chinese government's expressed interest in holding a seminar examining what aspects of Chinese regional development policy can benefit from an examination of the European experience of regional development and the structural funds as well as enlargement. Such a conference should involve think-tanks.

Regulatory convergence

Divergencies in legislation, regulation and practice can be obstacles to trade and inward investment and even lead to trade disputes. Efforts to agree common standards and to promote convergence are being addressed through 13 working groups. A joint working party between the public and private sectors should be established to analyse and evaluate the ongoing work on common standards, with a view to exploring new areas in which it would make commercial sense and is practicable to agree common standards; and also where it is in China's interests to reform its rules and practices in line with international norms. Thus, alignment with the EU can improve the quality and safety of Chinese goods.

Currently the Chinese approach varies according to subject area. Sometimes China is developing its own standards in order to protect domestic industry/or to avoid paying royalties to foreign rights-holders; at other times, China is happy to take on board EU or US standards.

While it is recognised that essentially technical issues are involved in agreeing standards, there are occasions when political considerations should prevail on both sides – in the interests of the strategic relationship.

Economic cooperation

The EU is now China's largest trading partner – ahead of both Japan and the United States, while China is the Union's second largest. The trading relationship was worth €145 billion in 2003 (€124 billion in 2002). European direct investment in China was €30 billion at the end of 2002 and the Chinese appetite for European goods continues to grow.

There are many regular, valuable but ‘unsung’ exchanges on sectoral policies and technical issues, most of which are listed above. These exchanges involving officials, experts and businesspeople, promote business cooperation by reducing regulatory obstacles, raising awareness and facilitating contacts.

Some of these deserve additional comment:

Trade Policy: This dialogue seeks to address strategically multilateral, regional issues and bilateral issues.

Employment and Social Affairs: Cooperation over health and safety at work, industrial relations and social dialogue are being planned.

Environment: Here the recently upgraded dialogue focuses in particular on sustainable development, climate change and, renewable energy. EU experience is extremely useful across a wide range of issues.

Energy: The energy dialogue has been active since 1994. Areas in which action is anticipated include regulation, renewable energy, energy efficiency, natural gas and new technologies (e.g. hydrogen). Research on the peaceful use of nuclear energy is central to the new EURATOM agreement. It is in everyone’s interests that China diversifies its dependency on oil and that there be closer cooperation in building strategic oil reserves. In addition, climate change is a global challenge and energy production and consumption is responsible for more than 80% of the problem. China/EU dialogue and cooperation regarding appropriate energy policy strategies to deal with the problem could be very helpful to achieve acceptable solutions in a global context

Space cooperation: This is a new dialogue. The next step is for an EU-China Space Coordination Group to report on the current state of cooperation and make recommendations for the future

Satellite navigation cooperation: A cooperation agreement was signed in 2003 and a further was signed in October 2004 admitting China (the first non-EU country) to the Galileo global satellite navigation services.

The European Galileo programme will provide high precision global satellite navigation services and China is also active in this area. In October 2003 where China pledges to contribute € 200 million to the project (estimated costs for the total project: €3-4 billion).

Information Society: The principal issues addressed by this very important dialogue include 3G licences, Chinese radio spectrum

frequencies, the digital TV standard and the telecom regulatory framework.

Industrial policy and regulation: this is addressed above under 'regulatory convergence. The working groups cover conformity assessment, standardisation, technical regulation, technical barriers to trade, electrical safety, toys, textile, lighters, medical devices, pressure equipment, automobile standards, cosmetics and mobile phone radiation).

Maritime transport: An agreement to improve conditions for EU and Chinese companies between was signed in 2002.

Civil aviation: Closer cooperation over safety, security and air traffic management are the priorities. A special summit is planned for spring 2005 in Beijing.

Science and technology (S&T): Cooperation has materially expanded over a wide range of areas with increasing links between industry and researchers. China is joining the new European Hydrogen and Fuel Cells Technology Platform.

Customs cooperation: The new EU-China customs cooperation agreement, with mutual inspections, should ensure more effective enforcement against fraud, counterfeiting etc.

Competition policy: China's internal market is fragmented and requires both improved regulation and reform of its inefficient state-controlled enterprises. The Chinese competition system broadly follows the Community one

Intellectual Property Rights (IPR): Effective enforcement of IPRs remains central.

Sanitary and Phytosanitary Questions: Regulatory issues of importance in food safety and trade relations are addressed by a Joint Technical Group.

Textiles: This trade dialogue addresses the transition to quota-free textiles trade from 1 January 2005. A business dialogue is also established.

Tourism: Both sides are encouraging the tourism trade. The granting, earlier this year, of 'approved destination status' facilitates Chinese groups visiting Europe: the potential is huge.

Macro-economic and financial sector reforms: A dialogue is to be initiated at the December 2004 summit, covering growth and exchange, financial regulation and public procurement.

Education and culture: Steps are being taken to attract more Chinese students to participate in the new Erasmus Mundus programme and to find ways of increasing cooperation in these fields. China is to be given a special 'window' of access.

Sino-European Summit 8 December

The main EU objectives for the summit appear to be:

- To expand the field of bilateral relations by recognising the strategic position of China in the region and in the world
- To explore the feasibility of a new framework agreement
- To sign new agreements on the peaceful use of nuclear energy and customs cooperation
- To sign joint declaration on non-proliferation and arms control
- To approve three new cooperation projects on information society, exchange and training of business experts and reforms of the social security system
- To obtain a Chinese commitment to strengthen the trade dialogues mechanisms especially with a view to fighting IPR breaches
- To launch an Employment Dialogue
- To discuss international political themes such as the Iranian nuclear programme, Afghanistan, Burma/Myanmar and the Korean nuclear issue
- To express EU concerns on Chinese human rights issues
- To receive Chinese confirmation that the International Convention on Civil and Political Rights will soon be ratified

This year's summit is an occasion for celebrating the growing political and commercial relationship.

30th Anniversary

Next year will mark the 30th anniversary of the opening of diplomatic relations between the EU and China. There will be celebrations in Beijing on or around 9 May (Schuman Day). It is proposed that we have a second think-tank round table in Beijing in May 2005. There could be two parts: the first including Chinese and EU officials; and the second, solely comprising the think-tank representatives.

The 2005 Beijing summit should be the occasion to cement the relationship by signing a new, comprehensive, strategic agreement. This would include upgrading the summit to heads of state level and introducing the appropriate preparatory mechanisms.

There is a unique opportunity for the new European Commission, led by José Manuel Barroso, to develop jointly with the Member States a comprehensive long-term strategy towards China. A mandate should be sought from the December EU-China summit in The Hague to negotiate a strategic agreement

Clear short-, medium- and long-term aims should be agreed together with an implementation plan.

A small, high-level ‘committee of understanding’ should be set up including civil society leaders. Its task would be to encourage and help coordinate strategy between all the stakeholders.

Stanley Crossick is founding Chairman of the EPC

Summaries

In all the EPC contributed five papers to the first EU-China Think Tank Roundtable in The Hague. Summaries of each of the other four may be found below. The full papers may be found on the EPC's website www.theepc.be

The Contemporary International Scene- Implications for the EU and China

Dr. Fraser Cameron, EPC Director of Studies

Both the EU and China are facing an uncertain world as a result of major changes in the global environment during the past 15 years. On the international front we have witnessed the collapse of the Soviet Union and communism as an ideology, the rise of a unipolar and very powerful America, the spread of terrorism and radical Islam, the continuing problems of the Middle East and the growing influence of the EU and China. At the same time there is a growing gap between the rich and poor countries that could threaten global stability.

On the US domestic front we have seen the rise of religious fundamentalism, a strange phenomenon to a secular Europe. Europe has also had to cope, successfully, with the twin challenges of deepening and widening. China has also seen a remarkable peaceful rise in the past few years.

How then can the EU and China develop as strategic partners? What are the areas of interest? Divergence?

Do the Chinese share this analysis of recent developments?

How does China view recent trends in Russia?

How serious is the threat of international terrorism? How does China view US strategy on the "war on terrorism"?

What importance does China attach to the "rich-poor" divide in the world?

The world has experienced a number of major developments in the past 15 years including:

- The collapse of the Soviet Union and communism as an ideology
- The rise of America to be the world's only hyperpower

- The emergence of international terrorism as a global threat, symbolised by 9/11
- The related danger of radical Islam leading to a clash of civilisations
- The continuing danger from a failure to secure peace in the Middle East
- The emergence of China as a major economic power
- The strengthening of the EU as a significant regional and global actor
- The rapid expansion of globalisation
- The growing gap between the rich and poor
- The US led invasion of Iraq and implications for international law

In combination these events have led to a fundamental re-assessment of international relations. Nation states, no matter how large, are unable to cope with the range of security threats they face today. There is no national solution to global warming, an issue that affects the entire planet. At the same time national sovereignty has been further eroded by the spread and rapidity of global communications. The world watched in fascination as the Berlin Wall fell, in horror at the poverty in Ethiopia, in joy at the Athens Olympics, in shock at the airplanes crashing into the twin towers in New York, and in consternation at the events in Tiananmen Square.

It is the duty of scholars and thinkers to reflect on these major changes and consider how our common planet and its citizens may better survive in the future. The 21st century was one of great progress but also one of untold suffering especially in Europe and Asia. If the era of the Westphalian state is nearing its end what will be the guidelines for international relations in future? Does the international community have a responsibility to protect when there is a danger of genocide or massive violations of human rights (Kosovo, Rwanda, Dafur, northern Uganda)? What are the prospects for strengthening the institutions of global governance, so damaged by recent unilateral US actions? How should we respond to the recommendations of the Kofi Annan High Level panel?

It is to be hoped that the new Europe and the new China can work together in seeking solutions to some of the most pressing problems we both face.

The EU, China and Global Governance

By Dr. Fraser Cameron, EPC Director of Studies

The lengthy Iraq crisis (1990-2004) has captured the centre of international attention for the past decade, prompting the UN Secretary-General's call in 2003 for a High Level Panel to explore its implications for world order. In the context of the review of security perceptions and policy-making represented by the UN High-Level Panel, a synthesis is being sought between these 'hard threats', so feared by the North, and the 'soft threats' faced by the South (absolute poverty, environmental stress and natural resource depletion, endemic global health crises and migrant social pressures).

The concept of 'human security' holds the prospect of combining the totality of global issues facing the international community in the contemporary age. The Panel is enjoined to identify these threats and their interrelations, advance ways of ensuring the most effective collective response to them, and propose any changes, including institutional change if necessary, that may be required.

[This paper was drafted before the report of the High Level Panel was published]

Both the EU and China will be enjoined to react to the recommendations of the High Level Panel. The EU stands for 'effective multilateralism' and therefore has a strong interest in ensuring the widest possible debate on the Panel's recommendations, and the broadest possible support for concrete follow-up action. Concerning the UN's developing role in crisis management, there are many issues to be debated including doctrinal, operational and institutional.

Among the sensitive issues that need to be addressed is the commitment of the major players – including the EU and China – to strengthening the institutions of global governance. Some important questions include:

- Reform of the UN Security Council – where does China stand?
- World Trade Organisation: should it have greater resources? Should the Director General have the right of initiative?
- International Monetary Fund/ World Bank: Are the present structures adequate to meet today's challenges? Are the current policy aims still valid? To what extent should both organisation use political conditionality as criteria in their operations?
- G8 – should it be abolished or reformed?

EU and Asian Integration Processes Compared

By Dr. Axel Berkofsky, Senior Policy Analyst, EPC

Enlargement, economic and political integration are distinctive features of the international political and economic scene at the beginning of the 21st century. Whereas the European Union (EU) is fully integrated, Asia on the other hand still lags behind with regard to economic and political integration. EU-style political integration processes will not take place in East and Southeast Asia any time soon and Asian governments will continue to favour bilateral over multilateral trade and free trade agreements for the foreseeable future.

The EU, the model case for codified and institutionalised integration, became an institution of 25 Member States in May 2004. A number of other European countries are set to join the EU, which has itself the ambitious goal of becoming the most competitive economy in the world by 2010. Regional economic integration and regional free trade agreements are trends that go far beyond the EU. NAFTA for a example, a group of three countries, the US, Canada and Mexico, wants to establish to establish a free trade zone (Free Trade of the Americas) with 31 countries in Central and South America by the end of 2005. Asia's economic and political integration record is significantly less impressive, despite recent initiatives to establish bilateral and multilateral free trade agreements across the region. Until a decade ago, Japan was the engine of regional economic growth (and integration). Japan's decade-long economic crisis, its recession and slow economic growth rates, however, turned the country into the 'sick man of Asia' unable to promote and implement economic integration initiatives in the region. Currently, Japan is focusing on the full recovery of its economy and a return to sustainable economic growth rates. In the meantime, China has become the economic powerhouse of the region fostering economic integration through the initiative to establish a China-ASEAN free trade agreement by 2010.

Following a brief overview of the rationale and stations of EU integration, the paper will, among other points, discuss the current state and prospects of further Asian (mainly economic) integration, assess the pros and cons of concepts of Asian-style "practical integration," discuss the role of free trade agreements in Asia and elaborate on the obstacles to Asian integration. Special attention will be given to China and its role in economic and political integration in Asia.

However, given the different cultural backgrounds and history, it would be a mistake to compare the success of the EU integration process with the less impressive state of Asian economic and political

integration. EU-style integration does not necessarily set the standards by which Asian integration can be measured.

The comparative analysis of the EU and Asian integration below will seek to explain why Asia will not see EU-style integration and in the processes assess whether China, the region's economic powerhouse with impressive economic growth rates, is likely to become the engine of economic and political integration in Asia.

The different regions of Asia will be designated as Northeast, East and Southeast Asia in this paper.

China and the WTO

By Professor Sylvain Plasschaert, Emeritus Professor of Economics at the University of Leuven

Few events in recent decades have been as epochal as the 'opening to the outside world' of the Peoples' Republic of China, which was masterminded by Deng Xiaopeng, when he emerged as China's leader in December 1978. In a quarter of a century China has graduated to a major trading nation. Its exports exploded from around \$2 billion in the late 1970's to \$355 billion in 2003; they have grown much faster than overall world trade and naturally, China's imports have grown in similar increments. The composition of China's exports has changed beyond recognition: in the early 1990's, textiles and light manufacturing still made up more than 40% of the export portfolio, the same figure which today is represented by machinery, transport and electronics (up from 17 % in 1993). China accounts for 3.3% of exports from the EU and for 6.9% of its imports (adjusted for intra-EU trade flows) in 2003. The trade balance of the EU (and of the USA, even to a larger extent) with China has been in deficit for many years. In 2003 and in 2004, trade between the two partners has been buoyant in both directions. Thus, China has become a major player in international trade.

Even more strikingly, China has become a highly open economy, in relative terms; today, the sum of exports and gross domestic product (GDP) has leapt to around 70% of GDP. This is uncharacteristic for countries of continental size and/or large populations: India, Brazil, Japan and the United States in comparison do not even reach 30%.

This explosion of 'made-in-China' industrial commodities onto the world's markets was already in full swing when China effectively acceded to the WTO in December 2002. Yet, WTO membership further intensifies China's integration in the world economy. Although the full-fledged exposure to foreign competition also carries serious risks for various sectors in China, its export performance has remained

impressively robust and the growth of its GDP has maintained its pace at around 9 % per annum since accession, despite recent government efforts to cool off investments and the related overproduction in several sectors.

This paper succinctly discusses the implications of WTO membership for the future role of China in its trade relations with the outside world, particularly with the EU. It also briefly looks at the participation of China in Free Trade Agreements, which are proliferating at present.