EU Economic Relations with China: An Institutionalist Perspective

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Looking at the history of European-Chinese relations, there have been times of rapprochement and co-operation but also of tension and conflict. Both China and the European Union (EU) have gained specific profile as international actors over the last two decades, be it in economic or political terms. Amongst Asian states, China has reached a dominant position on the EU's external relations agenda.[1] Economic relations between the two sides have reached significant importance and in 2000 China was, for exports as well as imports, the EU's third largest non-European trading partner, behind the United States and Japan. This has not happened by accident, but is part of a process in which EU-China relations were progressively deepened. As early as in 1973 the Chinese government had invited the then European Commissioner Christopher Soames to visit China. In November 1974 the European Commission forwarded a memorandum to China, including a draft for a possible trade agreement. After diplomatic relations had been established between the EC and China in 1975, recognizing the People's Republic as the only government of China, the Trade Agreement between the EC and China followed in 1978.[2] In 1985 this agreement was replaced by the Agreement on Trade and Economic Co-operation between the EC and China.[3] The European Commission opened its representation in Beijing in 1988, and ever since there has been a continuous deepening of economic and trade relations.

The suppression of the protest on Tiananmen Square in June 1989 did not really cause a major disturbance for EU-China economic relations and in the 1990s the relationship was further developed. In that decade the European Commission published two Communications on China, followed by a third in 2001. EU-China summits started in 1998. To sum up, what can be witnessed today as a highly developed relationship can only be analysed by knowing the past as well as the specific features and problems. Over many years the imbalance between the economic and political dimension of the European China policy could only marginally be reduced. It is equally important to understand that the European policy had to consider what has happened in more than two decades of reform policy in China, where the reform process has been characterized by ups and downs, mostly due to power struggles in the Chinese leadership, between reform oriented actors on the one side and conservative ones on the other. At the beginning of the 21st century it

1. For a comprehensive overview on this relationship, i.e. including the economic and political dimension, see Franco Algieri, "Die Europäische Union und China," in Werner Weidenfeld (ed.), *Europa Handbuch*, Gütersloh: 2002.
2. See *Official Journal of the European Communities*, L 123, 11 May 1978.
3. See *Official Journal of the European Communities*, L 250, 19 September 1985.

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cannot be denied that China has reached a consolidated position as a leading external partner of the EU.

Against such a background, this contribution will look at the role China plays as an international economic actor from a specifically European biased angle, and how China became significant for the EC/EU.[4] The starting assumption is that, even though there is a growing attractiveness of China as a market for foreign investors and trading interests, the essence of EU-China relations is to a large degree determined by a high degree of institutionalization which took shape and was adapted over many years and cannot be separated from the European integration process. Consequently, there will be few columns and tables with figures related to Euro-Chinese economic relations. More important seems to be the description of the institutional framework as a defined arena, determining the behaviour of the actors involved, which at the same time influence institutional change.

The first part is thus a general reflection concerning the institutional and legal dimension of the EU's external relations. This will be followed by a section that highlights the milestones and key features of EU-China relations. Having explored the ground on which an EU-China policy developed, we will then evaluate how the WTO agreement between the EU and China was negotiated and came to a successful end. The final part will both summarize the findings and review the future of EU-China economic relations.

The Economic and Legal Dimension

For the analysis of the EU's external relations with a third country it is essential to consider the importance of the institutional dimension. To neglect the respective factors would be to disregard the nature of the EU. The Union can be classified as an international subsystem, while its member states as well as China can be located on the level of units.[5] "International subsystems meaning groups of units within an international system that can be distinguished from the whole system by the particular nature or intensity of their interactions/interdependence with each other. Subsystems may be either territorially coherent … or not." The level below the international subsystems is the unit level. "Units, meaning entities composed of various sub-groups, organizations, communities, and many individuals, sufficiently cohesive to have actor quality (i.e. be capable of conscious decision-making), and sufficiently independent to be differentiated from others and to have standing at the higher levels (e.g. states, nations, transnational firms)."

As March and Olsen[6] have pointed out, "political institutions affect the distribution of resources, which in turn affects the power of political

4. The terms EU and EC will be used depending on the context.

5. See for the following definitions Barry Buzan and Richard Little, *International Systems in World History Remaking the Study of International Relations* (Oxford: Oxford University Press, 2000), p. 69.

6. James G. March and Johan P. Olsen, "The new institutionalism. Organizational factors in political life," *The American Science Review*, No. 3 (1984), p. 739.

actors, and thereby affects political institutions." Institutions "are taken as meaning formal institutions; informal institutions and conventions; the norms and symbols embedded in them; and policy instruments and procedures."[7] Institutions and institutionalization are influencing the external relations of the EU. For Smith[8] the core of EU foreign policy can be found in those areas where the EU has developed through the EC potential for strategic action. The EC takes over the role of an agent for the EU. This is even more important to remember, since the EC and not the EU has legal personality (Article 281 of the EC Treaty). The EU is not only a framework in which states' and other interests can be articulated and adapted. Moreover, the EU is also structuring the international political economy and as such can be seen as an "institutional expression of major forces within the global system."[9] Of course this process is not free of conflict and there is a "a perpetual boundary problem" between the member states and the Commission as well as between technical and political aspects.[10] The way the EU shapes its international profile is continuously influenced by such institutional factors. In Hill's view, the EU has specific functions as an international actor and in controlling the international economy.[11] Through the presence of the EC/EU in international politics and in the international economy activities can be shaped and expectations of other participants in international arenas can be influenced.[12] An essential role can be attributed to the Commission that can initialize and manage the policy towards third countries.[13]

Apart from these theoretical considerations it is necessary to look at the legal provisions which define the range of activities of EU external economic relations. The Single European Act created a systematic scheme for external relations, dividing them into external economic relations and external political relations. With the Treaty of Maastricht, followed by the Treaty of Amsterdam, this double track form of external relations was further advanced and the role of the EU institutions was clarified.[14] As already mentioned, the Commission became the central actor not only for the functioning of the Single Market but also for the Union's external economic relations. The Commission is initiating and

7. Simon J. Bulmer, "New institutionalism and the governance of the Single European Market," *Journal of Public Policy*, No. 5 (1998) p. 8.

8. Michael Smith, "Does the flag follow trade? 'Politicisation' and the emergence of a European foreign policy," in John Petersen and Helene Sjursen (eds.), *A Common Foreign Policy for Europe?* (London and New York: Routledge, 1998), pp. 77–94.

9. Michael Smith, "The European Union, foreign policy and the changing world arena," *Journal of European Public Policy*, No. 2, p. 291.

10. *Ibid.* p. 294.

11. Christopher Hill, "Closing the capabilities-expectations gap?" in Petersen and Sjursen (eds.), *A Common Foreign Policy for Europe?* p. 34.

12. David Allen and Michael Smith, "Western Europe's presence in the contemporary international arena," *Review of International Studies*, No. 6 (1990), p. 21.

13. Michael Smith, "The Commission and external relations," in Geoffrey Edwards and David Spence, *The European Commission* (Essex: Longman, 1994), pp. 249–286.

14. By the time this contribution was finished the Treaty of Amsterdam was in force and the Treaty of Nice was in the ratification process. The numbering of treaty articles as well as the argumentation are based on the legal ground offered by the Treaty of Amsterdam.

controlling European trade policy and thus shaping a core aspect of the external relations. Articles 131–34 of the EC Treaty define the scope and range of the common trade policy and transfer wide ranging competencies to the Commission. Through Articles 133 and 300 the Commission is empowered to act as an international negotiator and it is required through Article 302 to keep relations with international organizations. Even though the Council is the ultimate decision-making institution, the ground for these decisions is laid by the Commission. The Union's external economic relations and the agreement policy are thus to a major part the result of the Commission's work. Furthermore, the Commission has the right to make proposals to the Council for suspending or stopping economic relations with a third country (Article 301).

The way the EU's external relations have developed is closely linked to an ongoing deepening of the economic integration process. Hanson argues that

> European integration has played a considerable role in the liberalization of European external trade policy by changing the institutional context in which trade policy is made, creating a systematic bias towards liberalization over increased protection. […] The completion of the internal market … greatly undermined the ability of member states to use national policy tools, and EU voting rules make it very difficult to replace national policies with protectionist measures at the EU level. Thus, contrary to those who expected integration to lead to a fortress Europe, regional integration in Europe has led to trade policy liberalization.[15]

Apart from trade policy, development co-operation is an essential part of the EU's external relations (Article 177–181), which also matters for EU-China relations.

On the supranational level sovereign European states agree and co-ordinate policies, in order to act together and to improve their common standing as an international, but by no means unified actor. Thus, the European China policy has to be located in a highly developed form of common policy-making with common institutions, that were established for managing and executing agreed policies. These institutions are formed by the member states of the EU. They are representing their interests and, at the same time, they are developing specific supranational institutional interests. Throughout the development of the European integration process the economic dimension could be strengthened and has widely become a common policy. Consequently, common institutions, rules and procedures have been further developed. A quite different impression can be gained by looking at the political dimension, where the long tradition of intergovernmentalism still characterizes the EU's performance. External relations of the EU are therefore characterized by ambiguity. The EU's co-operation partners are aware of this ambiguity and, as can be seen in the case of China, the institutional and procedural functioning and shortcomings of the EU have been observed quite carefully. Chinese bargaining with the

15. Brian T. Hanson, "What happened to fortress Europe? External trade policy liberalisation in the European Union," *International Organisation*, No. 1 (1998) p. 56.

EU considers the strength and the weakness of European policy-making and knows how to exploit the lack of coherence.

Milestones and Key Features of EU Economic Relations with China

At the time when the European integration process reached decisive stages of deepening in the 1980s and 1990s, the economic reform policy became a significant mark of China's development. Looking at China's economic growth process since 1978, the PRC can be considered, in international comparison, as one of the fastest growing nations. For the period from 1978 to 1995, official Chinese figures saw a GDP growth of 8 per cent per capita. Alternative calculations suggested 6.8 per cent.[16] Chinese economic growth was, however, not immune to external economic developments. Even though China's economic and financial sectors proved to be quite stable by the time the Asian financial crisis was affecting the region, the growth perspectives for China became more modest. In the year 2000 China's growth rate reached 8 per cent and for 2001 the governmental prognosis was 7 per cent.[17] Further pressure for economic reforms is coming with China's accession to the World Trade Organization (WTO), as will be further described below.[18] A crucial topic is how to handle the unemployment problem. It is not possible to name precisely the number of unemployed people in China. In official terms, the urban unemployment rate in 2000 was 3.1 per cent and for 2001 a higher rate was expected. Rural unemployment causes an even greater problem. It can be expected that the first years of the 21st century will bring an even more pressing unemployment problem.

Scenarios dealing with the future of the Chinese economy can point into different directions.[19] In case of a sino-sclerosis China would become a low-income economy, and its presence in the international economy would be reduced. Trade conflicts could increase, poverty could grow and the obvious differences in income among differently developed provinces could deepen. In the end, social tension would grow and the internal stability of the country could be seriously affected. In a positive scenario, in the year 2020 China would be a modern trading nation and the second largest in the world. Measures to fight poverty would have turned out to be effective, and investments for the improvement of the quality of life as well as environmental measures would increase. At the same time, modern institutions and the rule of law could have been established.

At all stages, Chinese economic reform policy is a permanent power struggle between opposing forces in Chinese politics. Reform-oriented

16. See The World Bank, *China 2020. Development Challenges in the New Century* (Washington, D.C.: 1997) p. 2.

17. See Margot Schüller, "Chinas Wirtschaft am Ende des Milleniums. Anzeichen für Überwindung der Wachstumsschwäche im Jahre 2000 und ehrgeizige Ziele im Fünfjahresplan," *China Aktuell*, March 2001, pp. 289 and 294.

18. For a critical analysis of the growth debate of the Chinese economy see Markus Taube, "Die chinesische Volkswirtschaft zum Jahrhundertwechsel. Entwicklungsstand und Perspektiven," *Zeitschrift für Politik*, No. 1 (2000), pp. 32–53.

19. See The World Bank, *China 2020*, pp. 98ff.

politicians cannot always proceed at the same pace with their projects. The influence of conservatives has always been and still is present. In the recent past it could again be observed that a leader of the reformers, Prime Minister Zhu Rongji, was attacked by his critics and had to balance the two worlds of Chinese politics. Often external events are used for ideologically motivated purposes by conservative forces to find more support and to improve their bargaining position against the reformers. Lacking support for reform politicians by third countries, reduced economic interest towards China, difficult bargaining situations in vital interest areas such as the WTO accession negotiations, or the demand by Western countries to make the relationship with China conditional, i.e. to link economic relations with political principles such as the respect of human rights, the rule of law and democracy, have often been problematic for Chinese politics. Consequently, economic relations with China cannot exclusively be based on value added considerations for the EU but have to be seen as a highly political relationship which has to be sensitive to a multitude of internal aspects that characterize China.

Against such a background, several milestones for the institutionalization of European-Chinese relations from the 1970s to today can be recognized. The trade agreement off 1978 was a breakthrough for the economic relationship. It was an indicator of the growing importance both sides attached to each other and not least became possible because China was starting to open up its economy and to develop reforms. Both sides agreed to accord each other most-favoured nation treatment in several areas such as custom duties, taxes or import and export licences. "It was the first trading agreement to be concluded by the Community with a state-trading country while, for China, it formalized relations with an increasingly important trading partner and political power."[20] With this agreement the EC-China Joint Committee for Trade was set up. This forum, which meets regularly, comprises representatives from both sides and became a central body for the management and development of economic relations.[21] It was also at the first meeting of the Joint Committee, based on a Commission proposal, when China's inclusion in the Generalized System of Preferences (GSP) was negotiated. Starting in January 1980, China was included in the GSP, "although its inclusion was conditional upon the conclusion of an agreement on trade in textiles."[22]

A sensitive area that was not touched upon in the 1978 agreement was the textile sector. The first and then regularly renewed Agreement on Textile Trade was finalized in July 1979 and was implemented with effect from January 1980. With the following renewal, amendments were made to adapt this regulatory framework to changing economic conditions.

20. See Roger Strange, "EU trade policy towards China," in Roger Strange, Jim Slater and Limin Wang (eds.), *Trade and Investment in China. The European Experience* (London and New York: Routledge, 1998), p. 61.
21. See *China Aktuell*, November 1980, p. 944.
22. See Strange, "EU trade policy towards China," p. 64.

Increasingly, the EU's demands became more restrictive in order to protect the European textile industry.

In the 1980s the growing importance of European-Chinese economic relations made it necessary to adapt the regulating framework. The agreement of 1978 was focusing on trade matters and seemed no longer adequate for the complexity of the relationship. With the conclusion of the Trade and Economic Co-operation Agreement of 1985 a new and still valid framework was established. It offers an extension from the trade dimension to economic co-operation, particularly in areas of industry and mining, agriculture, science and technology, energy, transport and communication, environmental protection, and co-operation with third countries. The role of the Joint Committee was accordingly adapted.

The changing quality of the EU-China relations found further expression in the European Commission's communications of 1995,[23] 1998[24] and 2001.[25] As these documents indicate, the substantial connection between the economic and the political approach as well as an efficient use of those European resources that are available is of central importance. To bridge the gap between the economic and the political dimension has become a principal goal of the EU's China policy. The main aspects of the European approach that can be deduced from the field of external economic relations are to strengthen economic co-operation with China, to bring it into the international trade framework, to support the development of a civil society and to fight poverty as well as to assist China in environmental matters. One reason for the weakness of the co-operation until the mid-1990s was seen in the insufficient information policy and the lack of mutual understanding of economic practices.

EU financial resources for China grew from an annual yearly average of €20 million for the period 1991 to 1994 to €70 million annually for the period 1995 to 1999.[26] The 1990s were characterized by a trade deficit for the EU and in the year 2000 it reached the highest point to date with €44.4 billion, almost doubling the deficit of the year before.[27] Amongst the most important non-European trading partners of the EU, China has occupied the third rank, whether as recipient of EU exports or as concerns Chinese imports into the EU (behind the United States and Japan) (Table 1).

As Strange recognized, "A major difficulty in trying to assess the quantitative importance of EU-China trade has been the increasing value of entrepôt trade passing through Hong Kong, and the asymmetric nature of this trade. […] In the longer term it seems likely that Hong Kong's role

23. Commission of the European Union, *A Long Term Policy for China-Europe Relations*, COM (1995) 279 final, Brussels, 5 July 1995.
24. Commission of the European Union, *Building a Comprehensive Partnership with China*, COM (1998) 181 final, Brussels, 25 March 1998.
25. Commission of the European Union, *EU Strategy towards China. Implementation of the 1998 Communication and Future Steps for a more effective EU policy*, COM(2001) 265 final, Brussels, 15 May 2001.
26. COM (1998) 181 final.
27. COM (2001) 265 final.

Table 1: **External Trade of EU15 with China, Taiwan and Hong Kong**

	EU Exports				*EU Imports*				*Trade balance*			
	1997	*1998*	*1999*	*2000*	*1997*	*1998*	*1999*	*2000*	*1997*	*1998*	*1999*	*2000*
China	16.5	17.4	19.4	25.3	37.5	42.0	49.6	69.7	− 21	− 24.6	− 30.2	− 44.4
Taiwan	12.7	12.1	11.8	14.8	15.7	18.1	20.0	26.5	− 3.0	− 6.0	− 8.2	− 11.7
Hong Kong	20.4	17.3	15.7	20.2	8.4	9.7	10.7	11.7	12.0	7.6	5.0	8.5

Source:
Eurostat, Statistics in focus, External trade, Theme 6-3/2001. Amounts in billion Euro.

as a entrepôt will diminish while its role as a control centre for trade financing and servicing will increase."[28] It should also be noted that with the recovery of some states that had been affected by the Asian financial crisis, such as South Korea and some South-East Asian economies, competitive pressure was growing for Chinese exports to Europe. However, this trend cannot be taken as a general long-term development.

Apart from trade policy a list of other EU-China co-operation activities can be found and divided into the following categories of measures directed at: financial reforms; transition process to an open society based on the rule of law; support of economic reforms; business and industrial co-operation; legal and administrative reform; human resources development; science and technology; environment and energy; regional disparities, poverty alleviation and social cohesion; academic and societal activities.

No matter from which perspective and with which tools EU-China trade relations will be approached, the growth of an institutionalized management of the relationship cannot be neglected. Further examples underline this trend. European companies often criticized hurdles in China's trade policy which hinder them from further access to the Chinese market.[29] For the European Commission it became important to accompany the liberalization of economic relations with protective mechanisms for European companies. Consequently the anti-dumping problem was a central topic for EU-China economic relations and in the 1990s China became increasingly affected by anti-dumping proceedings. But, it depends on the perspective from which the anti-dumping question is addressed. "During the 1990s when the initiation of new proceedings seems to be declining, the corresponding figures for China appear to be on the increase. […] However, a more realistic measure of the impact of anti-dumping measures would be the value of trade affected and here Japan … has long occupied first place."[30] The adaptation of the EC's new anti-dumping practice in 1997 made it possible to grant individual treatment to companies in state-trading countries. For China this development has had a significant consequence, as in 1998 it was removed from the list of state-trading countries for the purpose of anti-dumping proceedings. The individual treatment approach was driven by the then trade Commissioner Sir Leon Brittan, who wanted to rationalize anti-dumping procedures, so that they take account of the commercial interest of the Community and other western companies.[31]

Less European engagement had been shown with respect to foreign direct investments. Europe ranked clearly behind Asian countries and the United States. The European hesitation can be traced back to being less willing to take a risk, the limited financial means of medium-sized

28. See Strange, "EU trade policy towards China," pp. 21–26.

29. See Margot Schüller, "Perspektiven der europäisch-chinesischen Wirtschaftsbeziehunger," in Hans H. Bass and Karl Wohlmuth (eds.), *China in der Weltwirtschaft* (Hamburg: Institut für Asienkunde 1996), pp. 154–57.

30. See Strange, "EU trade policy towards China," p. 70.

31. Michael Sánchez Rydelski, "The Community's new anti-dumping practice towards China and Russia," *EuZW*, No. 19 (1998), p. 587.

enterprises, the geographical distance as well as a general lack of information on, for example, the economic culture.[32] The Commission consequently pushed for an improvement of European investment in China and respective programmes are offered such as "European Community Investment Partners" (ECIP), which is intended to support the establishment of joint-ventures, or "Asia-Invest," which helps to identify possible Chinese partners for small and medium-sized enterprises in Europe.

The GATT/WTO Negotiations

The fourth WTO ministerial conference in Doha in November 2001 approved by consensus the text of the agreement for China's entry into the WTO. Since 11 December 2001 China has been an official member of the WTO. Chinese Taipei has also been an official WTO member since 1 January 2002. The role of the EU with respect to China's efforts to join the WTO offers several indications about the correlation of the role that European institutions and actors play towards China as well as the interconnectedness to the policy of the United States.[33] It seems necessary to look back into the past history of China's WTO policy, which goes back to the early days of the GATT of which China was a founding member.[34] After the Chinese civil war, the Kuomintang government on Taiwan was regarded by most parts of the international community as representing China. Leaving GATT in March 1950, Taiwan changed its position later and obtained observer status in 1965. However, as a consequence of the increasing rapprochement of Western countries towards the People's Republic of China, including the establishment of diplomatic relations, and following the recognition of the People's Republic by the General Assembly of the UN as the legitimate government of China in 1971, Taiwan lost observer status in GATT.

Not least due to the effects of Deng Xiaoping's reform policies, China became more important for the international economy after 1978. Chinese export activities, first in the textile sector, grew steadily and could not be ignored by other exporting nations. But it was also an aim of Chinese policy to become more closely involved in multilateral co-ordination processes. From 1981 China was sending observers to the MFA negotiations, and became a signatory country of the MFA in 1983. In July 1986 the General Director of GATT received the Chinese request to negotiate re-entry into the GATT, in which China had observer status since 1984. The Chinese position was based on the argument that this case had to be understood not as a new entry but a re-entry, for two

32. See Schüller, "Perspektiven der europäisch-chinesischen Wirtschaftsbeziehungen," pp. 158–161.

33. See Michaela Eglin, "China's entry into the WTO with a little help from the EU," *International Affairs*, Vol. 3 (1997), pp. 489–508.

34. See for the period up to 1992 Andreas Oberheitmann, *Die VR China und das GATT. Anpassungsbedarf der Außenhandelspolitik im Spiegelbild der nationalen und internationalen Interessensphären* (Hamburg: Institut für Asienkunde, 1994).

reasons. First, the People's Republic was recognized as the legal government of China and as such a founding member. Secondly, Taiwan's resignation from GATT could not be considered as binding for the PRC since this would mean a recognition of Taiwan and as such it would contradict the one-China policy. In March 1987 a working group on China's status as a contracting party, composed of representatives from all GATT member states, was established by the GATT Secretariat General.[35]

China always expected EU support for its GATT/WTO approach. The European Commission's China papers do reflect this accordingly. But during the negotiation process a series of diverging perspectives and expectations became apparent. For China it was of great concern to be regarded as a developing country in the negotiations, an approach which was not totally shared by the WTO states.[36] A distinctive difference of the European policy against the US policy could be found in the evaluation of the state of the economic reform process in China. The EU became convinced that the reform process in China was still ongoing and consequently more flexibility would be needed. The Chinese side did recognize the positive European attitude. In this context, the Chinese order of passenger aircraft in 1996 could be seen as a reaction to the EU's role in the WTO negotiations and to the rather hesitant position the US had taken by that time. Former prime minister Li Peng expressed adequately that China could build its bargaining strategy on the competitiveness between the EU and the United States and explained: "If the Europeans adopt more co-operation with China in all areas, not just in economic areas but also in political and other areas, then I believe the Europeans can get more orders from China."[37]

Four main Chinese interests had been identified, motivating the country's GATT/WTO approach.[38] The first concerned the wish to broaden markets for Chinese goods and to increase exports. Closely linked with this became the aim to achieve most favoured nation status. Secondly, from an early phase of the negotiations the PRC demanded to be considered as a developing country in order to profit from specific conditions. A third reason for the PRC was to increase its own possibilities for shaping the development of GATT/WTO. And finally, in accordance with the growing political influence of China in international relations, the Chinese government became keen to be recognized as an important trading nation. Taking all these aspects together, a positive European approach, taking China seriously and as an actor who can influence other countries' economic policy, was helping to strengthen the reform-oriented politicians in the Chinese government.

35. *Ibid*. pp. 9–11.

36. Commissioner Sir Leon Brittan remarked during his China visit in May 1996: "The WTO is a rules-based organization, and we can't engineer China membership on false terms." See *International Herald Tribune*, 8 May 1996, p. 19.

37. Li Peng quoted by Tony Walker, Peter Montagnon and John Ridding, "Li Peng warns US over trade," *The Financial Times*, 11 June 1996, p. 1.

38. See Oberheitmann, *Die VR China und das GATT*, pp. 49–52.

For the self-interest of EU countries which were interested in a stable and calculable development of Chinese reform policy, it would not have been wise to isolate China or to reject its policy. Furthermore, the competitive pressure from Chinese goods on the European market grew steadily. The increasing number of EC anti-dumping measures underlined European concerns. On the other hand, it was in Europe's interest to gain improved access to the Chinese market, e.g. for capital and industrial manufactured goods (like machines) or for higher developed consumer goods (like cars).

Among the general European demands that China should meet were: more transparency in economic practice, equal treatment of domestic and foreign companies, non-discrimination of EU companies against other trading partners, reduction of customs duties, abolition of import quotas and of existing trade monopolies, opening of the Chinese service sector, telecommunications and finance sectors, facilitation of settlement for foreign companies and the implementation of the WTO provisions for the protection of intellectual property (TRIP).

The bargaining position of the EU had to be seen in relation to the US position. With the agreement reached between China and the US in November 1999, the EU came under pressure, first, to bring negotiations to an end and, second, to achieve results that would go beyond the US-China agreement. But without the American bargaining factor, the Chinese could focus pressure on the Europeans. At the same time there existed a correlation between the US Congressional debate on granting Permanent Normal Trade Relations to China and the outcome of the EU-China negotiations. The EU also recognized that the outcome of its negotiations would influence the inner US debate in an election year.

Furthermore, the EU considered that if no agreement with China were to be reached and Chinese entry to the WTO was delayed, the pressure on the reform-oriented politicians inside the Chinese political system could increase. The agreement that was reached between the EU and China in May 2000 had been divided into different sectors:[39] industrial goods, agriculture, services and horizontal issues. With the US-China agreement of November 1999, many topics had already been clarified which were also of importance for the EU. The EU then got further concessions from the Chinese side, but the European catalogue of demands could not completely be agreed upon. However, for the European Commission's bargaining position it was obviously important to reach an agreement in the end and not to ruin the dynamics by insisting on all the demands.[40] The most prominent actors on the European side

39. See the Sino-EU agreement on China's accession to the WTO. Results of the bilateral negotiations, http://europa.eu.int/comm/trade/bilateral/china.wto.htm, European Commission, DG Trade.

40. See "EU-Chefhändler sieht China Anfang 2001 in der WTO," in *Frankfurter Allgemeine Zeitung*, 25 May 2000, p. 18 and Pascal Lamy in http://europa.eu.int/comm/trade/bilateral/china/prc.htm. European Commission, DG Trade.

were the European Commission's Directorate General for Trade, headed by Commissioner Pascal Lamy and Director General for Trade Hans Beseler.

Between the Institutional Framework and National Interests

The EU's China policy has to be seen in context of a broader European strategy towards Asia. In July 1994 the European Commission published *Towards a New Asia Strategy*.[41] This European Asia strategy emphasizes a number of objectives: to improve the European economic presence in Asia; to contribute to stability in Asia by promoting international co-operation; to support the development of the poorer and lesser developed regions in Asia; and to contribute to the consolidation of democracy, the rule of law and human rights. The Commission started from the assumption that the economically most prosperous countries will be in Asia, accounting for between a quarter and a third of world trade by the end of the 20th century. Relations with China had taken a prominent position, since the country is among the strongest economic and political performers in the region. However, the Commission has realized in the second Asia strategy, presented in September 2001, that there is need to better consider the political, economic and cultural diversities of Asia.[42] With respect to such a differentiation the importance of single regional powers grows and consequently China will remain a key actor for the EU.

EU-China relations have reached a highly institutionalized and interwoven level of co-operation. The institutionalization of the EU-China dialogue on the level of heads of states, including the European Commission, started on the fringes of the Asia-Europe Meeting (ASEM), at the London meeting in April 1998 and today EU-China summits are part of the process. Symbolically China has reached the same EU dialogue relevance as the United States, Russia and Japan. Economic interdependence grew significantly and dominates the political dimension. This could also be seen in reaction to the suppression of the protests on Tiananmen Square in June 1989. Even though the European Council agreed at its meeting in that month on a list of sanctions against China,[43] a significant change in European policy did not follow. As for the economic dimension, there was obvious pressure especially by the German and Italian business lobby for a quick normalization of EU-China relations. Economic considerations were, amongst other aspects, influencing the Italian presidency to demand the re-start of the dialogue with China and to lift sanctions gradually starting in October 1990.

The European policy can be criticized for being incoherent as concerns the demand to balance external economic relations and external political relations. This is a structural problem of the European integration process

41. Commission of the European Communities, *Towards a New Asia Strategy*, COM(1994) 314 final, Brussels, 13 July 1994.

42. Commission of the European Communities, *Europe and Asia. A Strategic Framework for Enhanced Partnerships*, COM(2001) 469 final, Brussels, 4 September 2001.

43. See Bulletin EC 6, 1989, p. 17.

and an expression of the gap between intergovernmental and communitarian forces. The Chinese side has understood not only the coherence dilemma of EU external relations but also the competitiveness between Europe and the United States with regard to the economic and political shares that are expected from a deepened relationship with China. Both aspects can be used in the self-interest of Chinese diplomacy. Significantly, Chinese rhetoric expressed that European companies can profit in their trade relations with China from the separation of human rights and trade policy questions.

Economic relations prove to be the more stable side of the external relations coin of the EU. With regard to EU-China relations, they are constantly influenced by EU and Chinese politics. Improvement on the European side could be achieved by deepening the co-operation in two directions, horizontal, i.e. between the EU member states and between the EU institutions, and vertical, i.e. between the member states and the institutions. For future analyses it should also be considered whether a competitive situation can be created for China through the enlargement of the EU to Central and Eastern European countries. At this time, and with the enlargement of the Union to 15 plus x members still to come, it would, however, be premature to begin an analysis of the effects of EU enlargement on EU-China relations since there are too many unknown variables. Rough estimates for an EU of 28 member states indicate that the ranking of China as the EU's fourth most important trading partner after the USA, Switzerland and Japan (taking for comparison the figures of 1999) would not be changed.[44] Similarly it is still too early to try to deduce the impact of the single European currency on the EU-China relationship. The pace and intensity by which the EU's external economic relations with China will develop in future, depend not just on the success of the Chinese reform policy, or the economic interests of EU member states, but to a large extent on the institutional setting that has been created over more than two decades.

44. See Eurostat, Statistics in focus, External trade, Theme 6–5/2001.