

THE EU, CHINA

The EU, China

AND THE QUEST

and the Quest

FOR A

for a

MULTILATERAL

Multilateral

WORLD

World

Edited by Pierre DEFRAIGNE



中國國際問題研究所

CHINA INSTITUTE OF INTERNATIONAL STUDIES



THE EU, CHINA  
AND THE QUEST  
FOR A MULTILATERAL  
WORLD



**THE EU, CHINA**

The EU, China

**AND THE QUEST**

and the Quest

**FOR A MULTILATERAL**

for a Multilateral

**WORLD**

World

**Edited by Pierre DEFRAIGNE**



中國國際問題研究所

CHINA INSTITUTE OF INTERNATIONAL STUDIES



Ifri is a research center and a forum debate on the major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, Ifri is a state-approved organization.

Created in March 2005 as the Brussels based branch of IFRI (Institut Français des Relations Internationales), Eur-Ifri is a state approved European think tank, set up to contribute to the diversity of the policy-thinking in Brussels with a view to stimulate the political debate and to feed the decision making process in the EU institutions.

## **Acknowledgments**

This publication is the result of papers which were submitted to the Conference organized by Eur-Ifri and the CIIS to celebrate the thirtieth anniversary of EU-China relations. We are thankful to all of those who have participated from near or far to achieve this event.

We are especially grateful to all European and Chinese experts who contributed to this publication: Prof. Bernadette Andreosso-O'Callaghan, Axel Berkofsky, Ambassador Ma Zhengang, Françoise Nicolas, Prof. Song Xinning, Prof. Xu Jian and Prof. Zhu Liqun. We would like also to thank Ambassador Guan Chengyuan and Commissioner Benita Ferrero-Waldner for their introductory and closing remarks.

This gathering of papers won't have been possible without the financial support from the European Commission to whom we are highly grateful. This publication is also the occasion to thank the European Economic and Social Committee for its hospitality for the workshop.

Eventually, we are particularly thankful to Sophie Lenoble, Ashley Milkop, Delphine Renard, Marielle Roubach for their rigorous and serious rereading and their work on the text as well as to Wang Jia for her coordination work with Chinese authors.

ALL RIGHTS RESERVED - IFRI - PARIS, 2006  
ISBN 2-86592-173-5

**IFRI**  
27, RUE DE LA PROCESSION  
75740 PARIS CEDEX 15 – FRANCE  
TEL.: 33 (0)1 40 61 60 00  
FAX: 33 (0)1 40 61 60 60  
E-MAIL: [ifri@ifri.org](mailto:ifri@ifri.org)

**EUR-IFRI**  
22-28, AVENUE D'AUDERGHEM  
B-1040 BRUXELLES - BELGIQUE  
TEL.: 32 (2)238 51 10  
FAX: 32 (2)238 51 15  
E-MAIL: [info.eurifri@ifri.org](mailto:info.eurifri@ifri.org)

WEB SITE: [www.ifri.org](http://www.ifri.org)

# Contents

<b>Summary</b> .....	<b>7</b>
<b>Foreword</b>	
<b>À la recherche d'un avenir prometteur par le développement et la coopération</b> .....	<b>13</b>
Guan Chengyuan	
<b>Part I</b>	
<b>LOOKING BACK AT 30 YEARS OF COOPERATION</b> .....	<b>19</b>
A Chinese Perspective (The political and economic dimensions)	
<b>Towards a Maturing Comprehensive Strategic Partnership</b> .....	<b>21</b>
Ambassador Ma Zhengang	
A European Perspective (The political and economic dimensions)	
<b>From a Partnership Focused Solely on Trade to a Broader, but Still Trade-based, China-EU Strategic Partnership</b> .....	<b>33</b>
Pierre Defraigne	
<b>Part II</b>	
<b>LOOKING AHEAD: TOWARDS AN ECONOMIC PARTNERSHIP IN SUSTAINABLE DEVELOPMENT</b> .....	<b>45</b>
A Chinese Perspective	
<b>Strategic Elements of EU-China Economic Relations</b> .....	<b>47</b>
Prof. Song Xinning	
A European Perspective	
<b>The Sustainability of EU-China Economic Relations in the 21<sup>st</sup> Century – Between Complementarity and Rivalry</b> .....	<b>51</b>
Prof. Bernadette Andreosso-O'Callaghan, Françoise Nicolas and Xiaojun Wei	
A European Perspective	
<b>Civil Society and NGOs in China – State of Play and Prospects</b> .	<b>81</b>
Axel Berkofsky	

A Chinese Perspective <b>Civil Society Building in China</b> .....	<b>99</b>
Prof. Zhu Liqun	

**Postface Speech**

<b>Closing Remarks of the Conference</b> .....	<b>111</b>
Commissioner Benita Ferrero-Waldner	

**Appendixes**

<b>Program of the Conference</b> .....	<b>117</b>
<b>Biographies of the Authors</b> .....	<b>119</b>

## **Summary**

The Conference on “The EU, China and the quest for a multilateral world”, which marked the 30th anniversary of EU-China relations, was organized by Eur-Ifri and the CIIS with the support of the European Commission and the hospitality of the European Economic and Social Committee. It was an opportunity to look back at 30 years of China-EU cooperation as well as to look to the future of the relationship in the changing world and the internal evolution of both “states”. The first part of the conference was devoted to a general overview of the 30 year relationship; the second part to political developments in East Asia and to multilateralism –recognized by both countries as a key element in the running of a globalizing world; the third part of the conference focused on economic ties; the last part centered on civil society dialogue, mainly in China.

### **30 Years of Evolution and Strengthening of the Relations**

Since 1975, the year of the establishment of diplomatic relations between the EU and China, the relationship has, on the whole, become stronger and broader. The original trade-focused agenda has moved towards a strategic partnership, recognized by both Europeans and Chinese as the way to manage and develop their mature relationship. This evolving partnership has been driven by great changes in Europe and China as well as by a fast-changing international situation. On the European side, the process of sovereign member states pooling their sovereignty to create an area of peace and

prosperity is a unique undertaking and has turned the EU into the world's most integrated community on both the political and economic levels. On the other side, "China has moved away from a closed, largely autocratic, centrally planned, agricultural economy with sluggish, if any, growth, towards the pre-eminent developing country and manufacturing powerhouse of the world with extraordinary performance" (Peter Carl) with the prospect of further GDP growth, trade expansion, poverty reduction and job creation. Meanwhile, the world situation has evolved from a post-war bipolar world towards the current multilateral one with increasing interdependency of countries following the globalization process.

### **Political Partnership in a Multilateral Framework**

China and Europe share the same interest in multilateralism. "They are both committed to a multipolar world whose stability does not rest on a balance of powers but upon the rule of law and effective multilateralism" (Pierre Defraigne). Multilateralism is "the mechanism by which nation states readjust the way in which sovereignty is performed so as to better define both state interest and the common interest of the international society" (Prof. Xu Jian). It aims at achieving a balance between effectiveness and justice. Lastly, successful and critical achievements have been made or are in the making in multilateral areas, like UN reform or the Doha Round. In the last 10 years, China has emerged as a key actor in multilateralism. From a European perspective, multilateral concerns beyond economics are proliferation of weapons and climate change. Concerning proliferation, a declaration was signed at the last EU-China Summit held in Beijing on 8 December 2004 and is being implemented. With regard to climate change, Europe emphasizes the importance of China's participation in any post-2012 climate change agreement. However, China's situation is complex. On the one hand, China is well aware of climate change concerns. On the other, China is a developing country. Why then should China be more constrained than developed nations before they began to develop? The large size of China's market makes it a privileged

place for the development of alternative energies. EU-China cooperation should encompass sustainable energy policies, in particular through advancements in cleaner technologies.

Europe would like the partnership to develop further in some areas, such as fighting crime, migration, and university exchanges. China has shown some interest in engaging on these issues. Some of these areas could be on the bilateral agenda in the future. It should be noted that Europe and China cooperated on the preparation of the UN's Millennium Review Summit, which was held in September 2005.

East Asia is currently undergoing major transformations, which provide opportunities and challenges for both regional stability and sustainable development of the region. Some of these transformations are: the dynamic economic growth in East Asia and the rapid progress of regional cooperation reflected in many regional arrangements; readjustment of foreign policy and the military redeployment of the United States in the region because of the war against terrorism; concern about proliferation of weapons of mass destruction and a sense of hegemony; significant changes in Japan's defense and foreign policy; and the rapid emergence of China. At the end of 2005, an East Asia summit meeting will be held. The main topic will be East Asia community building. It is a new process for East Asia, whose future prospects are not easy to assess. EU experience might provide some useful lessons.

### **Economic Partnership**

China-EU economic ties have massively increased over the last 30 years. Since 1978, EU-China trade has increased more than thirty-fold, reaching 175 billion euros in 2004. The EU is now the first trading partner of China, and China is the second trading partner of the EU. This evolution can be imputed to several factors: successive enlargements of the EU, the accession of China to the WTO, and the fruitful and successful China-EU relationship. Current China-EU economic ties go deeper than trade alone. The EU is the first supplier of technology to China –it represents about 50 percent of China's total technological imports– and China's foremost partner in

the hi-tech field (Galileo project, Iter); the EU is the biggest donor of foreign aid to China and the major supplier of governmental loans to China.

EU-China trade is currently dominated by manufacturing products, but in the future, trade in services is expected to increase. For a long period, two thirds of European manufacturing exports to China were hi-tech products. This trend is now going to change. Intra-industry trade is increasing between the two regions and China's production capacity is experiencing a shift towards the higher end of the value-added chain. Concerning trade imbalance, the EU imports more than it exports to China. However, concerning the trade deficit, it can be shown that more than half of total Chinese exports to the EU in 2003 were from foreign enterprises located in China who are re-exporting back to Europe.

The intensity and growing importance of China-EU economic ties has inevitably led to some frictions. First, though generally not too worried by trade imbalances, Europeans have been prompt to suspect unfair competition through ineffective enforcement of intellectual property rights, different labor conditions, and through an undervalued exchange rate favoring the yuan. In addition, the EU has initiated 107 antidumping cases against China. Those cases cover roughly 0.4 percent of all EU trade with China, but amount to 20 percent of total European antidumping actions against foreign countries. Secondly, Europeans have claimed that market access obstacles remain in the form of tariffs, non-transparent trade rules and regulations, and investment restrictions. Thirdly, the EU has not yet agreed on granting China market economy status (MES), despite China being a member of the WTO. China views the EU's refusal to grant it the MES as all the more unfair given that Russia has been granted that status.

In the future, the Central and Eastern European countries of the EU will become increasingly attractive destinations for EU investment –leading to tougher competition between new member states and China for FDI. Similarly, East Asia's tighter economic integration and the changing global environment are expected to affect economic ties between the EU and China.

One potential avenue for successful cooperation between the EU and China lies in the energy sector. As both regions are heavy energy consumers, EU-China cooperation aiming at cleaner and alternative sources of energy should be intensified.

### **Civil Society and NGOs**

Civil society is emerging in China, albeit at a slow pace and with different standards to Europe. The evolution of NGOs in China has been marked by three stages. From 1949 to the start of the Cultural Revolution in 1966 the government set up some NGOs. From 1966 to 1978, there were almost no NGOs at all, as the Cultural Revolution had brought everything to a standstill. Since 1978, China has gradually opened up to the outside world and some new NGOs have emerged. The World Conference on Women held in Beijing in 1995 was an important step forward for the emergence of civil society in China as the concept of NGOs has begun to draw the attention of Chinese people. Since this conference, NGOs have spread to all provinces and extended their activities to cover new issues such as migrants, HIV/AIDS, and disabled children.

Chinese NGOs very much differ from European NGOs in their relationship to the state and, at least to Western eyes, benefit from limited autonomy vis-à-vis the government. While in Europe NGOs have an impact on policy-making, in China this impact is very limited. While in Europe NGOs confront governments on their policies, Chinese NGOs work in collaboration with the government, assist it in the drafting of policies and cover major social issues and charitable tasks. This is a consequence of China's history, where the state's authority has to be deeply honored and respected.

From a European standpoint, despite China's recent opening up and some progress, there is still a hard repressive core. Because they are not registered, some parts of civil society are considered as illegitimate by the Chinese authorities and have often been the subject of repression.



## Foreword

# À la recherche d'un avenir prometteur par le développement et la coopération

GUAN CHENGYUAN<sup>1</sup>

À l'heure actuelle, le monde connaît des changements importants et profonds dont les plus marquants sont l'approfondissement de l'Union européenne (UE), unie et puissante, et le développement pacifique de la Chine. En tant que forces montantes, sur le plan tant politique qu'économique, sur la scène internationale, la Chine et l'UE ne cessent de renforcer et d'élargir leurs relations d'amitié et de coopération avec des avantages réciproques, ce qui procure des effets non négligeables pour l'évolution de l'ordre international.

Ces relations, à l'épreuve du temps et des bouleversements internationaux au cours de ces trente dernières années, sont entrées dans une orbite stable de développement continu et constituent une coopération dans plusieurs domaines, dans tous les azimuts et à différents niveaux. La Chine et l'EU s'efforcent de développer ces relations de partenariat stratégique global.

---

1. Ambassadeur et chef de la mission de la République populaire de Chine auprès de l'Union européenne (Bruxelles, Belgique).

Pour relever les défis mondiaux, la Chine et l'UE se sont reconnus, chacune de leur côté, une plus grande importance réciproque. L'UE a adopté consécutivement cinq documents politiques sur la Chine et la Chine a publié un « mémorandum des politiques sur l'UE » en se reconnaissant, l'une à l'autre, un rôle de plus en plus important dans les affaires, tant internationales que régionales. Elles ont mis en relief leurs relations réciproques dans leurs politiques extérieures respectives. Au cours de ces dernières années, les échanges de haut niveau sont devenus de plus en plus fréquents : la tenue systématique de sommets annuels Chine-UE et les dialogues politiques à différents niveaux ne cessent de se perfectionner dans une ampleur élargie et approfondie. La coopération économique et commerciale connaît également un nouvel essor et des résultats fructueux. Les échanges commerciaux Chine-UE sont passés de 2,5 milliards de dollars, au début des relations diplomatiques en 1975, à 177,2 milliards en 2004. L'Union européenne est ainsi devenue le premier partenaire commercial de la Chine et celle-ci, le deuxième de l'UE. La coopération Chine-UE est en train de s'élargir dans plus de quarante secteurs tels que les sciences et la technologie, l'éducation, l'informatique, l'énergie, la protection de l'environnement, etc., ce qui prépare un avenir prometteur. Bien qu'il existe des points de vue divergents dus aux différences de l'histoire respective et des cultures, ainsi que des traditions sociales, et que de nouveaux litiges commerciaux soient concevables de chaque côté, liés à l'évolution de l'économie, la Chine et l'UE pourront réussir, en conservant une vision d'ensemble, à les résoudre à l'amiable, par le dialogue et la concertation.

Pour que les relations Chine-UE puissent se développer de façon stable, toutes deux doivent pouvoir les considérer sur le plan stratégique avec une vision de l'avenir, au-delà des différences de systèmes sociaux et d'idéologies, afin de poursuivre une coopération amicale sur une base de respect mutuel, d'égalité et d'avantages réciproques. Ce type de relations peut répondre aux intérêts fondamentaux de chacune des deux parties, en pleine vitalité, et les faire avancer en surmontant les obstacles et interférences en tout genre.

L'élargissement et l'approfondissement de l'évolution des relations Chine-UE ne constituent pas une « menace », mais

offrent des opportunités pour le monde entier. Les relations de partenariat stratégique global entre la Chine et l'UE ne portent pas atteinte à autrui. Toutes deux préconisent la multipolarité du monde et entendent préserver l'autorité des Nations unies. Elles sont favorables à la force de la loi au lieu de la loi de la force et doivent s'efforcer de diminuer les décalages entre le Nord et le Sud. Elles ne recherchent aucun autre objectif qu'un ordre international plus juste et plus raisonnable, qu'un monde plus stable, équilibré et paisible. Par conséquent, le développement et le renforcement de la Chine et de l'UE ne constituent une menace pour personne. En tant que pays en développement, la Chine a envie et besoin, plus que tout autre, d'un environnement international de paix et de stabilité. Elle exprime sa volonté de s'entendre pacifiquement et dans le cadre d'une coopération amicale avec tous les pays du monde, de jouer un rôle constructif et de se sentir responsable dans les affaires internationales, de fournir une contribution positive pour sauvegarder la paix mondiale et promouvoir le développement mutuel. Elle est favorable à l'établissement d'un nouvel ordre international juste et raisonnable, à la démocratisation des relations internationales ne recourant pas à la voie de l'hégémonisme et de la politique du plus fort. La Chine poursuivra fermement son développement pacifique, ce qui va de pair avec la voie suivie par l'UE pendant cinquante ans, depuis la fin de la Seconde Guerre mondiale. Les buts de leurs recherches pour la paix et le développement sont identiques, malgré les différences de modalités entre les systèmes chinois et européen.

La Chine et l'UE sont toutes deux confrontées au défi de la mondialisation économique, mais rencontrent aussi des opportunités qui en résultent. La Chine s'enrichit dans la coopération économique avec l'UE par l'apport de capitaux, de technologies et d'expériences en gestion. En revanche, le développement rapide de l'économie chinoise est un apport pour l'UE et le monde. Selon la Banque mondiale, le taux de contribution de la croissance de l'économie chinoise comparée à celle du monde a atteint 17,5 %. Étant également un grand pays exportateur et importateur, la Chine représente un grand marché d'importation de plus de 500 milliards de dollars, qui

dépassera 1 000 milliards de dollars en 2010<sup>2</sup>. Ceci représenterait des conditions favorables à la croissance économique et au développement de l'emploi dans les autres pays, y compris ceux de l'UE. Évidemment, les vagues de la mondialisation entraînent inévitablement des chocs et une concurrence accrue. La Chine souhaite renforcer une coopération à l'avantage mutuel des partenaires pour aboutir à un résultat gagnant-gagnant. Les compromis conclus par la Chine et l'UE à propos des produits textiles donnent un cas exemplaire au monde. L'économie chinoise s'est déjà profondément intégrée au circuit économique international. La Chine ne peut pas se développer sans l'Europe et le monde, tandis que la prospérité de l'Europe et du monde a également besoin de la Chine.

Les relations du partenariat Chine-UE forment un modèle de type nouveau dans les relations internationales, qui doivent être renforcées, développées, concrétisées et ordonnées. D'abord, il faut renforcer encore davantage le dialogue stratégique Chine-UE, élargir le terrain d'entente, resserrer la coordination pour approfondir la coopération dans les grands sujets internationaux et régionaux tels que la démocratisation des relations internationales, la lutte antiterroriste, la non-prolifération, l'environnement, les rapports Nord-Sud, etc. Il faut également encourager les échanges de personnes. Les contacts humains constituent un fondement nécessaire pour le développement continu des relations Chine-UE. Ils sont plus importants encore que les échanges entre les centres de recherches, les médias et les « conseils des sages » pour avoir un jugement objectif sur le niveau des relations Chine-UE et offrir des occasions à la coopération. En troisième lieu, il faut augmenter les possibilités de développer cette coopération au plus haut niveau en matière de commerce et d'économie, de science et de technique. Il faut créer et perfectionner le système de coopération et de coordination pour empêcher les litiges dès leur début afin d'éviter les défaillances pour l'essentiel des relations Chine-UE. Enfin, il faut résoudre à l'amiable les problèmes légués par l'histoire auxquels les deux parties portent une grande importance. Il est souhaitable que

---

2. Source : <<http://www.amb-chine.fr/fra/zfzj/t228640.htm>>.

l'UE lève le plus rapidement possible l'embargo sur les ventes d'armes à la Chine et reconnaisse le statut global de l'économie de marché afin de développer rapidement les relations Chine-UE.

L'histoire a prouvé, et continue à prouver, que le renforcement des relations de partenariat stratégique global Chine-UE est une décision d'une grande importance. Bien que l'Europe connaisse des difficultés pour sa construction, nous sommes convaincus qu'il ne s'agit que d'un phénomène temporaire, qu'elle avance au-delà de ces difficultés. La Chine soutient comme toujours le processus de l'union de l'Europe et espère que l'UE jouera un rôle plus important dans les affaires internationales. La Chine continuera à renforcer avec l'UE les coopérations tous azimuts et dans tous les domaines et forgera avec elle un rapport de partenariat stratégique caractérisé par les principes de l'égalité et de la confiance réciproque, des avantages mutuels et du « gagnant-gagnant » pour contribuer à la paix, à la stabilité et à la prospérité du monde.



## **Part I**

# Looking Back at 30 Years of Cooperation



A Chinese Perspective  
(The political and economic dimensions)

**Towards a Maturing Comprehensive Strategic  
Partnership**

AMBASSADOR MA ZHENGANG<sup>1</sup>

2005 marks the 30<sup>th</sup> anniversary of diplomatic relations between China and the European Union. The famous Chinese ancient philosopher Confucius once said that “at thirty I became established.” Hence in China, 30-years-old is regarded as the age of maturity. I think it is also true for China-EU relations.

**A Long Process of Gradual Deepening and Broadening  
of the China-EU Relationship**

The driving force behind the long process of gradual broadening and expanding is the strong desire for cooperation on both sides for anticipating the fast-changing international situation, and, more precisely, the great changes in Europe and China.

In the first two decades after the founding of the new China, relations between China and Europe moved at a snail’s

---

1. President of the China Institute of International Studies.

pace. Apart from some Nordic countries, almost no major western European states had full diplomatic relations with China at the time. The establishment of diplomatic relations between France and China in 1964 served as a breakthrough, but few countries had followed this lead before the early 1970s. The basic reason why this situation changed was that in confronting the intensified security challenge from the Soviet Union, both the United States and Western Europe came to the realization that China could be a valuable strategic partner. By the end of 1973, eight of the nine member states of the European Community (EC) had established diplomatic relations with China. And in May 1975 diplomatic relations between the EC and China were formally established. The following 10 years witnessed rapid and fruitful development of all-round cooperation between the two sides.

Relations then suffered a serious setback after the EC imposed a series of sanctions on China. But most aspects of China-EC relations were normalized in 1992 thanks to the efforts of both sides. In July 1995, the European Commission adopted the first strategy paper “A Long Term Policy for China-Europe Relations”. It has been followed up by four other policy papers adopted respectively in 1996, 1998, 2001 and 2003 –each one a step further forward than the previous. In accordance with the spirit of the last paper entitled “A Maturing Partnership –Shared Interests and Challenges in EU-China Relations” and the Chinese Government’s first policy paper on the EU, the two sides have upgraded their relations to a comprehensive strategic partnership.

Some conclusions can be drawn from this brief overview.

### ***The deepening of relations between China and EU: a natural consequence of great changes***

The deepening of relations between China and EU is the natural consequence of great changes, both in China and Europe, and changes in the international situation. Europe led the world for many centuries. But the Second World War left Europe a divided and frustrated continent. Among the major powers in Europe, Germany and Italy were defeated, France badly stricken and Britain drastically weakened. Europe soon

staged a recovery, but no individual European country could compare with the two superpowers either in strength or in influence. Europeans gradually realized that only by uniting could they face a more powerful force. Integration started to move ahead. The creation and development of the European Union is an event of far-reaching significance for Europe and the world. After five successive expansions, the EU has not only become strong but also the world's most integrated community with a total area of four million square kilometers, a population of 450 million and a GDP of over 10 trillion US dollars. The EU is more influential now that it speaks with one voice.

China was a weak and backward country for a long time, but great changes have taken place since reform and opening-up. After continuous economic development over 25 years, China has become a strong power, with a GDP of 1.65 trillion US dollars and the third largest trader in the world.

Meanwhile, the world has experienced dramatic and fundamental changes. The post-war bi-polar world has been replaced with a multilateral model, and countries have become increasingly interdependent with the globalization process. Advancement of science and technology has led to further productivity gains and helped promote rapid growth of the world economy. All this has created favorable conditions for international peace, development and cooperation. But at the same time, problems and uncertainty persist in the world. The security of the entire international community is under constant menace from both traditional and unconventional threats. Poverty and backwardness continue to affect a significant proportion of the world's population. China and the EU, as two emerging powers, must join hands to face the opportunities and the challenges together and to fulfill their global responsibilities in an improved manner. Hence, stronger cooperation between China and the EU is not merely one option among many for the two peoples, but rather an objective necessity.

### ***Existence of profound common grounds and shared interests between China and the EU***

Politically, all serious issues bequeathed by history between China and Europe have been solved appropriately. Geopolitics

presents no direct problems of any kind to their relations, but instead allows opportunities for strong political cooperation. In general, there is no fundamental conflict of interest between China and Europe, and neither side poses a threat to the other. Their relationship is free of strategic competition and rivalry. In the past 30 years, China has maintained good political relations with the EU and all its 25 members. Leaders and government departments of the two sides have carried out frequent visits, contacts and consultations in various fields, and many positive results have eventuated.

Both China and the EU are major world economies, and they are highly complementary thanks to their respective comparative advantages. China is in the process of modernizing and there are still many areas of its economy in need of further development. With a large population of 1.3 billion, China's purchasing power is becoming increasingly strong. These two elements together make China a huge market for EU countries and the rest of the world. On the other side, many EU members are developed countries enjoying a highly developed economy, strong financial resources and advanced technologies. The EU is now the biggest trade partner of China and a leading supplier of investment, technology and services to China. Both China and Europe have enjoyed substantial benefits from their fast growing economic cooperation over the past 30 years. According to experts, China will enjoy fast growth for at least another 20 years. Their chief arguments are: first, China possesses a large labor force, and the benefit of cheap labor will continue for quite a period of time. Second, many regions and areas in China have not yet become fully developed or remain underdeveloped and will require much investment in the years to come. They offer great opportunities for profitable investment. Third, China has laid down a solid technical and scientific foundation, which will help China's gradual transformation from a labor-intensive economy to a capital-intensive economy. Fourth, the process of economic reform in China is far from complete, and further deepening and broadening of reform in many of China's economic and financial fields will open more sectors to foreign cooperation. Last but not least, China's development has been heavily dependant on the state

of the world economy. Since the world economy is still in the midst of an expansionary cycle, China can benefit from a comparatively stable international economic environment. In short, China's sustainable development, I believe, will certainly facilitate its cooperation with the EU as a comprehensive strategic partner. The future of the partnership is broader and brighter.

Socially and culturally, both China and Europe have a long history, splendid cultures and rich traditional social values. Chinese civilization stretches long and unbroken for over 5,000 years. Many of its moral values such as the love of peace, pursuit of freedom and resistance to violence, respect of old people, loyalty to friends, strong sense of family, social harmony, mutual respect in human relations, self-cultivation, hard work, integration of human and nature, and consultation instead of confrontation have been passed down in China from generation to generation. The European civilization, the sum of the contributions of each state, is rich in content and valuable for social cohesion. As a matter of fact, the two civilizations share many identical thoughts. For example, the concept of "liberty, equality and fraternity" has an equivalent in Chinese civilization. Throughout history, learned men and women in China and Europe have left abundant works of creation for the benefit of the entire human race. We can make our lives richer and more civilized by increasing cultural exchanges and by emulating each other. In fact, cultural and social exchanges and cooperation have yielded fruitful results. Education is a good example. Chinese students in Europe have increased by large proportions and many of those who have studied in Europe now hold important positions in various sectors. Legal cooperation is another example. Some of those who have trained in Europe have played an outstanding role in the perfection of China's legal system.

Internationally, both China and Europe live in a world of great changes and complexity. As two major players of growing importance, both deserve a respected position on the world stage. But neither China nor the EU cherishes a wild ambition for world domination. Both of them prefer multilateralism to unilateralism, and their cooperation does not target

any third country. They only seek to build up a peaceful, prosperous and friendly world. They stand for democracy in international relations and for an enhanced role of the United Nations. Both are committed to maintaining world peace and stability, combating international terrorism and promoting sustainable development through poverty elimination and environmental protection endeavors. Frankly speaking, either China or the EU can achieve much on their own. But by working together, they can do more.

***Existence of differences between China and EU: proper handling can avoid serious harm to overall relations***

It is true that China and the EU do not and will not always see eye to eye on each and every subject. Differences of all kinds have cropped up during the development of China-EU relations from the first day onwards. That is not something to be feared if both have a clear understanding of the origins and deal with all differences in an appropriate way. Many of the differences in fact come from their different historical background, cultural heritage, social customs and traditions, political systems and their level of economic development. By constantly increasing bilateral mutual understanding, many differences will gradually disappear or at least be narrowed; some might even be turned into points for mutual learning. Those that cannot be resolved as such could be discussed, and ways and means for settlement through consultation on the basis of mutual respect and equality can be discovered. Some that cannot be overcome for the time being could be left alone until conditions grow ripe. They should not prevent advancing general relations. Trying to impose the ideas of one side on the other only makes the matter more complicated; confrontation is even worse. Overall, good relations and major common interests should always be put at the top of all consideration. History in the past 30 years has shown clearly that every time the two sides overcome a difficulty, China-EU relations make a step towards greater maturity. The settlement of the textile dispute is a recent case for illustration. Experience tell us that when relations are going along smoothly, we must be prepared for some problem because there are always some differences,

and when the relations suffer some trouble, we must remain optimistic because the common interests between China and the EU are much greater than their points of difference.

### **In the Future: There are Still Many Challenges to Overcome in Order to Strengthen and Broaden Cooperation**

Even if cooperation has come a long way and the prospects are good, we must keep a sober mind.

The road of development is not always full of roses. There is always another side of the coin. Beyond all doubt, the strategic partnership presents multiple opportunities for mutually beneficial cooperation between China and Europe. But at the same time, there exist many challenges. While the last EU policy paper published in 2003 stressed the need for the establishment of a fully-fledged strategic partner relationship with China, at the same time it also identified some differences. The Chinese Foreign Ministry's policy paper on the EU in the same year listed a wide range of issues and areas to address in order to strengthen relations. It is quite clear that both sides are conscious of the differences that exist between them. According to my observation, there are four major aspects requiring a timely readdressing in the days to come.

#### ***How strong is the mutual trust between China and Europe?***

The Chinese side is committed to a long-term, stable and full partnership with the EU. In general, the Chinese people cherish a friendly feeling towards the Europeans even through some European states have done untold harm to China throughout history. They have a good understanding of Europe. A good example in point is that the Chinese people have been unequivocal in their support for expansion of the EU. Of late, the integration process of the EU has been of concern to China, especially since the "no" vote to the European constitution in France and the Netherlands. The reason is very simple. They regard Europe as their trusted partner. But how do the Europeans treat China?

Throughout history, some Europeans looked upon China with a suspicious eye. We all remember that a German emperor once called China the “yellow peril” and Napoleon regarded China as a “sleeping lion” that could shock the world. In the early days of the People’s Republic, many countries in Europe believed the theory of “communist threat” and followed the United States in isolating and blocking the new China. Of course, this is all in the past. Great changes have taken place in European attitudes towards China. Nevertheless, the old mentality still lingers heavily in the minds of some Europeans. Instead of taking China as a trustworthy strategic partner, they regard China as another kind of country because China is not, as they claim, a “democracy” by their standards. Quite a few even cherish the dream of remolding China according to the Western pattern. Whenever China makes some achievements in development, they immediately feel uneasy and the old notion of “Chinese threat” makes another appearance. Even though those people are in a minority, their negative influence should not be taken lightly. Europe’s military ban on China is a good example for illustration. The embargo was imposed on China 15 years ago. When the EU decided to develop comprehensive strategic partnership relations with China, the EU should logically have taken measures to remove all political blocks such as the ban of its own accord. I regard this as an obligation of the EU, because it serves as an outstanding symbol of political discrimination to a strategic partner. As a matter of fact, China has made enormous progresses in human rights in the past 15 years. Human rights should not be an excuse for prolonging the ban. We Chinese certainly understand the heavy pressure from outside forces, but I really have some doubts about the EU’s will and determination.

I am deeply convinced that building up a real mutual trust is the key to implementing all the aspects of the China-EU comprehensive strategic partnership.

### ***How can China and the EU best handle their differences?***

As I mentioned earlier, China is different from Europe in many respects. So it is natural that China and the EU have different views or even disagree on some issues. The Chinese

Foreign Ministry's policy paper stresses that "nevertheless China-EU relations of mutual trust and mutual benefit cannot and will not be affected if the two sides address their disagreements in a spirit of equality and mutual respect."

China has a different historical political background to the European countries. After the bourgeois revolution, many states in Europe established a multi-party political system. That is somewhat of a natural development for European countries. In China, the feudal system lasted more than 2,000 years. The result was a semi-feudal and semi-colonial society. The overthrow of the last monarch in China in the 1911 revolution failed to change the fate of the Chinese people fundamentally. More recently in the hands of warlords and foreign imperialist forces, the Chinese people suffered bitterly. It was only under the leadership of the Communist Party of China (CPC) that the Chinese people were able to stand up and become the real masters of their fate. Consequently the Communist Party enjoys high popularity among the overwhelming majority of the Chinese people. That is a historical fact. China is a vast country with a huge population of 56 different ethnicities and very complicated social conditions. The Chinese people find it absolutely necessary to have a strong political force to unite the whole nation in their endeavors in building a fair and harmonious society and working for a better political, material and cultural life. Only the CPC has such a capability. That is a realistic fact. The leading role of the Party is the choice of the Chinese people in accordance with the objective conditions in China. Democracy is in the substance not in the form. There are numerous facts to support the case that a multi-party system does not necessarily rule out the existence of all kinds of social problems. China advocates multi-party co-operation. There are eight other political parties in China, and popular participation in governance and all-round supervision of the government. Doubtless, there are many shortcomings and defects which need addressing in China, just as there are in many other countries. An imposed political system on a country without regard for the domestic conditions can lead to disaster, particularly so in a country like China. As two

strategic partners, China and the EU should learn how to respect each other in their choice of political framework.

China has had a different experience in modern history by comparison with European countries. As the victim of foreign aggression and humiliation, China has a stronger desire for a more rational and fair international political and economic order, and has more sensitive views on hegemony and power politics. Sharing the same or similar fate with the developing world, China understands the wishes of developing countries better. This can be demonstrated in China's foreign policy practices. For example, human rights are important to all countries, but the right to development and the right to survival are more urgent to developing countries.

Many differences between China and Europe arise not only from each other's different historical background and objective social conditions, but also from lack of mutual understanding. The right way to address them is to enhance mutual understanding and handle differences in the spirit of mutual respect and equality.

***How China and Europe can handle some conflicts in their growing economic and trade cooperation and strike for a win-win result?***

Bilateral trade between China and the EU was 125.2 billion US dollars in 2003, more than twice the figure of 1999. Total trade volume jumped to 177.3 billion US dollars in 2004, 60 billion US dollars in China's favor. But if invisible trade were included, the European deficit would be much less. The EU is the fourth largest investor in China. In 2003 alone, Germany's direct investment was 860 million US dollars; the UK invested 740 million dollars; the Netherlands 730 million dollars; France 600 million dollars; Italy 320 million dollars; and Luxembourg 180 million dollars. The majority of EU enterprises in China operate profitably. Economic cooperation between China and the EU in all fields has developed on such a scale simply because both sides have enjoyed real benefits.

But there are several aspects that have affected China-EU economic cooperation negatively. Even since China joined the

WTO, the EU continues to refuse market economy status to China, and anti-dumping cases against China have been taken one after the other. And political and social differences have been unreasonably added to the equation by the European side.

When cooperation has reached such a large scale, some differences are bound to arise. The proper way to deal with such problems is, first of all, to balance all aspects in the broader dimension of economic cooperation and not single out just one aspect, and second, to handle them in accordance with WTO rules, avoiding protectionist measures. The recent dispute over the textiles trade is a case in point. The end of the Multifibre Arrangement (MFA) was agreed upon about 10 years ago, and Europe had sufficient time to reform its textile industries so as to face the change. But the EU failed to take any sincere measures in this direction and instead made full use of quotas in the textile trade till the last minute. Soon after the quotas were lifted and the inevitable increase in China's textile exports, the EU side put all the blame on China and took protectionist actions.

It is true that China's textile export to Europe and the US grew by a large margin in the early months of 2005, but that was not without reasons. For a long time, the EU had set severe restrictions on some items of Chinese textiles and, once the quotas were lifted, it was natural for large growth to occur. But the real volume is not so much astonishing as exaggerated. First, textile trade accounts only for 7 percent of total China-EU trade volumes. Second, many Chinese export commodities are products of foreign-owned enterprises or joint ventures: foreign enterprises including importers and retailers reap the lion's share of profit. For example, for each exported shirt, China gets merely one tenth of the profit. Third, China enjoys benefits in textile export only at great cost to other fields of economic activity. China has had to open up its service trade, agricultural market and other markets to gain WTO membership. It is not fair that the US and the EU enjoy all the major advantages from this and try to deprive China this little favor in textiles. Fourth, as we all know the textile industry in Europe or the United States is

uncompetitive. According to the rules of international trade, it is wrong for them to take protectionist measures. China enjoys competitive advantages only in labor-intensive fields like textiles while developed countries have absolute advantages in all technology-intensive branches. In China, the textile industry involves some 19 million low-income employees. The Western world talks a lot about fraternity and social fairness. How can they totally disregard the livelihood of such a big population in China just for the protection of a few thousand of their own employees!

As a responsible trading partner, China has in fact taken sincere measures to control textile exports to Europe and the US since the beginning of 2005. It cost China greatly to raise export duties on 74 items of textiles and increase export tax on flax. All this positive action from the Chinese side was ignored and forced China to announce the abolition of export tax on 81 items of textiles. Fortunately, China and the EU reached a win-win agreement in time. But if the EU side refuses to change its ways, nobody can guarantee the occurrence of conflicts on other trading items.

***How much are China and the EU able to deal with interaction from third parties, the US in particular, in broadening their relations?***

China-EU strategic partner relations are aimed at no third party or country as I stressed, but only to serve the fundamental interest of both sides. But in the globalized world, they are not free from outside influences, especially from the world's only superpower – the United States – which can be either positive or negative. The issue of the EU military embargo on China is a bitter example. And there could be other cases in the future. Generally speaking, there is no big problem on the Chinese side, and real difficulty rests on the attitude of the EU side.

In short, future relations between China and the EU are full of opportunities and the prospects are very bright. But the two sides need to handle those challenges positively so as to enable the strategic partnership to move forward smoothly.

A European Perspective  
(The political and economic dimensions)

**From a Partnership Focused Solely on Trade  
to a Broader, but Still Trade-based,  
China-EU Strategic Partnership**

PIERRE DEFRAIGNE<sup>1</sup>

Since 1975, world GDP has grown from 16.4 trillion US dollars to 40.9 trillion US dollars, which represents a total increase of 149 percent. In the meantime world trade has grown from 3.0 trillion US dollars to 13.1 trillion US dollars, which represents a total increase of 336 percent. Meanwhile, the share of EU-China exchanges in world trade has grown by a factor of eight making it one of the main engines of world economic growth. Today the EU is China's first trade partner and China the EU's second trade partner. This is no accident. China's "great leap forward" into globalization and the EU's "long march" towards unity are indeed changing the world economic and political balance.

---

1. Director of Eur-Ifri (Brussels, Belgium).

## ***Making globalization***

Both processes are rooted in ancient civilizations and in recent history; but China's rise and the EU's integration are at the same time both a product of and an answer to globalization. On the one hand, China has been deftly using the formidable technology and management resources of global firms in combination with its large pool of manpower so as to lever its quick-paced industrialization; for the EU, integration is an attempt to enhance its economic efficiency as well as to maintain its bargaining power in a globalizing world. But the globalization strategies of the EU and China share two characteristics. Both recognize the need to play under common rules, and therefore the EU and China contribute to the definition and implementation of such rules; the only possible way to produce them is through multilateralism whose legitimacy can eventually only be the rule of law and democracy. Both want also to further strengthen their bilateral relationship at economic, political and cultural levels as well as through people-to-people exchanges.

## ***Common features of China and the EU***

There are several factors behind the move of the EU-China relationship from a "trade only" agenda to a strategic partnership.

First, we are, each in our own right, global players in the making: China, through the formidable economic achievements of its large nation state, the EU through coalescing and integrating an ever increasing number of neighboring countries.

Second, both China and the EU must be concerned with their respective neighborhoods, whose stability and prosperity are critical for the peaceful and sustainable development of both parties: East Asia and India for China; the Balkans, Russia, Ukraine, and Turkey for the EU. In particular, as they stand at both ends of the Eurasian continent and as they both depend on the oil and gas reserves located in Russia, Central

Asia and the Middle East, the EU and China have a major stake in a stable Central Eurasian region. Yet both the EU and China know that it is also by developing sustainable energy strategies at home and by engaging in cooperative energy strategies with the view of reducing energy dependency that the stabilization of this strategic region will be achieved.

Third, we are rediscovering each other's civilization's roots, which are not anymore the preserve of a few scholars, but an interest for more and more travelers. China has become a must-see for EU tourists, while more and more Chinese want to discover Europe and can afford it.

Last, because of the sheer size of EU economy and of the quick expansion of the Chinese one, we know that we have to take into account the impact of our policies on the world at large:

- at the economic level, there is the interdependence issue;
- at the environmental level, there is the sustainability issue;
- at the political level, there is the effective multilateralism issue.

Because of our common quest for stability and our shared distaste for hegemony, we are committed to a multipolar world whose stability does not rest on a balance of powers as in 19<sup>th</sup> century Europe, but upon democracy, the rule of law and effective multilateralism. With respect to trade, China and the EU are probably the two trading powers with the highest stakes in the effectiveness of the WTO and the success of the Doha Development Agenda (DDA).

### ***Chinese and EU achievements over the last three decades***

The Chinese and EU development models are both specific, even unique in some respects, and yet they should eventually converge since multilateralism requires a certain degree of compatibility between development models long term, and needs basic rules. Both partners are going through continuous change –albeit at different paces– and their routes are still fraught with serious challenges.

## **Chinese Achievements**

China's economic rise is an unprecedented performance in terms of speed and of pervasiveness, since China is en route from a rural to a hi-tech global economy. This entails two consequences for the world at large: on the one hand, China's role as an engine for world growth is increasing; on the other, its legitimate thirst for energy and natural resources will force the international community to speed up the implementation of cooperative sustainability strategies based on technological innovation and on more efficient and sober patterns of consumption and of production.

### ***How do we perceive the Chinese miracle in Europe?***

In the late 1970s, the political choice to open up the Chinese economy to foreign investment and to interact with the global market was at the same time very wise and very daring. A radical agenda of domestic reforms conducted in a very innovative and pragmatic way has so far ensured political stability through rapid economic growth.

By combining foreign firms' technology, know-how, management skills and global connections with an abundant, dedicated and disciplined labor force, China is gradually building up a world-size manufacturing sector. Starting with Asian FDI according to the flying geese pattern, then attracting US and European multi-nationals and mid-size companies, China is now expanding its own technological base through the training, both in China and abroad, of vast and growing numbers of engineers. It is following this up with its own national champions, which have started to invest abroad and which are aiming at becoming global champions.

China is indeed building up a basis for endogenous technological development.

China's economic accomplishments are formidable in terms of GDP and export growth as well as poverty reduction through job creation and national solidarity.

But change is not limited to the economy. Change has been faster than in any other society in a period of civilian and

**Table 1. Chinese Economic Accomplishments**

GDP	9.1% GDP growth
Exports	34% annual growth
Imports	40% annual growth
Job creation	300 million people have risen above the poverty line over 2 decades

Data: 2003

Source: European Commission and OECD.

military peace; change is both social, for example, the explosion of higher education, and political, in particular the emergence of local democracy.

There is a Chinese way to deal with the critical link between democracy and development, which departs from Western perceptions. But so far it has been working more or less well since it is delivering both more jobs and more freedom, albeit at different paces.

“There is no socialism without democracy and no democracy without socialism.” (Hu Jintao)

“Where there is no democracy, there is no socialism. Where there is no socialism, there is no development.” (Jian Zeming)

This Chinese approach to development and democracy is not always easy to understand for Europeans if only because we have to realize the sheer magnitude of the challenges confronted by a nation-state of 1.3 billion citizens engaged in a process of constant transformation in order to get hundreds of millions out of poverty. But we understand why, in the view of Chinese leadership, Chinese unity is central (one China policy), why stability relies, somewhat paradoxically, on radical technological advances and speedy growth, why more convergence between regions and social groups is a central concern as high market-driven growth generates inequality, and why environmental sustainability is a domestic and global challenge because of the formidable speed of the economic rise. On the one hand the environment works as a growing

constraint on economic development and on the other; it could lead China on a confrontation route within its region and with the world at large if it were unable to control the external impact of its fast-track massive development.

On the other hand, China is exposed to the serious shocks and tensions inherent to the pace and to the magnitude of change.

China is resilient, as witnessed by the successful process for dealing with SARS and by the Asian financial crisis of 1997-98, which was effectively contained.

But remaining challenges loom ahead. First the pace of job creation will have to quicken as agriculture modernizes; second, the restructuring of state enterprises means that their social functions will have to be taken over by the public authorities themselves; third, stabilizing and modernizing of a banking system laden with bad debts is a must, since this sector hangs as a Damocles sword over the Chinese economy; fourth, environmental pressures and growing oil prices will put a brake on Chinese development; fifth, regional and social divides place formidable political demands on the leadership. The need to root the rule of law into democratic participation and the need to balance human rights with development rights, starting with the improvement of labor conditions and rights, are both politically and practically necessary.

“Putting people first” in coping with the tough constraints of both global markets and nature, is the genuine challenge of China today. It means that China will soon have to move from an export-led growth to a more endogenous model of development. China cannot achieve this alone.

### ***EU: A natural partner for four reasons***

In this effort, the EU is the natural partner of China for four reasons:

First, Europe shares the view that the sustainable development of China is “a global public good” for the stability and the prosperity in particular of Asia but also of the world at large.

Second, the EU believes, based on the diversity of its own social models, that there are different paths to development. It does not sing the “one-size-fits-all” mantra of the Washington Consensus: it accepts, for example, that some developing countries have perhaps more to learn from China than from the West if they are to catch up.

Third, the EU is a civilian power relying mainly on the “soft” power of persuasion and example and on the rule of multilateral law in international relations. It believes in cooperation: not in confrontation, nor in a race for hegemony.

Last, the EU’s unique experience in regional integration and social advancement, as well as in coping with its own neighborhood through constructive and peaceful engagement yield useful teachings for China in dealing with its own neighborhood and improving the distribution of the fruits of growth across China’s regions and social groups.

## **EU Achievements**

EU integration is both an economic and a political process.

Economically, integration aims at increasing the efficiency of a stable and costly labor force economy, thanks to an open and competitive continental market, a common currency area –the Eurozone– and an ongoing agenda of economic reforms.

Politically, it endows EU citizens with basic common social, civilian and political rights. The EU acts as a block in most international economic and related matters and it is gradually developing a common foreign and defense policy through a learning-by-doing process.

EU integration has followed three parallel paths towards a deeper EU (the constant deepening of integration over 50 years), a wider EU (a continuous process has led to enlargement from 6 countries in 1951 to 25 today and to 27 by 2007, with plans to extend to the whole European continent), and a more open EU (interdependence with the global economy through trade, investment and capital liberalization has been on the increase).

This three-pronged approach ensures that EU integration has been contributing both to regional and to world growth,

while exposing the EU economy to the growing pressure of global markets, thereby forcing it to remain alert and competitive.

Today, the EU is confronted with a triple crisis according to the Chinese definition, i.e. an opportunity to change.

EU economic and social performance is unsatisfactory; particularly with regards to job creation, because there is not yet a firm and clear political consensus on how to tackle the complex and sensitive issue of the European social model, neither at EU, nor at member state level.

As a result EU institutional strengthening has been provisionally put on hold by the French and the Dutch “no” to the referendum on the Constitutional Treaty.

Last but not least, EU enlargement will go on, but the question of the ultimate Eastern borders of the EU remains unanswered, leaving open the difficult issue of European identity.

But the EU cannot indulge itself by looking inwards; it has no choice but to remain open and competitive. The EU challenge is to reconcile competitiveness and solidarity; perhaps it might be termed the building up of a “model of equitable competitiveness in a global world.” It is of tremendous importance for the EU-China relationship that the EU succeeds in taking up this challenge. For it is the adjustment capacity of the industrialized countries that will eventually ensure that China achieves its full potential through a harmonious integration into the world economy. We all have vivid memories of tremendous failures over the last century with regard to accommodating newcomers in the rich countries club. We should do better this time by ensuring the smooth integration of China and India into the global economy.

## ***EU-China relationship***

### *China relations framework*

Initiated in 1975 with the establishment of diplomatic relations, the relationship has shaped up very gradually as both partners expanded their trade and investment

exchanges and gained economic power and political clout on the world scene.

At the start, the geopolitical context accounted for this highly symbolic move: recognition of China by the EU as such was more than a mere by-product of the US-China ping-pong diplomacy, but it did not yet suggest the prospect of a potential strategic partnership –although, with the benefit of hindsight, De Gaulle’s bold recognition of China in 1964 might be seen in a visionary perspective. Moreover, the very fact that recognition of the EU by China was decided under the chairmanship of Deng Xiaoping, the father of reforms, provides a hint that it was not just a matter of diplomacy: the seeds of geopolitics were there too.

Framed, as early as 1978, by a trade agreement and by the establishment of a joint committee, trade and investment ties have brought China and EU closer over the last three decades.

The 1985 Trade and Cooperation Treaty not only bore witness to the growing importance of commerce between Europe and China, but also planted the seeds of a broader and multilayered cooperation. It paved the way for the first EU-China Summit in 1988 with President Jiang Zeming and Prime Minister Zhu Rongji.

Alliance with the EU might have been at that stage, from the Chinese perspective, mainly a tactical move aimed at balancing the complex and oscillating China-American relationship. Whereas the EU used its partnership with China to assert its new foreign policy competence sown in the Single European Act (1987).

The Maastricht Treaty (1992) gave another boost to EU common foreign policy and, as a consequence, political dialogue appeared in 1994 on the bilateral agenda. Yet, China was still giving a priority to its bilateral relations with member states in its “two-ply” approach to Europe.

The process gained momentum at the 2001 Brussels Summit after the successful negotiation of China’s entry into the WTO in 2000, and came to a climax at the Beijing Summit in October 2003 with the publication of a strategic policy

paper on the Chinese side and, in response, the publication of an action plan on the EU side.

Making 2004 “The Year of Europe” was from China the recognition that the EU increasingly matters in its own right.

What is striking today is the contrast between say, on the one hand,<sup>20</sup> policy dialogues, most of them underpinned by cooperation projects covering a vast array of political, economic, technological, environmental, social and cultural topics, ranging from customs cooperation to Galileo, and on the other, the absence of a genuine political framework. A new strategic partnership agreement should substitute for the obsolete 1985 Trade and Cooperation Agreement.

Of course, there is plenty of work to do because if common interests are wide and deep, there are also opposite views either to reconcile, or which call for practical and transitional proxies for substantive solutions when divergences persist.

### *Deepening the partnership*

The economic ties between China and the EU are uppermost of a thick layer of common interests for their strategic partnership.

Three major policy options will strengthen this vital economic link.

The first is compliance with WTO obligations, particularly with regard to intellectual property rights and non-discrimination between EU companies and local firms. More progress on the five criteria which determine market economy status would allow its attribution to China by the EU. Further market liberalization will occur both through the trade and investment section of the new strategic partnership agreement and through effective EU-China cooperation in the Doha Round.

Consultation and negotiated solutions are deemed preferable to unilateral safeguards and litigation as exemplified by the recent textiles deal. But the WTO dispute settlement mechanism could also help as an ultimate resort to get rid of significant trade irritants between the EU and China.

The second policy option is to address the sustainability issues, in particular with respect to the greenhouse effect and energy policy, by adhering to multilateral disciplines and through technology sharing and cooperation with EU.

The last policy option is China's external financial and monetary policy, which combines due caution for ensuring the continuation of domestic growth, and a consideration for the interests of China's trade partners

The Chinese miracle rests upon heterodox domestic policies according to Western standards. Yet they work and they contribute to economic and political progress in China. This commands respect. As Europeans we recognize the value of different development models.

Yet there is a need to make those models converge to some extent if we are to keep markets fully open and to pre-empt protectionist moves.

In that respect, the importance of democracy, the rule of law, the fight against corruption, and the promotion of human rights including, in particular, workers' rights, should not be underestimated. Time matters, as do the timing and sequencing of highly sensitive political issues such as progress towards democracy.

The dynamic of development and democracy must be allowed to work in the right direction because over the long term they converge and strengthen each other.

China's perception of sovereignty is different from that of the EU. This is legitimate for historical and geographical reasons. Yet the level of economic, environmental and political interdependence in today's world calls for sovereignty sharing at both regional and multilateral levels. The alternative would be unilateralism and the quest for hegemony through expensive military build-up, which raises suspicion among partners.

The EU and China should champion the supremacy of the multilateral rule of law and its effective enforcement over hegemonic behavior in ensuring a holistic approach to security. China's considerable weight in East Asia assigns her

a special responsibility to set up an East Asian security system based on effective economic integration.

But for China to fully adhere to effective multilateralism presupposes that the EU itself is able to achieve a sufficient degree of consensus among its membership in order to contain any unilateralist move wherever it comes from. In that sense EU and China policy choices will prove decisive in ensuring regional stability in their respective zones of influence as well as in building up a comprehensive and robust multilateral system based on multipolarity.

## **Part II**

Looking Ahead: Towards an Economic  
Partnership in Sustainable Development



A Chinese Perspective

**Strategic Elements  
of EU-China Economic Relations**

SONG XINNING<sup>1</sup>

**Basic Features of EU-China Economic Relations**

For China, economic ties with the EU are more important than China's economic ties with any other country, even the United States or Japan. From a trade viewpoint, the EU is the biggest trade partner for China, with bilateral trade of 177.3 billion US dollars in 2004 (15.4 percent of China's total foreign trade). From an investment viewpoint, the EU member states have established 19,738 enterprises in China, with contracted FDI of 75.4 billion US dollars. Although the total amount of FDI from the EU puts the EU only in fourth place for FDI, the average investment in each project is the biggest. The average investment in each project is about 3.8 million US dollars, compared with 2.09 million for the United States, 2.02 million for Japan and 1.35 million for Korea. From the technological transfer viewpoint, the EU is the number one supplier of technology to China. By the end of 2004, the technological transfer from the EU to China was represented

---

1. PhD, Jean Monnet Professor, Centre for European Studies, Renmin University of China.

by some 19,008 projects worth 80.9 billion US dollars or about 50 percent of China's total technological imports. As far as hi-tech cooperation is concerned, the EU is the pre-eminent partner for China in such hi-tech fields such as the Galileo project and peaceful usage of nuclear energy. As far as government loans are concerned, the EU and its member states were the major source of government loans for China. By the end of 1999, China had received 16.1 billion US dollars from the EU and its member states, about 44 percent of all government loans to China. And finally, the EU is the biggest foreign aid donor to China. There are more than 30 EU-China cooperation programs, covering most fields of political, economic and social development in China. By the end of 2003, the EU had donated nearly 500 million euros to China.

Looking at these six areas of EU-China economic relations (trade, investment, technological transfer, hi-tech cooperation, government loans, EU-China cooperation programs), we can say that EU-China economic ties are quite special, and are very important for China's economic development. The magnitude of the economic relationship between the EU and China is much greater than either the China-US or China-Japan economic relationship.

### **Strategic Implication of EU-China Economic Relations**

It is often said of EU-China relations that economic interests are the main driver of EU-China relations. That much is true. But it is not the full story. Since 2003 both the EU and China have begun to discuss an EU-China strategic partnership. It is not yet clear what the real meaning of the so-called strategic partnership is. For a strategic partnership to work each party must have strategic interests with the other. It means essential elements of political, economic and social development, not just military and national security. It should not be restricted to international affairs. It has to be related to fundamental national interests.

Why are EU-China economic relations so important? The simple answer is their effect on China's economic development. But that is not all. For China, economic development or economic growth has other implications for

China's political and social development or transition. It seems to me there are at least five areas in which EU-China economic relations play a role.

First, EU-China economic relations provide a solid foundation for China's political and social stability. Indeed, politically speaking, economic development is a pre-condition of political stability in China. Socially, economic growth is also very important for China's social stability. But conversely, political and social stability are the key elements for China's smooth transition from a planned economy, or command economy, to a market economy, as well as for gradual political transition.

Second, EU-China economic ties are a strategic element of the sustainability of China's economic, political and social development. Because of globalization and industrialization, China faces big challenges to sustainability issues, such as environmental protection, energy demand, social equality, and regional balance. Trade with the EU, EU foreign investment, and EU-China cooperation programs provide help for China's demand for capital, employment and technology; and provide good models for solutions to social issues.

The third strategic element of EU-China economic relations is the strive for competitiveness. This is very important for China, as well as the EU, for facing the challenge of economic globalization.

The fourth strategic element of EU-China economic relations is hi-tech cooperation. We should realize that EU-China cooperation in hi-tech fields has a great strategic impact even on traditional sectors. That is why certain countries are not comfortable with EU-China cooperation in satellites and nuclear energy.

The fifth strategic element of EU-China economic relations is China's integration into the world economy, or world community. As EU documentation has emphasized, one of the major goals of EU policy towards China has been to integrate China into the world economic system.

China's rise is a reality. How to deal with China is the main concern of the major powers in the world, including the

US and the EU. China itself is also working very hard to integrate itself into the world community and to become a responsible power.

EU-China economic relations help China to maintain strong economic growth, and have made China and the EU, as well as China and the US become more and more interdependent. The above five strategic dimensions of EU-China economic relations refer mainly to the Chinese side. What are the strategic impacts for the EU? We are waiting for answers from our European colleagues.

## **Conclusions**

In conclusion, when we are talking about the EU-China strategic partnership, we should look at not only the traditional fields of strategy in terms of geopolitics, military and national security, but also the non-traditional areas. The EU-China strategic partnership should be discussed from some new perspectives. But it is not clear what are the real concerns on the European side on the EU-China strategic partnership are. The Chinese and Europeans need to have more communication. Even some Chinese may not agree with my opinion about the economic aspect of the strategic partnership. What they are more interested in is the trade disputes, such as the anti-dumping issue and the quota of Chinese textiles to the European market. When we talk about the better dimensions of EU-China economic relations, we should not ignore the bilateral economic problems. But compared with the strategic impact of EU-China economic relations on China's political, economic and social development, economic disputes are not the real problem. It is a normal part of a normal relationship between two global economies. The EU is the number one trade partner of China, and China is the number two partner of the EU. I have always argued that if there had been no discussion of the problem between China and EU in economic relations, it would be a problem. That is why the Chinese government should rather begin to regard EU-China economic disputes as a normal issue for the relationship.

A European Perspective

# **The Sustainability of EU-China Economic Relations in the 21<sup>st</sup> Century – Between Complementarity and Rivalry**

PROF. BERNADETTE ANDREOSSO-O'CALLAGHAN<sup>1</sup>

FRANÇOISE NICOLAS<sup>2</sup>

AND XIAOJUN WEI<sup>3</sup>

Despite some periods of tensions, the EU has been maintaining close economic relations with China since it opened up in the 1970s. Over the past decades, the two regions have recorded contrasted performances, with China boasting strong and sustained growth rates while the EU has recorded persistently sluggish growth. China is perceived by the EU both positively as a major engine of growth, and negatively as a likely competitor in a number of markets and sectors where the EU used to have a comparative advantage. The role of the EU as the third pole of economic activity next to North America and Asia implies that the partnership cannot be neglected by China either. More specifically, the EU is seen as

---

1. Director of Euro-Asia Centre, University of Limerick (Ireland).

2. Economist and Emerging Economies Specialist, Centre Asie Ifri (Paris, France).

3. Researcher, Euro-Asia Centre.

being in a position to balance the weight of the United States.<sup>4</sup> As a result, the EU-China relationship will likely gain in importance.

Major changes have, however, been affecting the relationship over the past few years and are likely to have a long-lasting impact. These are: one, the fifth enlargement of the EU, two, China's rising economic clout both globally and in East Asia, and three, the deepening of economic relations (hence the change in trade-offs and perceptions –in particular on the part of the EU, which now perceives China increasingly as a potential economic threat and no longer as a developing or less developed country). These changes are likely to shape the China-EU economic relationship in the coming years.

In particular, the latest enlargement of the EU has given rise to new patterns of specialization and to new opportunities for intra-regional and inter-regional complementarity. At the same time, China's sustained economic growth raises new challenges, such as its increasing bargaining power. As a result, China is now perceived as an economic partner that can no longer be ignored or underestimated (even less so since other major economies such as the United States are focusing on China). It follows that the EU-China relationship is doomed to be tense.

The objective of this paper is to examine the EU-China economic relationship from a long-term point of view. Its purpose is twofold. First, it will briefly take stock of existing economic relations between the EU and the PRC, highlighting in particular both the positive sides and the areas of friction. Second, it will sketch the possible evolution of the relationship, by emphasizing the most likely bones of contention and areas of cooperation; it will then suggest ways and means of sustaining, and perhaps, of enhancing the relationship (by improving the quality of the partnership and by soothing the possible tensions).

Economics cannot trump politics. Obviously political considerations weigh quite heavily on the development of

---

4. An over-reliance on the US for exports is no doubt a risky stance, as exemplified by the case of Wal Mart which succeeds in bargaining with Chinese suppliers thanks to its position as a quasi monopsonist. As a result, the EU may be perceived as a counterweight by China.

trade, and more generally on the economic relations between China and the EU, although ultimately the economic interests of both parties seem to be the main drivers of the relationship.<sup>5</sup> Finally, it should be borne in mind that the different interests and attitudes of the individual EU member states might hamper the emergence of a common EU position vis-à-vis China.

### **The State of Play: China-EU Relations in Retrospect**

Although the past may not be the best guide for the future, a brief account of past relations is nevertheless necessary to highlight the issues at stake. This section will depict concisely the trade and investment relations between the two regions, before engaging in a discussion on the areas of contention and cooperation.

1975 marked the official establishment of EU relations with the PRC. A trade agreement was signed in 1978 and a textile agreement in 1979. Economic cooperation was increased further with the conclusion of the Trade and Cooperation Agreement in 1985. This *rapprochement* between the two regions culminated with the setting up in 1988 of a delegation by the EC Commission in Beijing just before relations started to deteriorate as a result of the Tiananmen Square events. Notwithstanding, the EU's relations with the PRC were continuously upgraded during the 1990s, despite persistent tensions on issues such as human rights.

### ***The pattern of EU-China trade***

#### *Main features*

The first salient feature of EU-China trade relations is their dynamism. Since 1978, EU-China trade has increased more than 30-fold, reaching 175 billion euros in 2004. It should be noted that the expansion of EU-China trade has not been perfectly smooth, with setbacks at some points related to political tensions. Yet the overall trend has clearly been on the

---

5. Note for example that ASEM, the major framework of EU-Asia relations, is over-reliant on the economic pillar, and that in terms of its external relations, the EU has adopted a differentiated approach.

**Table 1. EU Trade with China: Trade in services and in goods to total trade (1999-2002) US dollar billion**

	1999	2000	2001	2002
Total trade in services	5.978	6.422	7.269	9.277
Total trade in goods	75.02088	83.85074	92.63038	106.7001
Total trade	80.99888	90.27274	99.89938	115.9771
% of trade in services to total trade	7.38%	7.11%	7.28%	8.00%

Sources: *OECD Statistics on International Trade in Service*, Volume II 1999-2002; *OECD, International Trade by Commodity Statistics*, volumes 1993-2004.

ascending path. Over the 1999-2003 period, trade between the EU25 and China more than doubled, with EU exports to China rising from 19.6 billion euros to 41.2 billion euros. The penetration of Chinese products in EU markets has been facilitated by the EU Generalized System of Preferences (GSP) scheme; China has been the main beneficiary of the scheme, accounting for more than 30 percent of all EU preferential imports under GSP. As a result, China is today the EU's second biggest trading partner (after the United States) while the EU25 is China's first export market.

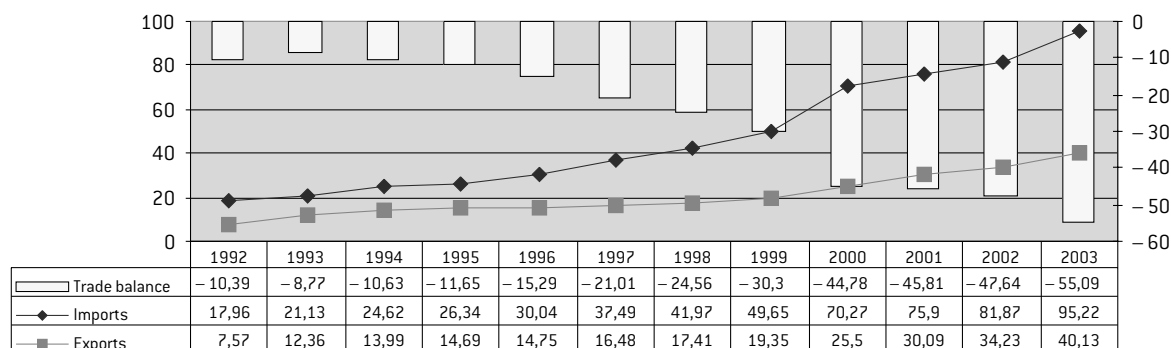
A second characteristic of EU-China trade is the domination of manufactured products. As shown in table 1, more than 90 percent of total EU trade with China was in manufactured products in the early 2000s, a feature which is nevertheless bound to change in the foreseeable future.

A third element to note is increasing asymmetry between the two regions. Since 1990 China's exports to the EU have risen by more than 800 percent, while EU sales to China have jumped by only 600 percent during the same period. Over the 1995-2002 period, imports from China to the EU have been sustained at a high annual growth rate (14.4 percent), whereas EU exports to China have only risen by 9 percent per annum. Consequently and inevitably, there has been a shift from a traditional trade surplus in favor of the EU to a chronic and widening trade deficit since the 1990s. The deficit reached 55 billion euros in 2003 (figure 1), and grew to 75.4 billion after the fifth enlargement (table A1 in the Appendix), representing thereby the EU's largest trade single deficit with any partner. Moreover, every single member of the EU25 has

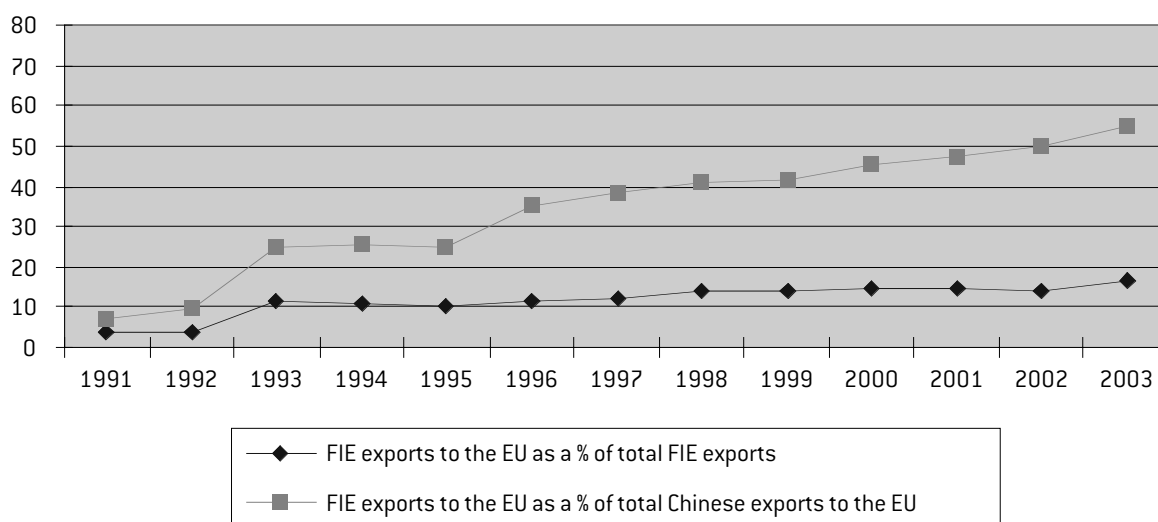
a deficit with China, with the notable exception of Finland (table A1). The magnitude of the imbalance is thought to reflect the persistence of market access obstacles in China (see below).

An important tempered argument in the analysis of the growing trade deficit with China is the amount of the EU trade deficit that can actually be imputed to EU and other firms operating in China. As shown in figure 2, more than half of total manufacturing exports from China to the EU originated from foreign investment enterprises (FIE) in 2003. Also, about 20 percent of all exports from FIEs based in China went to the EU in 2003. Since many of these FIEs are EU firms of origin, it can be argued that the growing manufacturing trade deficit of the EU vis-à-vis China is in fact a direct result of its successful FDI policy in this country. Moreover, as explained below, the high import intensity of China's exports actually contributes to boost EU exports of intermediate goods to China.

**Figure 1. EU-15 Manufacturing Trade with China 1992-2003 (Billion ECU/EUR)**



**Figure 2. Exports by FIEs from China to the EU, 1991-2003**



Fourthly, despite an overall consistent trend, there are possible conflicting interests among EU member-states. Owing in particular to its size, Germany is by far the largest trading partner within the EU, accounting for 28 percent of the EU-25 trade with China in 2004<sup>6</sup>, compared to 14 percent for the UK, 12 percent for the Netherlands, 10 percent for France and 9 percent for Italy. So far there has been very little trade with the new member-states, with the exception of Poland whose trade with China represented in 2004 some 2 percent of total EU trade. Moreover, Germany has improved its trade balance with China over the past couple of years, unlike France and the EU-15 as a whole. As a result, the stakes are perceived differently in each country and commercial self-interest is likely to be a source of intra-European disagreements.

#### *A note on complementarity*

Amongst manufactured products, machinery, transport equipment and other so called hi-tech products such as office machinery and communication equipment accounted in 2002 for more than two-thirds of the EU-15's exports to China. Owing to a more liberal attitude towards technology transfer, in contrast to US policy, the EU is the largest source of technology for China. Most of China's imports of machinery, electrical machinery and vehicles have come from the EU, and more than a third of China's imports from the EU are of machinery and equipment goods. This phenomenon can be directly linked to FDI activities. As if to present a challenge to Ricardian type comparative advantages, these very same categories account nevertheless for about half the EU-15's imports from China. At a more disaggregated level, the EU-25 primarily exports automobiles and planes to China and imports computers and other office equipment from China. A dynamic analysis reveals that China's relative trade specialization in "mature" industries (i.e. clothing and textiles) is gradually giving way to a specialization in "sunrise" industries.

---

6. And 44 percent of the EU25's exports to China, compared to 11 percent for France, and 9 percent for Italy [EUROSTAT Trade Statistics Figures]. However, the mere size of the German economy cannot fully account for the country's export performances in China; the specialization pattern is a further important factor.

**Table 2. EU-15 Trade with China by Broad Product Group (€ million)**

Product groups	Export		Import		Trade balances		
	2002	Export Annual Growth	2002	Import Annual Growth	2002	1996	Changes
	1996-2002		1996-2002		1996-2002		
Total manufactured products	37016	8,9	47389	14,5	- 10373	1992	- 12366
Of which:							
Food products, beverages and tobacco	546	- 2,8	1097	2,2	- 551	- 277	- 274
Textiles and textile products	696	10	6810	8,6	- 6114	- 3455	- 2658
Leather and leather products	452	13,7	2537	9	- 2085	- 1201	- 884
Wood and wood products	251	38,8	587	4,5	- 336	- 405	69
Pulp, paper and paper products, publishing and printing	1101	20,3	248	17,7	853	223	630
Coke, refined petroleum products and nuclear fuel	59	25,6	338	3,4	- 249	- 256	- 24
Chemicals, chemical products and man-made fibres	4867	15,9	2955	5,5	1912	- 297	2209
Rubber and plastic products	513	23	1517	14,7	- 1005	- 460	- 545
Other non-metallic mineral products	358	6,1	755	9,8	- 397	- 155	- 242
Basic metals and fabricated metal products	2938	12,4	3019	8,4	- 81	- 426	345
Machinery and equipment	11450	4,1	4379	21,7	7072	7542	- 471
Office machinery and computers	942	33,6	6556	31,3	- 5614	- 1313	- 4301
Electrical machinery and apparatus	2961	13	2826	22	135	382	- 246
Radio, television and communication equipment and apparatus	3088	4,8	5988	23,4	- 2900	289	- 3190
Medical, precision and optical instruments, watches and clocks	2236	17,5	1293	14,6	943	34	909
Transport equipment	4308	8,8	1938	30,9	2369	2092	277

Source: European Competitiveness Report 2004.

For example, table 2 shows the extent to which the EU trade deficit in office machinery and computers has grown between 1996 and 2002, as well as the extent to which EU trade in communication equipment has shifted into a deficit over the period. The growing incidence of a two-way trade or intra-industry trade (IIT) is best captured by static (as well as by dynamic) *Grubel-Lloyd* indices (table 3).

**Table 3. Grubel and Lloyd indices and Contribution of IIT and NT growth to the growth in total trade between the EU and China (1993-2003)**

	GL1990	GL2003	<i>Cnt</i>	<i>Ciit</i>	<i>tt</i>
Total trade	65,45	59,49	694,40	- 116,90	577,51
Of which:					
Food and live animals	54,44	48,44	114,08	- 24,92	89,16
Beverage and tobacco	14,66	72,73	189,04	615,35	804,39
Crude material, inedible, except fuels	35,14	90,25	- 60,65	222,31	161,65
Mineral fuels, lubricants and related materials	12,72	28,07	306,39	86,70	393,09
Animal and vegetable oils, fats and waxes	51,80	53,48	- 78,33	0,78	- 77,55
Chemicals and related products	88,07	97,97	- 13,44	420,91	407,47
Leather, leather manufactures and dressed furskins	11,33	95,36	- 70,11	541,42	471,31
Paper and paper manufactures	79,03	76,75	683,00	- 76,81	6,06
Textile yarn and related products	10,80	28,20	124,72	54,46	179,18
Machinery and equipment	65,16	77,92	597,36	402,98	1000,35
Office machines and ADP machines	56,04	7,90	25039,61	- 13139,68	11899,92
Telecommunication and sound recording apparatus	38,64	29,10	896,84	- 134,13	7,63
Road vehicles	54,93	33,53	1744,93	- 594,06	1150,87
Miscellaneous manufactured articles	8,22	13,46	419,12	31,47	450,59
Professional and scientific instruments	52,04	73,48	1412,91	1223,36	2636,27

*Source:* Authors' calculations based on OECD data from International Trade By Commodity Statistics, volumes 1993-2004.

Table 3 shows that although intra industry trade (IIT) between the EU and China declined overall between 1993 and 2003, the index has risen in a number of industries, be they mature (such as beverages or leather) or sunrise (such as machinery or scientific instruments).

Column 5 in table 3 gives an indication of the evolving incidence of IIT over the time period. It can be seen that about half of the increase in EU-China total trade in machinery and equipment is explained by IIT (the other half by net trade). Concomitantly, a very large share of total trade in

professional and scientific instruments is also attributed to IIT. Again, increasing IIT ratios between structurally dissimilar countries defies the post-Ricardian logic enshrined in Helpman's hypothesis.<sup>7</sup> As was already shown by Wakasugi (1997), FDI, the modern manifestation of globalization, allows structurally dissimilar economies, such as Japan and other Asian countries, to trade increasingly in the same types of industries, and, in particular, in parts and components, as well as in middle products or in fragments of final goods. This is to be related to the increasing "fragmentation" of the production process and to international outsourcing (Jones, Kierzkowski and Lurong 2004).<sup>8</sup> Fragmentation is defined by Deardorff as "the splitting of a product process into two or more steps that can be undertaken in different locations but that lead to the same final product." This implies that the issues of trade, FDI, IIT and intra-firm trade cannot be disassociated.

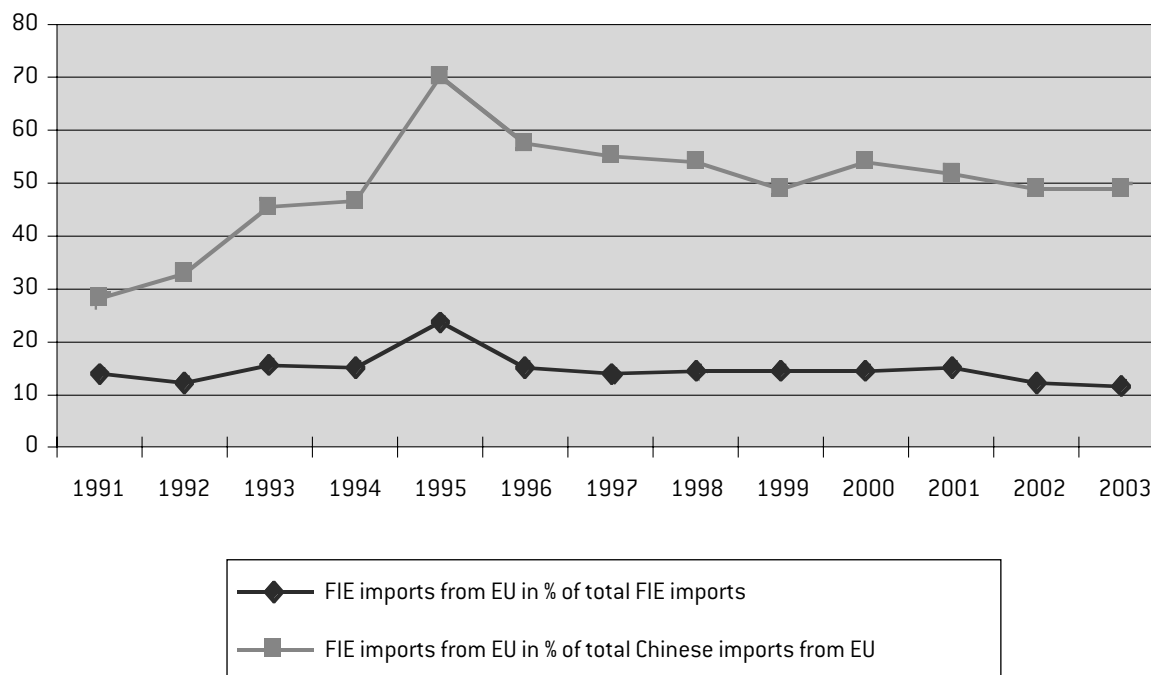
Our analysis of intra-industry trade is done at the two-digit level, smoothing thereby fundamental differences and specialization patterns between the EU and China. It is clear, obviously, that China and the EU specialize in different stages of the same manufacturing process, with China more involved at the lower end of the spectrum in, for example, the computer and office equipment industry (Lemoine and Unal-Kesenci 2004). This invites therefore further clarification into the issue of trade or production "complementarity" between the two regions.

The precise analysis of intra firm trade (IFT) at a disaggregate level suffers nevertheless from a statistical gap. At the aggregate level, and as shown by figure 3 (when assessed in tandem with figure 2 above), the suspicion is that much of the activities of EU FIEs in China are enshrined in

---

7. This hypothesis states that intra-industry trade is more likely to occur between trading countries that present a small difference in their factor composition and size (see Helpman 1987).

8. By contrast to "standard" IIT, trade in middle products involves both developing and industrial economies. This is because developing countries can at a minimum capture production of certain segments and components, although they may not be in a position to supply competitively a whole product.

**Figure 3. Imports by FIEs from the EU to China, 1991-2003**

Source: Ministry of Commerce, Chinese Custom Statistics, PRC.

their global production networks. As stated above, half of all Chinese imports originating from the EU in 2003 were indeed FIE imports. Note, however, that this represents a decline from the mid 1990s.

These figures imply nevertheless that EU firms engage in the spatial division of their activities in discrete manufacturing and distribution stages, and that China is an important factor in the spatial organization of the production network. These activities are assigned, in a complementary way, to the host countries according to their specific advantages. At the moment, a low knowledge intensive / high knowledge intensive complementarity exists between EU and Chinese manufacturing activities, although the Chinese shift to the higher end of the value added chain is rapid.

A further way in which the complementarity of manufacturing activities between China and the EU can be assessed is through the study of a number of relevant *filières*. Earlier studies have found evidence of a manufacturing complementarity between the EU and China in terms of *filière*. For example, in the textile and clothing *filière*, it has been shown that China concentrates mostly on the lower-end of the clothing industry, with the production of standardized

products, and the EU on branded products and CAD-CAM textile machinery (Andreosso-O'Callaghan and Qian 1997).

Finally, the rapid technological catching up of China in the manufacturing sector (viewed increasingly as the factory of the world) leaves still some scope for a China-EU complementarity of economic activities with a visible breakdown between manufacturing and service activities. As shown in table 4, the EU was able to consolidate a trade surplus in market service activities in the early 2000s. And its position in non-transport/travel commercial services is still comfortable.

In this respect, China's accession to the WTO in 2001 and its commitment to open up to foreign competition one of its most protected and heavily regulated sectors, namely services, has no doubt opened significant opportunities for foreign competitors. It remains to be seen, however, whether China will allow full and fair competition in markets for services in China, since it might fear the effective dominance by foreign competitors.

**Table 4. EU15 China Trade in Services (US dollar million, 1999-2002)**

	Exports				Imports			
	1999	2000	2001	2002	1999	2000	2001	2002
<i>Total Services</i>	2919	3182	3756	4952	3059	3240	3513	4325
Transportation	789	1324	1556	2195	801	1046	1079	1783
Travel	445	494	471	685	789	744	867	1182
Other Commercial Services	1659	1337	1605	1925	1424	1401	1429	1224
Government Services	26	27	27	55	49	51	53	37

Source: OECD Statistics on International Trade in Services, Volume II 1999-2002.

### **Foreign direct investment flows**

EU foreign direct investment (FDI) in China has expanded recently with approximately 4.2 billion dollars per annum on average in the last 5 years. As a result, the stock stood at 35 billion euros as of July 2004. The EU's position in China's total FDI inflows improved continuously in the 1990s. However, the EU economies have allocated smaller shares of their FDI to China since the peak years in the late 1990s. The

share declined to 7 percent in 2002 from 11 percent in 1999 (EU data).<sup>9</sup> Despite the recent surge, the EU-15 remains a relatively minor foreign direct investor in China, when compared with ethnic Chinese and other Asian investors. Over the 1991-2001 period, the EU accounted for less than 10 percent of total inflows, a figure comparable to either the US or Japanese performance, while Asian investors accounted for more than 60 percent.

The strategies of EU firms in China tend to differ from their strategies in the Central and Eastern European countries (CEECs) (Sachwald 2004). They also differ from the aims of Asian firms investing in Asia. Surveys have shown that Asian firms investing in China are mainly motivated by cost considerations and tend to invest more than others in export-oriented activities. Asian investments in China can be interpreted as the relocation of labor-intensive industries, which tend to lose competitiveness. By contrast, European investment (and to some extent American investment) in China is primarily market-seeking; in other words it is driven by market expansion strategies rather than by cost considerations (Lemoine 2000). The examination of French intra-firm trade (IFT) confirms for instance that European groups focus on the Chinese local market, while American and Japanese companies tend to be more involved in vertical trade with China.

Table 5 shows the spatial breakdown of EU FDI flows in the late 1990s-early 2000s, mirroring, as in the case of total FDI, the bulk of investment going to the eastern sea belt (i.e. to Guangdong, Shanghai, Shandong and Beijing).

An important characteristic of EU FDI in China is its focus on capital and technology-intensive manufacturing industries such as automotive, chemicals and pharmaceuticals, electronics, communication equipment and instruments. Being relatively capital intensive, EU FDI projects in these industries represent typically a large share of the total FDI realized value (Wang, 2000). Another important EU FDI strength in China is

---

9. By contrast, Central and East European countries (CEECs) have remained the primary destination of EU investment with the EU enlargement.

**Table 5. EU FDI Inflows to Chinese Regions (1996-2002) 10,000 US dollars**

	1996	1997	1998	1999	2000	2001	2002
Beijing	11601,2	15884	13232,4	23492,8	29620,3	21559,6	24061
Tianjin	27456	–	15883	25865	13673	19483	9421
Hebei	16871	31289	14316	22196	12126	10539	6487
Shanxi	7662	1020	1737	1187	349	3122	845
Liaoning	10764	12322	14787	13365	14998	27167	–
Shanghai	30252	24820	31363	24936	46207	37000	30900
Jiangsu	22277	54499	11887	6576	87403	–	–
Zhejiang	11527	8452	7793	7611	7514	18925	15052
Anhui	7880	4996	4493	13351	6247	5523	3065
Fujian	1382	7061	8360	3289	20806	17141	–
Jiangxi	2709	1159	1305	325	637	1520	5193
Shandong	12619	25291	9912	41428	37684	22952	33121
Henan	1341	–	138	137	250	599	1021
Hubei	15121	7163	1212	3934	–	16685	–
Hunan	356	831	7929	5801	5467	2722	1642
Guangdong	52414	40579	37297	46922	34058	56759	111321
Hainan	5418	6179	4719	7265	2399	4120	1884
Chongqing	–	1981	3127	4866	2473	1194	2419
Yunan	1103	186	1979	2442	459	238	–
Shaanxi	2425	5861	3166	2075	2169	971	–
Qinghai	10	145	24	118	7	24	6
Xinjiang	178	412	30	242	200	0	99

Source: Statistical yearbook of each provinces 1997-2003.

the involvement in the nuclear energy sector, in which key technologies and equipment have originated from the EU.

### ***Current areas of friction/tension and collaborative solutions***

In light of the previous discussion, it is possible to isolate the main areas of possible tension between the two regions.

First and foremost, the trade imbalance is perceived by EU actors as being partly the result of “unfair” Chinese competition in consumer goods industries such as clothing and textiles. The allegation of social dumping (bordering on human rights issues), an undervalued exchange rate, and the widespread practice of counterfeiting and the inadequate enforcement of intellectual property rights are the ingredients of what has been perceived as “unfair” competition from China. This may, however, be more of a feature of past relations, given the non-compliance with WTO rules up

to 2002. Nevertheless, counterfeiting can be expected to remain a major bone of contention between the two regions, at least for the foreseeable future. The same remark holds true for the exchange rate debate.

Second, and as in the case of Japan in the past, the Chinese market is perceived as being sheltered behind many entry barriers, such as industrial policies that discriminate against foreign companies in the case of in the motor vehicle industry.<sup>10</sup> Market access obstacles include high tariffs, non-tariff barriers, non-transparent trade rules and regulations<sup>11</sup> and investment restrictions. Also, soft budget constraints of state-owned enterprises are a real issue, and are thought to distort competition. Finally, barriers to market access have been identified in a number of service sectors (such as construction, banking and telecommunications). These barriers range from excessive regulation (in the telecommunication industry) to local content requirements, non-transparent bidding procedures, export obligations, an opaque legal system along with inconsistent enforcement of laws. Access to raw materials has recently been identified as another major trade issue.

When confronted with the issue of selling below cost, EU competitors can take anti-dumping (AD) actions against Chinese products. Yet the difficulty of assessing the actual cost incurred by Chinese producers has led to a proliferation of AD actions against Chinese products. By defining China as a non-market economy, the EU's AD policy does not acknowledge China's domestic costs of production but uses a third surrogate country to calculate the normal value of Chinese exports (see below). China has become the EU's major anti-dumping target. According to Chinese sources, the EU initiated 107 anti-dumping cases against China between 1979 and 2004 –only the United States has initiated more. In 2004 alone, the number of cases climbed by nine, twice the number of the previous year (People's Daily Online, 5 May 2005), with a rise in cases involving electronics and mechanical goods

---

10. This type of dispute is quite comparable to the structural impediments debate of the 1980s.

11. "China's trade laws and regulations are often secretly formulated, unpublished, unevenly enforced, and may vary across provinces" (San Diego World Trade Center, <[www.wtcsd.org](http://www.wtcsd.org)>).

(away from chemicals and ore). In 2000 the anti-dumping charges against China reached a peak of around 20 percent of the EU's total annual anti-dumping procedures (Liu and Vanderbussche 2002). These actions are seen as unfair by Chinese analysts, who claim that the application of non-market economy treatment towards Chinese exporting companies is an arbitrary procedure and that China should be granted market economy status (MES) because about 70 percent of China's economy is market-based.

One way in which a solution is emerging to the current tensions is through EU assistance in trade-related areas so as to help China implement its obligations and commitments to the WTO. At this juncture, an interesting question is to investigate how the relationship is likely to evolve in the future so that it can be profitable for both sides?

## **EU-China Economic Relations in a Changing Environment**

### ***General remarks***

Two major changes can be expected to impact upon trade relations between China and the EU: the first is EU enlargement; the second is the rise of China as an economic power and as a pivotal element in East Asian production networks as well as in a more institutionally-based regional economic area. Because the EU is a major export destination for China, the issue of whether the accession of the CEECs to the EU would result in a reduction of its exports to the EU is a major concern for China. On the other hand, the development of trade and investment linkages in East Asia is also likely to change the characteristics of East Asia as a region. Competition is expected from China in a number of more highly skilled sectors, such as the automotive and electronic sectors.

### ***Implications of enlargement for the EU-China partnership***

The fifth enlargement of the EU can be expected to have a substantial impact on the EU's traditional trade partners. It will impact upon EU-China relations for a number of reasons.

First, the role of the CEECs as a destination for European FDI is increasing and the EU is the most prominent source of FDI for this region. Note that before the fall of the Berlin wall, most of the relationship between the two “Europes” took the form of outward processing trade (defined as transferring abroad segments of a previously integrated in-house production process and re-importing for final production) mostly in the textile and apparel industry. This has been shown to be one of the most significant ways in which EU producers react to competitive pressures from low-wage competitors in labor-intensive industries.

Second, the nature of the single market is bound to change with a much wider diversity in terms of specialization patterns. Even if, thanks to the Europe Agreements, economic integration through trade and FDI was already a major factor in the 1990s between the EU15 and the CEECs, the accession of the latter will further deepen and accelerate economic linkages. Yet, the production patterns of the EU25 are rather different from the patterns of the EU15, given the different levels of development and comparative advantages. Consequently, the pan-EU patterns of production may change compared to the pre-enlargement period, at least in the short to medium term. The division of labor may be characterized by a specialization of some of the “older” member states in knowledge intensive activities, and a specialization of the new member countries into more labor intensive activities. As a result, there may be less complementarity and more scope for competition between China and the enlarged EU, and the EU may end up being more competitive and even less prone to using China as a production base for the production of its low-tech products.

It is this issue of possibly increasing direct competition between the new member countries and some of the Chinese provinces that lies at the core of the FDI (and growth) debate in Europe. A rough glance at comparative figures published in the 2002 *China Statistical Yearbook* reveals that in 2001 GDP per capita in purchasing power parity (PPP) terms for the Shanghai municipality was 65 percent of the EU15 average; this was higher than that for the Czech Republic (at

57 percent) one of the best performers of the CEECs.<sup>12</sup> A greater structural similarity between the more developed provinces of China and some of the EU countries implies a higher degree of competition between China and Europe for inward investment.

This leads to the issue of hollowing out and relocation of low-skilled activities away from the EU, a feature of modern “international business”.

According to some authors (Sachwald 2004 for instance), the risk of FDI diversion should not, however, be over-stated. As seen above, the motivations for investing in the CEECs and in China are not necessarily the same and the two regions, broadly speaking, are thus not necessarily in competition in this respect. However, this optimistic view seems to be less and less valid and is likely to become very soon a feature of the past.

Finally, the expansion of the EU market will offer further opportunities for Chinese firms, thus giving further scope for exchanges of all kinds. As a result of the EU enlargement, the EU market is likely to be as attractive for Chinese products as the US market.

### ***Competition from China, implications for the EuroMed partnership***

The signing of the Barcelona Declaration in 1995 between the EU and ten countries from the Mediterranean region, and the gradual completion of a Pan-Euro-Mediterranean free trade zone have been in some ways an anticipation of the China threat. It is, however, unfortunate that there has not been enough attention nor enough financial resources earmarked for structural change in these Mediterranean countries, given that their manufacturing specialization is similar to China's. In particular, the end of the Multifibre Agreement (MFA) is an unprecedented challenge for these Mediterranean countries, and the fierce level of competition from China in the textile

---

12. According to the same source, Guandong's ratio stood at 29 percent, compared with 40 percent for Poland.

and clothing sector poses a major problem to the EU partnership with the Mediterranean countries.

### ***The emergence of a more tightly integrated East Asia and its impact on the EU***

As far as East Asia is concerned, vertical integration is the key to tighter economic integration, with China playing a pivotal role in the process. The emergence of China has helped further fuel the dynamics of private sector-led regionalization, which is a salient feature of East Asian economic integration. Following the normalization of its economic relations with a number of its Asian trading partners such as South Korea, China's trade with its neighboring emerging Asian economies has intensified dramatically.<sup>13</sup> More importantly, about half of China's imports are for processing and re-exporting<sup>14</sup> (Rumbaugh and Blancher 2004) and this holds particularly true for imports from the rest of Asia. The bulk of China's imports from neighboring East Asia is made up of parts, components, and raw materials. The rise in East Asian intra-regional trade since the early 1990s has thus been largely driven by rapidly growing trade in parts, components and intermediate products, which is a reflection of greater vertical specialization and the dispersion of production processes across borders. China is mainly used as an outward processing region for goods developed elsewhere in Asia.<sup>15</sup> This has been described as the "Asian integrated circuit". By contrast to what has been observed in the EU, the electronics sector has been (and still is) the driving force behind the segmentation of production throughout the region and the resulting regional economic integration (Arndt and Kierzkowski 2001).

For the time being, economic integration in East Asia is based on intensive vertical intra-industry (even intra-product)

---

13. This is also reflected in the upward trend of trade intensity indices among the East Asian economies (Ando and Kimura 2003).

14. On the export side, so-called processing trade accounts for the bulk of China's trade. In the electronics and IT industry, processing trade has accounted for approximately 90 percent of China's total exports since 1995.

15. As a result, China runs a trade surplus with East Asia in consumption goods and a deficit in intermediate goods.

trade. This type of integration is in contrast to what can be observed within the EU15, where intra-industry trade primarily involves end-use products with minor differences<sup>16</sup>, while it is closer to the new kind of economic integration prevailing within the EU25.

Although East Asia is likely to emerge in the near future as a consistent and better-structured area from the point of view of the private sector, it is unlikely to behave as a well-organized political entity. As a result, China will remain as an isolated partner for the EU. Yet it may be desirable for the EU to conduct parallel dialogues with East Asia and with China.

### ***A new Chinese threat?***

In the context of relocation to low cost countries, a new fact is emerging gradually: while relocation has primarily involved unskilled employment until recently, high added value jobs have also started to be impacted. Moreover, in contrast to what is often thought, relocation is not the exclusive privilege of large multinationals. According to a survey conducted by the French employers' union (MEDEF) with some 200 French small and medium-sized enterprise (SME) leaders, relocation is also common practice amongst SMEs. IT services and business process outsourcing (BPO) to developing countries where wages are much lower is increasingly frequent. Firms seem to be focusing increasingly their attention on cost minimization and profitability, and they seem to have lost interest in industrial know-how ownership. Flat panel displays (FPDs) are a case in point. Today, there is not a single company in Europe that is able to design and produce FPDs on a large scale. Because of the lack of domestic R&D investment, Europe runs the risk of falling behind in the R&D race, and in the long term of being unable to compete with Asian companies.

---

16. With the enlargement to EU25, the pattern of intra-industry trade is likely to evolve, with a rise in the fragmentation of the production process. As Arndt (2001) aptly puts it "the major gains from entry will not come from freer trade along established patterns but from the reorganization of production and the consequent integration of those economies into the production networks of the EU."

By 2010, 25 percent of all European information technology (IT) employment might be relocated to developing countries. Some 30 percent of European IT companies have already started a process in this way. Be it through outsourcing, relocation, or offshoring, the transfer of European hi-tech activity in developing countries seems unavoidable. Analysts do not really see how the trend could be reversed: in 2004, relocation in the European IT sector increased by 3.1 percent. Before 2007, its annual growth could reach 8 percent. By 2005, 30 percent of large European IT companies were deemed to have delocalized part of their activities. On the employment side, analysts estimate that by 2010 more than 25 percent of jobs in the European hi-tech sector will have been transferred towards emerging countries, in particular India, China and Russia (Kirkegaard 2005). This situation is not alarming *per se*. What is striking is that the EU suffers from a critical lack of adequate policies (such as training and R&D) that are necessary to accompany structural change and that are essential to smooth out the negative impact of relocation.

### **Enhancing an Economic Partnership**

Faced with the challenges reviewed in the previous sections, it is in the interest of both the EU and China to improve their economic relations so as to generate more FDI and to achieve more balanced trade and growth. Both sides can gain by collaborating more closely in a number of areas, which we have grouped into three sub headings: economic complementarity, multilateralism, and sustainable development.

#### ***Economic complementarity and attitudinal change in China***

First of all, there are still many knowledge-intensive manufacturing and service activities in which the EU excels. As a result, there is scope for more diversified interactions between the two partners, particularly in the business services sector, where the EU combines many strengths (such as in financial services, research, consultancy, etc).

However, market access for foreign services providers in China remains restricted, and, obviously, China's WTO commitments are of major relevance to the EU in this regard. For China, this implies a definite commitment to issues such as corporate governance, an adequate legal framework and judicial system, and accounting and auditing practices. This represents undoubtedly major challenges to the Chinese Government, its enterprises, workers and professionals who will also have to adjust to the new economic circumstances.

The persistent disagreement between China and the EU on the MES issue constitutes a major stumbling block on the road to deeper cooperation and enhanced complementarity. The fact that China will not be accorded market economy status by the EU until 2016 has a number of implications.<sup>17</sup> In particular, in order to calculate dumping margins for a non-market economy, the prices and other information used are not those from the country under investigation but those from a surrogate country that has a market economy. In the case of China for instance, the US Department of Commerce uses production and price information from India or Singapore to determine a fair price in the case of an investigation relating to Chinese imports. It should be noted that China has agreements with a number of its Asian neighboring economies, in particular with the ASEAN countries, which extended market-economy status to China in November 2004.

At present, there seems to be a basic misunderstanding about the MES issue. Article 15 of the Chinese Protocol of Accession to the WTO permits the use of a special procedure for anti-dumping cases against China *"if the producers under investigation cannot clearly show that market economy conditions prevail in the industry producing the like product with regard to manufacture, production and sale of that product"* (Article 15 of the Protocol). While the accession of China to the WTO reflects an implicit acceptance of China's status as a market economy, the EU's refusal to officially grant

---

17. Note that according to figures published by *The Book on Chinese Reform (Price Reform Volume, 1997, Beijing)* more than 90 percent of consumer goods prices were determined through the operation of the market at the end of 1992; this compares with less than 6 percent in 1983.

this status to China is primarily related to specific trade disputes but it is perceived very negatively by China.

### ***Promoting multilateralism***

Trade disputes are doomed to persist and even intensify in parallel to trade relations. Since such a development cannot be avoided, it is important for the EU and China to both engage in multilateral trade dispute settlement mechanisms. The current trade disputes about clothing and textile imports from China are undoubtedly due to a lack of transparency about the way in which the Chinese economy works. There are suspicions that a number of Chinese firms may have over invested in order to flood the world market once the quota system was dismantled. Fair practices are the only possible solution, and to that end, there is a need to push for multilateral rules.

Yet the recent dispute has also shown that the bilateral dialogue is a better approach than the imposition of unilateral sanctions chosen by the US. By taking the unilateral route, the EU would have run the risk of further antagonizing China.

Further “normalization” of the Chinese economy is desirable. For instance the introduction of a streamlined visa processing system in September 2004 has resulted in a dramatic inflow of Chinese tourists into the EU.

### ***Enhancing sustainable development in China: the role of cooperation on energy issues***<sup>18</sup>

China’s performance in terms of energy efficiency is rather mixed, and there is scope to enhance energy efficiency there. In particular the development of clean coal technology should be a priority.

It is undoubtedly in the EU’s interest to have China develop as a responsible consumer and producer of energy. Because of the sheer size of the Chinese economy, promoting energy efficiency, developing cleaner technologies, as well as alternative energy sources, should rank high among the EU’s

---

18. This section draws on Godement, Nicolas and Yakushiji (2004).

priorities. The EU is in a particularly good position to assist China in this endeavor. While existing signatories of the Kyoto protocol (which have taken on binding obligations) are expected to proceed with the implementation of the protocol, less developed economies with rapid rates of economic growth, and China in particular, should accept to be gradually phased in as a result of a renegotiated protocol. As there is shared concern on the need for environmental protection, a common objective is to renew and expand the existing commitments to combat climate change and promote sustainable development (by reducing wasteful consumption of energy), and to help less advanced countries in this undertaking. In other words, sustainable development must be explicitly built into energy policy.

The rise of China as one of the largest energy consumers in the world makes it all the more necessary to revamp the multilateral mechanisms which were designed at a time when industrial economies dominated the energy scene (see figure A1 in appendix). In particular it renders arrangements such as the International Energy Agency (IEA) far less relevant because the stabilization of the global energy market requires the participation of China. A challenge is thus to determine how China could be associated or could benefit from accumulated experience. Beyond such existing schemes, some degree of co-ordination may be warranted in the dialogue with oil producers for instance, or in forums dealing with environmental issues. Again, as one of the major emitters of pollutants, China should also be associated as a participant in various schemes dealing with environmental aspects of energy security. Overall, it is in the interest of both China and Europe to strive to shape and improve global governance on energy-related issues and to help accommodate China in the appropriate mechanisms.

Energy security concerns rank particularly high in China, since a sound energy security policy is clearly perceived as a precondition for big power status. An oil-focused energy strategy was proposed by the State Council in late November 2003, and a draft energy development program for 2004-2020 was approved, calling in particular for a flexible strategic

petroleum reserve system, a shortage-warning system, energy diversification and conservation, further exploration and cleaner energy technologies. In particular, in an effort to reverse the growth of its dependence on foreign oil, China is seeking to establish a 70-75 day strategic petroleum reserve in four locations, with the first phase scheduled to be completed in 2007. Additional measures are also envisaged, in particular encouraging a more effective development of domestic energy resources as well as intensive research into alternative fuels and resources to reduce reliance on petroleum and coal.

As far as the oil market is concerned, the rise of China poses a major challenge to existing emergency mechanisms. Helping to establish oil stockpiling in countries such as China can certainly be seen as one of the few really valuable public investments for oil security. As a result, it would no doubt make a lot of sense to help (financially as well as technically) the development of such oil stocks in Asia.

Finally, another avenue for inter-regional cooperation should be stressed at this stage: while the emphasis is systematically placed today on the dramatic impact of China's economic rise on the global *demand* for energy, it should not be overlooked that China might exert a comparable impact on energy *supply* should it manage to make major progress in the field of renewable energies. Low production costs and delocalization might apply to energy substitution machinery: batteries, micro-turbines, windmills could all be produced at substantially reduced cost in China, where they are also of major relevance given the country's growing and diversified energy needs. If such were the case, prospects for these alternative energy sources may be far less bleak than currently imagined and the whole energy balance might be substantially improved.

## **Conclusions**

The EU has no doubt a more straightforward relationship with China than the US for instance. This is because the EU has no intention of nor pretension to playing a strategic role in the region. Hence security considerations do not affect the relations.

Yet, the rise of China as a challenging economic power, in the eyes of the EU, is fraught with a number of inherent contradictions. China is not regarded by the EU (nor by the United States) as a full-fledged market economy, (although most of its consumer prices are market-based prices). Yet China has been a member of the WTO since 2002, even though it has difficulty with implementing its WTO obligations and commitments. The EU trade deficit with China is increasingly perceived as “unfair” in the EU, and yet half of it is explained by the very successful investment strategies of firms from the EU and elsewhere in China. These contradictions are the source of much new tension arising between the two parties, and it is only by acknowledging them and by recognizing shared interests that these tensions will abate in the future. The shared long-term interests are clear: continuous balanced economic growth, peace, security and sustainable development.

The emphasis in this article has been on the economic challenges posed to the EU by the fast economic development of China. Of particular importance is the evolving manufacturing specialization of Chinese-based firms, in the context of an enlarged EU. Shared economic prosperity has been underlined with reference to the existence of two types of complementarity between the EU and Chinese systems of production. One at the level of the *filière*, with the EU supplying much needed technology and machinery to China, and China involved in less technology intensive activities (in consumer goods for example). The second being a low knowledge intensive / high knowledge intensive complementarity taking place within the spatial organization of global manufacturing systems. However, complementarity in terms of *filière* is already a feature of the past, for the EU now has a trade deficit with China in machinery. More preoccupying, although the EU still has many strengths in knowledge intensive manufacturing activities (such as in the biotechnology area), the Chinese shift to the higher end of the value added chain in many of these industries is inexorably rapid. At this juncture, the only complementarity that the EU can best promote in the future seems to be more along the lines of a services / manufacturing complementarity.

In order for this to be realized, a key prerequisite must be fulfilled. The EU cannot maximize its benefits in knowledge intensive service (and also manufacturing) activities in the future if China does not implement the WTO commitments, in particular with regard to intellectual property rights. Moreover, the development of a service industry that can support and facilitate manufacturing is another condition for the emergence of this new form of complementarity.

This article has also shown that an area in which China-EU collaboration can lead to substantial and growing mutual benefits in the future is the energy sector. This is very much an untapped area and, given the strategic importance of energy in the economic-political sphere, EU-China collaboration can only contribute to stability at a world level.

More generally, the accelerating rise of the Chinese economy and the deepening of its relationship with the EU are likely to facilitate the change of forces in the international system and help promote multipolarization of international relations. Both China and the EU attach great importance to the international multilateral system and the rule of global governance. The two sides also share common interests in safeguarding world economic stability and sustainable development, and appreciate each other's rising role in international affairs. The need for multilateral cooperation between China and the EU has far outweighed the simple need for holding back the United States, although this objective may help maintain the cooperative momentum.

The rise of China poses another challenge for the definition of EU policy, first because of the persistence of intra-European disagreements on China-related economic issues due to diverging commercial self-interest; and second because the rise of China impacts the relationship between the EU and some of its traditional economic partners, such as the North African economies, which happen to be in competition with China. This is all the more problematic since building a really solid partnership with China requires a more coherent policy on the EU side.

## References

Ando, M. and F. Kimura (2003), "The formation of international production and distribution networks in East Asia", *NBER Working Paper*, n° 10167, December.

Andreosso-O'Callaghan, B., and Qian, W. (1997), "EU-China Trade and Investment Relations - Complementarities in the Textile&Clothing Filière", *International Journal of Clothing Science and Technology*, Vol. 9, No. 6, pp. 47-9.

Arndt, S. and H. Kierkowski (2001), *Fragmentation: New production and trade patterns in the world economy*, Oxford, Oxford University Press.

Athukorala, P-C. and N. Yamashita (2005), "Production Fragmentation and Trade Integration: East Asia in a Global Context", *mimeo*, Australian National University, January.

Baldone, S., F. Sdogati and L. Tajoli (2001), "Patterns and Determinants of International Fragmentation of Production: Evidence from Outward Processing Trade between the EU and Central Eastern European Countries", *Weltwirtschaftliches Archiv*, Vol. 137, No. 1, pp. 80-104.

Godement, F., F. Nicolas and T. Yakushiji (eds), (2004), *Asia and Europe – Cooperating for Energy Security*, CAEC taskforce report, Les cahiers d'asie, n°4, Centre asie ifri.

Helpman, E. (1987), "Imperfect Competition and International Trade: Evidence from fourteen industrial countries", *Journal of the Japanese and International Economies*, No. 1, pp. 62-81.

Jones, R., H. Kierzkowski and Chen Lurong (2005), "What Does Evidence Tell Us About Fragmentation and Outsourcing?", *International Review of Economics and Finance*, Vol. 14, No. 3, 2005, pp. 305-316.

Kaminski, B. and F. Ng (2001), "Trade and Production Fragmentation: Central European Economies in European Union Networks of Production and Marketing", *World Bank working paper*, No. 2611, Washington, D.C.

Kirkegaard, J.F. (2005), "Outsourcing and Offshoring: Pushing the European Model Over the Hill, Rather than Off the Cliff!", *IIE Working Paper Series*, No. 05-1, Institute for International Economics, Washington, D.C., mars.

Lee, H. and D. van der Mensbrugghe (2004), "EU enlargement and its impact on East Asia", *Journal of Asian Economies*, 14, pp. 843-860.

Lemoine, F. (2000), "FDI and the Opening-Up of China's Economy", *Document de travail*, CEPPII, No. 00-11.

Lemoine, F. and D. Unal-Kesenci (2004), "Assembly Trade and technology Transfers : The Case of China", *World Development*, Vol. 32, No. 5, pp. 829-50.

Rumbaugh, T. and N. Blancher (2004), "China: International Trade and WTO Accession", *IMF Working Paper*, 04/36, March.

Sachwald, F. (2004), "The Integration of China and East European Countries in Global Production Networks", *Les études de l'ifri*, Paris.

Wakasugi, R. (1997), "Missing factors in intra-industry trade: Some empirical evidence based on Japan", *Japan and the World Economy*, No. 9, pp. 353-62.

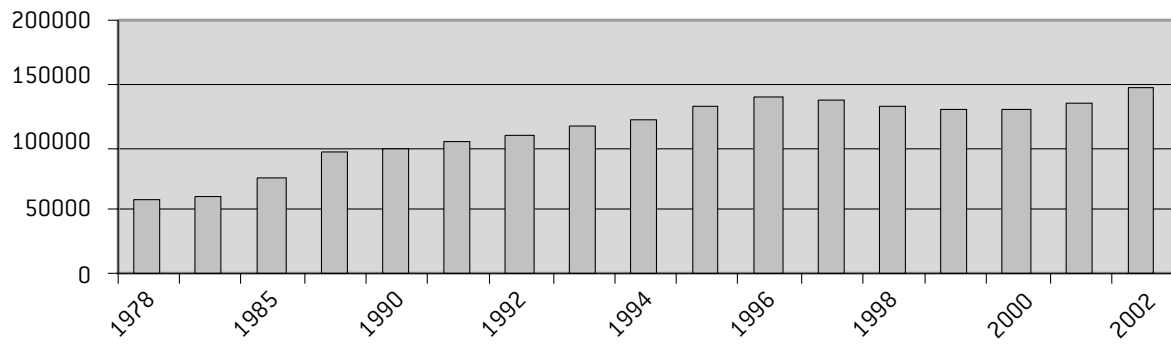
Wang Luolin (ed.) (2000), Report on Foreign Direct Investment in China, China Finance and Economics Publishing House, Beijing.

## Appendix

**Table A1. EU 25 Trade with Mainland China  
(Cumulated, as of November 2004, Euro million)**

	Imports total	% change	% (1)	Exports total	%	% (1)	Trade total	% total	% (1) change	Trade (2) balance	% (1) change
EU 25	115,094	100	23	43,676	100	18	158,770	100	21	-71,418	26
Germany	26,004	23	28	19,287	44	16	45,291	29	23	-6,718	86
UK	18,660	16	19	3,139	7	25	21,798	14	20	-15,521	18
Netherlands	16,750	15	27	2,115	5	41	18,864	12	29	-14,635	26
France	10,612	9	21	4,684	11	8	15,296	10	17	-5,928	35
Italy	10,930	9	23	4,045	9	16	14,975	9	21	-6,885	28
Belgium	5,990	5	21	2,056	5	2	8,046	5	15	-3,934	34
Spain	6,490	6	26	1,050	2	5	7,540	5	23	-5,440	31
Sweden	2,286	2	12	1,885	4	9	4,171	3	11	-401	30
Hungary	2,979	3	22	298	1	111	3,277	2	27	-2,681	17
Finland	1,213	1	17	1,792	4	59	3,005	2	39	579	516
Denmark	1,984	2	20	707	2	25	2,691	2	22	-1,277	18
Poland	2,172	2	2	422	1	140	2,594	2	13	-1,750	-10
Austria	1,318	1	-8	1,059	2	30	2,377	1	6	-258	-59
Luxembourg	1,815	2	36	86	0.2	-29	1,902	1	31	-1,729	43
Czech Rep.	1,705	1	51	192	0.4	37	1,897	1	49	-1,513	52
Ireland	1,146	1	14	577	1	14	1,723	1	14	-569	14
Greece	1,304	1	16	49	0.1	9	1,353	1	16	-1,255	17
Portugal	422	0.4	24	95	0.2	-30	517	0.3	9	-327	60
Slovakia	342	0.3	-14	59	0.1	-11	401	0.3	-14	-283	-15
Estonia	299	0.3	111	25	0.1	94	324	0.2	109	-274	113
Slovenia	226	0.2	-11	28	0.1	71	254	0.2	-6	-198	-16
Lithuania	198	0.2	-15	9	0.02	139	207	0.1	-12	-190	-17
Cyprus	156	0.1	-5	2	0.003	125	157	0.1	-5	-154	-6
Latvia	67	0.1	26	7.8	0.02	-29	74	0.05	16	-59	40
Malta	26	0.02	-67	7	0.02	2	33	0.02	-61	-19	-74

Source: EUROSTAT Trade Statistics, Luxembourg.

**Figure A.1. Total Consumption of Energy in China 1978-2002 (1000 tons of SCE)**

Source: China Statistical Yearbook, 2003.

A European Perspective

**Civil Society and NGOs in China –  
State of Play and Prospects**

AXEL BERKOFKY<sup>1</sup>

The term “civil society” gained international prominence in the 1980s with the emergence of well-organized non-governmental organizations (NGOs) seeking to exert influence on governments in areas such as environmental protection, human rights, international labor standards and development aid. NGOs are arguably the most visible component of civil society and organizations such as Greenpeace and Amnesty International still receive a lot of media coverage and attention due to their well-organized and coordinated advocacy strategies and influence on policymaking in many countries. NGOs and their interaction with, or opposition to, government policies have become an integral part of the political culture in the West, including Europe.

What about civil society in China? “Is there a civil society in China?” and “Are there any Chinese NGOs at all?” are two of the typical questions that come up when “China” and “civil society” get mentioned in the same sentence.

---

1. Senior Policy Analyst, European Policy Centre (Brussels, Belgium).

The answer is “yes” to both questions and the reason why there is limited information and literature available on civil society in the China of the 21<sup>st</sup> century does not necessarily mean that civil society and Chinese NGOs have no influence on Beijing’s policymaking. Admittedly, the emergence of civil society in China over the last 15 years is less spectacular than international coverage of Greenpeace occupying a drilling platform in the North Sea and is typically referred to as a “quiet revolution” in the Chinese literature.<sup>2</sup> Chinese commentators and scholars, however, point out, that there is an increasingly active Chinese civil society, and that a communist system does not necessarily rule out the existence of civil society.

However, the vast majority of Chinese NGOs still depends on the central government for funding, and are supervised and monitored by China’s Ministry of Civil Affairs. Moreover, many Chinese NGOs are run by former government officials and leading scholars, which indicates that many NGOs in China are still quasi-government agencies.

Despite recent efforts to reduce NGO dependence on the government and to increase fund-raising activities, the government’s approach to NGOs still runs counter to the internationally acknowledged definition and concept of an NGO as an organization free from government control and supervision (for details of relations between Chinese NGOs and the Chinese government see below). Chinese NGOs address numerous issues ranging from domestic violence and environmental issues to rural development and employment issues. Furthermore, so-called “self-help groups” for environmental activists or people living with HIV/Aids as well as legal services centers for women and children have been established throughout China over the last 10-15 years.<sup>3</sup> Like NGOs in the West, NGOs in China aim at raising public awareness on important issues and urging (local and central)

---

2. See Zhang Ye, “China’s Emerging Civil Society”, *CNAPS Working Paper*, August 2003, The Brookings Institution, to be downloaded at <[www.brookings.edu/fp/cnaps/papers/ye2003.htm](http://www.brookings.edu/fp/cnaps/papers/ye2003.htm)>.

3. See Yiyi Lu, “Civil Society Groups Rely on Beijing”, *The Asia Times Online*, May 5, 2005, <[www.atimes.com/atimes/China/GE05Ad02.html](http://www.atimes.com/atimes/China/GE05Ad02.html)>.

governments to improve policies and governance. It is hoped that China's democratization process will go hand in hand with the emergence of civil society. This is precisely the view of the majority of social scientists: that China's gradual progression towards a more open and transparent society will happen with the emergence of civil society in one way or another even if there is little agreement on how long this process will take. Despite the gradual emergence of civil society and Chinese NGOs, civil society's influence on policy-making in Beijing (like in a number of other Asian countries, including democratic Japan) must still be described as limited, and issues such as democracy in China (or the absence of it) as well as the speed of social and political reform is, at least as the government in Beijing is concerned, the government's responsibility alone.

As this paper will show, China's approach ("China" as in the Chinese government) to NGOs is significantly different as Chinese NGOs depend on the central government for funding and are obliged to register with, and are monitored by, China's Ministry of Civil Affairs. The analysis of NGOs in China as an important part of an emerging civil society will be the main focus at this paper.

NGOs in this paper are defined as non-profit and non-governmental organizations, such as foundations, associations, professional organizations, societies and others. They are not government sponsored.

The findings of this study are based on some of the literature available on this topic. This study does not claim to be an exhaustive analysis of the state of civil society and NGOs in China, but aims to give an overview of the characteristics of NGOs in China, pointing out the differences between Chinese and "Western-style" NGOs. The references accompanying this paper aim to encourage further reading on the topic.

### **NGOs Chinese-Style**

Civil society "Western-style" is comprised of a variety of associations and organizations serving as intermediaries

between citizens, the government and the commercial sector.<sup>4</sup>

In China, however, NGOs in China need to be defined differently as the majority of Chinese NGOs depend on the central government for funding and support.

A recent study conducted at Johns Hopkins University in Baltimore seeking to identify the common characteristics of NGOs from more than 40 countries provides a useful framework for defining the position of Chinese NGOs in the international context. The study, headed by Professor Lester Salamon, identifies the following common characteristics of NGOs. They are:

1. organized with an institutional presence and structure;
2. private and institutionally independent from the government/state;
3. not profit distributing and do not return profits to their managers or “owners”;
4. self-governing and essentially in control of their own affairs; and
5. voluntary (membership is not legally required) using voluntary contributions of time and money to operate.<sup>5</sup>

Even if not all of these characteristics apply to Chinese NGOs, the Asia Foundation’s country director Zhang Ye maintains that these five characteristics provide useful standards by which Chinese NGOs will have to be measured in the future. Zhang also maintains that Chinese NGOs will increasingly meet these standards. Other Chinese observers, however, are less optimistic that Chinese NGOs will meet international standards any time soon in view of the lack of independence from the government. Zhang on the other hand argues that Chinese NGOs need to be understood in the “context of the social and political transition in which NGOs’

---

4. See B. Baron, “Funding Civil Society in Asia: Philanthropy and Public Private Partnerships”, *The Asia Foundation Working Paper Series*, No. 3, July 1997.

5. For further details, see also L.M. Salamon, H.K. Anheier and Associates, “Civil Society in Comparative Perspective in Global Civil Society: Dimensions of the Nonprofit Sector”, Center for Civil Society Studies, Baltimore, <[www.jhu.edu/ffccss/books/gcs/pdf/chapter1.pdf](http://www.jhu.edu/ffccss/books/gcs/pdf/chapter1.pdf)>.

development, like that of other sectors, reflects China's political pluralism and social dynamics." "This perspective", Zhang argues, "is equally if not more important than whether NGOs in China are independent, democratic and participatory." Although there is little doubt that the growing number of NGOs in China is an expression of growing political pluralism and changing social dynamics in China, the NGO's lack of (complete) independence from the government will nevertheless have to be overcome to become "normal" NGOs by international standards.

The official term in Chinese for NGO is "popular organization" comprising two sub-categories: "social organization" and "private non-enterprise unit." Whereas "social organizations" are membership-based organizations, private non-enterprise units are not. The "social organizations" (or "officially organized NGOs" in the Chinese literature) are established and financed by the government. Furthermore, their employees are usually on the government's payroll.<sup>6</sup> This approach to the concept of a non-governmental organization appears to be contradictory: a non-governmental organization is run, staffed and financed by the government.

Consequently, some Western commentators argue that government-sponsored NGOs can hardly be "real NGOs."

"Private non-enterprise units" (or "popular NGOs") on the other hand do not receive financial support from the government and are initiated by private citizens. This approach to the concept of a non-governmental organization is comparable to the one in the Western world. Government-sponsored NGOs are also referred to as "top-down NGOs" as opposed to "bottom-up NGOs" and privately-financed NGOs.

NGOs in China are obliged to register with the Department of Civil Affairs (as a "social organization").

---

6. See Yiyi Lu, "The Growth of Civil Society in China-Key Challenged for NGOs", *ASP Briefing Paper*, London, Chatham House, The Royal Institute for International Affairs (RIIA), February 2005.

## China's Political Culture and Civil Society – Are They Compatible?

Various studies have concluded that some important features of China's political culture stand in contrast to the ideas and characteristics of civil society. These features, as scholars have argued, are "fatalism", "elitism" and what they call the "lack of cooperative spirit."<sup>7</sup>

Customs and tradition, the scholars argue, have all contributed to create these features over China's long history. However, using the existence of certain cultural traits in China identified in the academic literature to explain the problems NGOs face in China must be applied with caution, as China and its society are undergoing rapid transition. Other scholars do not try to explain the problems and weaknesses of China's political culture, but instead argue that authoritarian regimes per se cannot allow civil society to question or even "threaten" the government's leverage and influence over its citizens' daily lives. Civil society and NGOs in authoritarian regimes, it is argued, will never have the same autonomy and influence that they have in democracies.<sup>8</sup> However, despite the tight control of NGOs by the government, Beijing realizes that civil society and NGOs are necessary to help the government tackle the growing number of problems that economic modernization and social transformation bring with them. NGOs, with the blessing of the government, are addressing issues such as urban unemployment, rural migration, the growing disparity between rich and poor, economic degradation, and the growing spread of HIV/Aids. Currently there are more than 120,000 officially registered NGOs operating in China.

Unlike in the West, the Chinese government expects NGOs to support government policies and not to obstruct or protest against them. This is somehow understandable from the perspective of the Chinese government, as the NGOs receive funding from the government, which is not prepared to

---

7. For details see S. Ogden, *Inklings of Democracy in China*, Cambridge MA, Harvard University Asia Center, 2002; M.K. Jennings, "Political Participation in the Chinese Countryside", *The American Political Science Review*, Vol. 91, No. 2, 1997, pp.361-372.

8. See Yiji Lu, op. cit. [19].

finance public protests against its own policies. However, such an approach is alien to the Western understanding of the interactions between NGOs and the government, although an increasing number of European NGOs also receive money from governments and/or the European Commission, which calls into question the independence of certain European NGOs and other parts of civil society.

### **The Lack of Independence**

Western NGOs are independent (non-governmental) from the government and usually do not receive funding from the government. Unless they are involved in the execution of a specific government-sponsored project, they usually have no obligation to report to governments and do not receive orders on what, and what not, to work on. As mentioned previously, NGOs in China operate very differently as they depend on the government for funding and are obliged to register with the Ministry of Civil Affairs.

Interestingly (or strangely from a Western perspective) many Chinese NGO representatives and the citizens themselves consider close links with the government to be an advantage and not a disadvantage. In fact, NGO representatives in China, unlike in Europe, tend to seek and establish close personal contacts with government officials to be effective and achieve their goals. Pursuing the “if-you-can’t-beat-them-join-them” approach is logical from a Chinese perspective as the Chinese Communist Party still exerts a strong influence on all parts of society. It is widely acknowledged amongst analysts and commentators that Chinese NGOs, at least those who wish to exert influence on the government, are not operational without strong support from the government and government officials.

Yiyi Lu, senior researcher on China at London’s Royal Institute for International Affairs (RIIA) argued in the Asia Times Online in May 2005 that, due to the absence of a fully developed system of rule of law in China, NGOs cannot depend on the Chinese legal system for protection when subjected to obstruction or suppression from the government.

This is, according to Yiyi Lu, the reason why Chinese NGOs are obliged to “cultivate powerful patrons or friends in the government who can provide them with the necessary protection should the need arise.” However, the quality of relations between civil society and government is likely to change in the course of China’s democratization process. Enhanced democracy in China is very likely to promote the emergence of more independent NGOs. Given that NGOs are a relative novelty in China, especially in rural China, NGO representatives often choose to present themselves as belonging to the government’s poverty alleviation staff, as Yiyi Lu has described in the *Asia Times*. Furthermore, Yiyi Lu maintains, NGOs depend on the government’s administrative system in villages to implement and execute their projects and therefore choose to associate themselves with the government.

Chinese NGO representatives maintain that close (or overly close from a Western perspective) ties to the government do not necessarily hinder NGOs in undertaking effective advocacy but on the contrary make advocacy more effective. This is especially the case when NGOs are run by ex-government officials with access to high-level ministry officials. It is not unusual in China that NGO staff and ministry officials exchange information or sit on each other’s expert panels.

Even though such an approach runs counter to the Western understanding of an NGO, this “strategy” might indeed lead to greater impact of NGOs on government policies in the Chinese context. And NGOs, as it turns out, can have an impact on government policies. A campaign led by an environmental NGO against the construction of a hydropower station on Nujiang River in southwest China resulted in the interruption (at least temporarily) of the power station’s construction after the NGO directly appealed to Chinese Prime Minister Wen Jiabao.<sup>9</sup>

---

9. For details on the case and the controversies, see e.g. “Proposed Nu River Hydroelectric Dam Causes Controversy”; *The Epoch Times*, March 28, 2004, <[english.epochtimes.com/news/4-3-28/20614.html](http://english.epochtimes.com/news/4-3-28/20614.html)>.

Chinese scholars who have observed and studied the development of Chinese NGOs over past decades argue that NGOs have already (and despite government control and funding) become more independent over the last 10 years.<sup>10</sup> The Chinese government itself has recently admitted that NGOs have become a “third force” in Chinese society.<sup>11</sup>

### **Controlling NGOs - A Lack of Resources**

Despite the government’s efforts to control NGO activities nationwide, its ability to enforce its tight control mechanisms has clear limits.

Over recent years studies conducted by Chinese researchers (backed up by extensive interview data with NGO representatives all over China) showed that the central government’s control over local NGOs diminished as local governments began to support local NGOs independently and without consultation with the central government. It turned out that local governments, aware of local needs and the need to provide certain services local governments could not deliver sufficiently, approved NGOs, which in their view contributed to the economic and social well-being. These NGOs were approved irrespective of central government’s restrictions and regulations.<sup>12</sup>

However, it also emerged in recent years that local governments use the practice of allowing NGOs to operate as a means to illegally secure additional funds provided by the Ministry of Civil Affairs (which oversees the provision of funding for nationwide NGOs). In other words, local governments are using the funds foreseen for NGOs to enrich themselves and often co-operate with the NGO representatives on the ground to do so.

---

10. See e.g. Qiusha Ma, “Defining Chinese Non-governmental Organizations”; *Voluntas*, Vol. 13, No. 2, 2002, pp. 113-130.

11. See “Chinese NGOs to Work with Government for Poverty Reduction”, *People’s Daily Online*, English Edition, October 28, 2001, <[english.peopledaily.com.cn/200110/28/print20011028\\_83359.html](http://english.peopledaily.com.cn/200110/28/print20011028_83359.html)>.

12. See T. Saich, “Negotiating the State: The Development of Social Organizations in China”, *China Quarterly*, No. 161, 2000, pp. 124-141.

Recent studies have shown that corruption in the NGO community is widespread, and local government and NGO representatives are undermining the citizens' trust in local governments affiliated with them because of this corruption.

The ministry's department dealing with the supervision of nationwide NGOs, the so-called Popular Organization Management Bureau (POMB), is critically understaffed and does not have the resources (financial and human) to effectively oversee and control illegal activities by numerous local governments and NGOs. According to the Ministry of Civil Affairs' 2003 statistics, there were more than 120,000 NGOs or "Non-enterprise units" registered with the Ministry of Civil Affairs. There are far more Chinese NGOs operating all over the country than the government officials assigned to supervising and controlling NGOs are able to deal with. In fact, fewer than 50 ministry officials are charged with the monitoring of more than 120,000 Chinese NGOs –an impossible task.

Many NGOs themselves, as Chinese researchers argue, misuse the money assigned to them, making the ministry supervision mechanisms even more difficult to implement. The lack of resources has led the Ministry of Civil Affairs to focus its supervision activities on the monitoring of NGOs with a political and ideological agenda and not on NGOs which misuse government funding to enrich themselves illegally. Concentrating on alleged threats to the central government's authority (such as the ill-fated fight against Falun Gong) rather than effectively seeking to limit the illegal use of government funding for NGOs is clearly a waste of resources on the government side.

### **The Rule of Law and Civil Society**

The seemingly irreversible development of the rule of law in China will continue to support the development of civil society despite tight government control over NGOs. For the first time in Chinese history, citizens can sue government officials and a legal aid system has been developed to provide citizens with pro bono legal services and advice. Judicial

officials and independent lawyers are beginning to play an increasingly significant role encouraging citizens to seek legal representation. Chinese scholars point out that the emergence of civil society has led to a consciousness amongst Chinese citizens of the concept and notion of “citizenship rights.” More and more citizens, research has shown, are beginning to use China’s legal system to defend and protect their rights.<sup>13</sup>

China’s entry into the WTO in 2001 has also favored the development of Chinese civil society as membership strengthened the concept of rule of law and introduced new concepts of governance. That China is learning to “play by the rules” on the international stage might encourage Chinese NGOs to request more independence from the central government.

A new legal framework facilitating the work of Chinese NGOs as opposed to a legal structure that recognizes only a limited number of NGOs “of choice” with close relations to the government needs to be developed in order to accommodate the growing number of NGOs working in a growing number of areas. At the moment, too many NGOs are illegal by Chinese legal standards.

### **NGOs in the 1980 until Tiananmen**

The progression of civil society in China during the 1980s came to a halt with the government violently ending peaceful demonstrations on Tiananmen Square in June 1989. Before Tiananmen, economic reforms in the mid-1980s supported and promoted an opening of the Chinese society and hence the emergence of civil society and NGOs. Although the central government in Beijing always looked upon them with suspicion, so-called cultural salons, a more progressive and independent press and alumni associations took advantage of the newly-gained freedoms and began to openly discuss democracy in China (or the absence of it) and political reforms (or the need for them). The Tiananmen massacre in 1989

---

13. For details, see e.g. K. O’Brien, “Rightful Resistance”, *World Politics*, Vol. 49, No. 1, October 1996.

(temporarily) crushed the hope that civil society, free speech and pluralism in China would ever be tolerated (or at least not violently suppressed).

After Tiananmen, the Chinese government implemented three administrative regulations aimed at governing and controlling NGOs more effectively:

1. Regulations on the Registration and Management of Social Organizations
2. Regulations on the Registrations and Management of Foundations
3. The Interim Provisions for the Administration of Foreign Chambers of Commerce in China.

The latter two were published after Tiananmen to strengthen control of the government over NGOs. In line with the three regulations, NGOs were not only obliged to register with the Ministry of Civil Affairs (or its provincial affiliates), but they were required to have a so-called “government line agency” as their sponsoring agency. If NGOs are not able to get sponsorship from a government line agency, they are not authorized to register with the Ministry of Civil Affairs and are therefore illegal and subject to persecution from the government. The so-called cultural salons and newspapers that advocated democracy and political reform were banned by the government after Tiananmen.

### **The Re-emergence of NGOs in the 1990s**

The beginning of economic and to a lesser extent social and political reforms led the government to implement another set of laws to address and govern NGOs:

1. Public Welfare Donations Law (1999)
2. Regulations for Registration and Management of Social Organizations (1998)
3. Provisional Regulations for Registration and Management for Non-Commercial Institutions (1998)

The re-emergence of NGOs in the mid-1990s, however, has also led the government to launch a campaign to further regularize China’s NGOs, obliging all NGOs to register with the Ministry of Civil Affairs.

However, the absence of a fully-developed legal system and the lack of effective law enforcement mechanisms enabled many groups to bypass the registration with the Ministry of Civil Affairs. Consequently, NGOs without the government's official recognition began to emerge in China. Other NGOs avoided registering with the Ministry of Civil Affairs by registering with the Bureau of Industry and Commerce as companies.

In the past 10-15 years, the number of NGOs that have managed to distance themselves from full government funding has increased. Over the last decade, NGOs have become increasingly active in the areas of environmental protection, poverty reduction and others. NGOs operate now in fields such as education, sports, social services, alumni associations, poverty alleviation, legal consultation and legal services, community development and many others. Chinese private businesses, such as, for example, the Shanghai-based Jianguo Company which founded the Jianguo Foundation, have begun to take an interest in supporting civil society. NGOs in the 1990s, however, were still mainly mass organizations and associations run by the government such as the China Poverty Reduction Foundation, the China Charity Foundation, and the Youth Development Foundation.

### **NGOs - Still a “Threat” to Beijing’s Authority?**

China's persecution of Falun Gong, essentially a non-political and semi-religious group that promotes communal peaceful meditation, is an indication that the government in Beijing still feels threatened by civil society and NGOs outside of government control. From a European perspective, it is not comprehensible why Beijing calls Falun Gong an “evil cult” and has actively obstructed the group's peaceful activities in China since 1999. The government has even launched a nationwide crackdown on Falun Gong, which is still ongoing.<sup>14</sup> It is possible that Falun Gong's existence reminded the government in Beijing that its control over society in China is

---

14. Ever since 1999 and Falun Gong's protest against government-controlled media criticism against Falun Gong; see also Yiji Lu, *op. cit.* [19].

not absolute, causing Beijing to further tighten restrictions and supervision of NGOs in China. The Chinese government's reaction to and fear of Falun Gong must be described as misguided at best and it still has to explain exactly why Falun Gong is an "evil cult" when the group's main activity seems to consist of group gymnastics in the park.

Despite the recent opening of Chinese society, the government is still very much determined to keep any NGO in China from growing into a big and powerful organizational network potentially challenging the country's political leadership. This goal is being formulated in the government's regulations for NGO management and NGO registration. While the first regulation does not permit NGOs to establish and maintain regional branches, the second does not allow one individual to serve as representative for more than one NGO. These two clauses keep NGOs from joining forces and developing regional or national networks. Under these government-imposed regulations, founders of successful NGOs providing necessary services to citizens are not allowed to establish a similar NGO providing the same useful and necessary services in other provinces and cities. The government seems to do everything possible to keep NGOs from establishing functioning regional networks of NGOs providing similar or the same services for citizens in need even if the NGOs have no political agenda whatsoever. The government's misguided policies out of the fear of being threatened by regionally organized NGOs are disadvantageous to those in need of the services to be provided by well-organized NGOs.

### **NGOs - The Public Perception**

Given that the state has been the only provider of social services to the public, the Chinese public, Yiyi Lu argues, still have more trust in the government than in private or semi-private non-governmental organizations. NGO fund-raising, unless endorsed and supported by the government, is very often looked upon with suspicion and therefore often not successful. Understandably, citizens, and above all citizens in poor rural China, are reluctant to provide local NGOs with

funds when the benefits of supporting NGOs with money are not obvious or when support of NGOs does not immediately lead to improvement in the areas NGOs are working on.

Studies in China have shown that Chinese citizens have a very practical attitude towards NGOs, wanting them to set realistic goals that do not upset the political leadership at the local or national level. In view of the authoritarian character of China's political regime, scholars have concluded that citizens are reluctant to support NGOs with a political or ideological agenda. NGOs, citizens maintain, should support and not oppose government policies, especially in the fields of health care and environmental protection. Opposing the government –the argument amongst the majority of the Chinese citizens goes– is of little benefit considering the large number of problems China, and above all rural China, is facing. This has led some scholars to conclude that the citizens themselves and not necessarily the authorities in Beijing hinder the further development of NGOs in China as trust in local and central governments to improve living standards and basic services often ranges above the trust ordinary citizens have in NGOs. Economic development, it can be assumed, comes before free speech, pluralism and democracy for the majority of the Chinese population.

Increasing corruption over recent years involving NGO representatives and local politicians charged with supervising NGOs have further deterred many citizens from supporting local NGOs and their representatives. However, it is hoped that the emergence of NGOs independent from the government (and hence NGOs without the possibility of misusing government funds) will make the concept of NGOs more appealing to Chinese citizens.

NGOs as providers of services, it can be concluded, are more welcome and supported by the citizens than NGOs as advocates of (ill-defined) interests for NGO constituencies.

Although both these tasks assigned to NGOs are not mutually exclusive but instead complement each other from a Western point of view, Chinese citizens are above all interested in NGO "output" and initiatives that have a direct and immediate positive effect on their living conditions. This

approach towards NGOs in particular and civil society in general in developing countries is not untypical.

### **Influence from the Outside**

International NGOs based in Beijing and elsewhere in China will continue to exert a positive influence on the development of civil society in China. The central government has without a doubt acknowledged the benefits of exchanges between international and Chinese civil society and has over recent years increasingly supported and endorsed such exchanges. More pessimistic commentators on the other hand maintain that the central government will also in coming years continue to hinder the development of independent NGOs and make sure that NGOs registered with the Ministry of Civil Affairs still report to Beijing.

The limited reporting on the work of everyday Chinese NGOs makes it difficult for the outside observer to assess whether Chinese NGOs and other parts of civil society already have any impact on government policies. Whether China's economic and social reforms will inevitably lead to independent civil society and NGOs remains to be seen.

International NGOs have over the last decade influenced the development of Chinese NGOs. Already in 2000, there were more than 70 international foundations, 70 advocacy groups, more than 200 humanitarian organizations and 150 charitable groups (most of them faith-based) operating in China.<sup>15</sup> International NGOs and grant-making foundations such as the Asia Foundation, the Luce Foundation, the German Konrad Adenauer and Hanns Seidel Foundations and many others work in areas such as poverty reduction, governance, cultural exchange and education, and energy conservation issues.

Exchanges between Chinese and European think-tanks (between the Chinese CIIS and the Brussels-based European

---

15. See e.g. C.L. Hamrin, "China's Invisible Social Revolution and Sino-American Cultural Relations", Conference Volume the President's Forum, US-China Relations in the 21st Century, Baylor University, October 2002.

Policy Centre (EPC) for example) further contribute to the development of civil society through intellectual exchange in joint conferences and think tank roundtables.<sup>16</sup>

The spread of the Internet in China, it is widely acknowledged amongst scholars, will help civil society and NGOs further develop in China.<sup>17</sup> In fact, as Jonathan Bach and David Stark argue, the spread of the Internet in China and the development of NGOs are complementing and supporting each other.<sup>18</sup> Scholars argue that the relatively recent concept of civil society in China makes it more responsive to technological advancement and hence to the use of the Internet as a means of communication between civil society and the citizens. That the government still tries to censor and close many internet sites run by non-governmental organizations or groups confirms this assessment.

## Conclusions

If China is serious about its democratization, it needs to avoid hindering the development of independent civil society in China. The acknowledgement of the principle of free speech is imperative. The Chinese leadership (like in other Asian countries) is advised to seek to constructively engage civil society and not regard it a quasi-enemy of the government.

Economic reforms in China and the gradual introduction of the non-state ownership economy replacing the original so-called “working unit system” (danwei) along with decentralization and market competition will continue to reduce the role of the state, albeit slowly, and favor the emergence of civil society and NGOs in China.

---

16. CIIS and EPC have started engaging in a think tank roundtable in December 2004. The first EU-China relations think tank roundtable took place in The Hague, The Netherlands December 2004, the second roundtable on EU-China relations was held in Beijing in July 2005.

17. For an excellent study on the influence of the Internet on the development of Civil Society see Yang Guobin, “The Co-Evolution of the Internet and Civil Society in China”, *The Asian Survey*, Vol. 43, No. 3 2003, pp. 405-422

18. See J. Bach and D. Stark, “Link, Search, Interact: The Co-Evolution of NGOs and Interactive Technology”, Working Paper of the Social Science Research Council Program on Information Technology, International Cooperation and Global Security, <[www.webuse.umd.edu/abstracts2002/Bach\\_and\\_Stark\\_SSRC\\_paper.pdf](http://www.webuse.umd.edu/abstracts2002/Bach_and_Stark_SSRC_paper.pdf)>.

As this paper has shown, Chinese NGOs run and financed by the government still differ significantly from Western-style NGOs. The fact that the majority of Chinese NGOs employ government officials, receive funding from the government, and have to report to the government on their activities on a regular basis still leads many Western commentators to conclude that Chinese civil society has a long way to go before becoming independent from the central government. Because of the government's direct control, Chinese NGOs, many commentators outside of China argue, are not "real" NGOs.

In view of existing restrictions, Chinese NGOs will continue to be obliged to bypass the government's restrictions in order to operate and deal with issues and areas that potentially challenge the central government's authority. China's economic, social and, eventually, political reforms might lead Beijing to reconsider its perception that independent NGOs threaten the government's authority and policies.

In order to guarantee the emergence of independent Chinese NGOs, China's philanthropic culture needs to develop further. NGOs will very likely continue to benefit from growing prosperity in China and the emergence of companies with funds to spend for charitable purposes. Despite the lack of independence from the government and the Communist Party's strict control of NGOs, analysts and commentators agree that an emerging civil society and the growing number of Chinese NGOs do their share to promote democracy, freedom of speech and pluralism in Chinese society. Other than in the 1980s when the development of civil society in China suffered a serious and decade-long setback after the Tiananmen Square massacre in June 1989, the emergence of civil society in China now seems irreversible.

The influence of NGOs on policymaking, it is widely agreed, will grow only if and when China's Communist Party loses its power monopoly. Despite recent reports on growing pluralism in China supported by economic and social reforms, it is probably fair to say that the Communist Party has as yet no intention to share power and decision-making and allow political opposition with an influence on China's policymaking.

A Chinese Perspective

# Civil Society Building in China

PROF. ZHU LIQUN<sup>1</sup>

Since the reform and opening-up to the outside world, great changes have taken place in China. One of the most transformed areas is the relationship between government and society. NGOs in China have flourished and undergone an unprecedented development. There are three aspects of NGO development in China that it is important to mention. The first involves addressing the question, which is often raised by the outside world, of whether there is a civil society in China now. The second is the main features of China's NGOs. And the third covers the challenges Chinese NGOs and civil society are facing.

## Is There a Civil Society in China Now?

The answer is “yes” if civil society is defined as the existence of intermediary organizations in concert with state government and private individuals. By the end of 2004, registered NGOs had reached 289,476 in China.<sup>2</sup> Considering

---

1. Director of Institute of International Relations, China Foreign Affairs University (Beijing, China).

2. The Statistics provided by the Ministry of Civil Affairs, <[www.chinanpo.gov.cn/web/showBulletin.do?id=20153&dictionid=2202](http://www.chinanpo.gov.cn/web/showBulletin.do?id=20153&dictionid=2202)>.

there are many non-registered or so-called grass-roots organizations, the true figure is probably closer to 3 million NGOs existing in China today.<sup>3</sup>

China's NGOs, like other country, are defined as non-profit and non-governmental organizations formed by citizen volunteers that carry out activities aimed at realizing the common interests of their group members. Looking back on the development of China's NGOs between 1949 and 2005, we can divide the whole process into four stages, each of which reflects the historical background of the period.

The first stage was the period between the founding of the People's Republic of China in 1949 and start of the Cultural Revolution in 1966, when numerous NGOs were set up for political needs, such as the Youth Federation, Women's Federation, and the Federation of Industry and Commerce. These were all governmental founded organizations with financial support from the central government.

The second stage went from 1966 to 1978, which was defined by China's Cultural Revolution. During this period there was almost no NGO activity as political and social life in China was in upheaval and the Cultural Revolution brought everything to a standstill.

Between 1978 and 1995, China entered a new period of reform and opening-up to the outside world. During this period, existing NGOs resumed their activities and more and more new NGOs emerged to represent different industries or the third sector. Economic reforms have reduced both government control over the private sector and central government power over local authority. In other words, the central government has had to recognize the limits of its power and allow the non-government sector to expand to help provide public goods and services.

The fourth stage saw the flourishing of Chinese NGOs from 1995 to the present. Why is 1995 the first year of this

---

3. Xinhua News Agency, "CPPCC members: NGO, an irreplaceable force in China's harmony-prone drive", *People Daily Online*, March 10, 2005, <[english.people.com.cn/200503/10/eng20050310\\_176314.html](http://english.people.com.cn/200503/10/eng20050310_176314.html)>.

new period? Because it was in 1995 that the World Conference on Women was held in Beijing, and the noticeable participation of a great number of foreign NGOs at the conference exerted an obvious impact and stirred up many Chinese people, thereby stimulating widespread publicity of the NGO concept and its important functions.

The fast development of NGOs in this period can also be explained through the policy of the Chinese government and a mentality change of the Chinese people. From the top-down point of view, from the early 1990's the government has been advocating a "small government, big society" strategy, which aims to shift some government responsibilities to the private sector, to separate the administration and management of enterprises, and to reduce the government's size. This is part of a long-term effort by the government to undertake a comprehensive reform of the state system. One focus of this strategy is to extend the still limited third or medial sector that is usually extremely important and active in a modern state. The policy of the government on the NGOs included: one, letting social organizations eventually become independent, especially from a funding viewpoint; two, reorganizing some administrative agencies into non-governmental associations; and three, returning some economic, social and cultural functions that were held previously by the government to social organizations. Under such a policy, the government no longer provides funds to new social organizations, and it has not increased support to those that depend on the government even though the real value of these funds has declined because of serious inflation in 1980s.

The impressive emergence of NGOs is not primarily a product of official top-down reforms, but can also be explained from the bottom-up point of view. To some extent, we should say that the people's initiative has been much more crucial in the development of Chinese NGOs. The growth of grass-roots social organizations is driving the formation of a non-governmental sector. Two decades of reform and opening-up have witnessed an incredible release of public energy and booming of creativity in non-government actions of all sorts, whether for the public good or for group interests. Before the

reform and opening-up, almost all Chinese considered public matters as entirely the government's responsibility. The economic reforms have created more opportunities for individual Chinese, and facilitated the creativity and responsibility of Chinese people. Business success and personal career achievement have elevated individuals' self-esteem and self-confidence; at the same time, dissatisfaction with government inefficiency has further convinced them of the need to believe in themselves.

So there are two ways that top-down policy driven and bottom-up enthusiasm have driven the development of Chinese NGOs. Of course we should also pay attention to outside influences. Foreign NGOs in China<sup>4</sup> and world organizations play a role in promoting the development of Chinese NGOs.

### **What are the Main Features of Chinese NGOs?**

Generally speaking, the development of NGOs in China is in a preliminary stage, especially from the perspective of international or Western standards. According to research done by the NGO Research Center of Qinghua University, most NGOs in China are academic and non political, while the proportion of NGOs in the field of charity work and the number of NGOs specializing in aiding vulnerable people is low. A survey conducted in 2000 shows that there were merely 1.45 NGOs for every 10,000 Chinese, which is far less than in developed nations, or even in some developing countries such as India and Brazil.<sup>5</sup> In 1998, the average annual expenditure of each Chinese NGO stood at 199,700 yuan (about 24,000 US dollars), and the entire expenditure of Chinese NGOs made up 0.46 percent of the country's GDP, while it was more than 10 percent in the Netherlands and Israel, and over 5 percent in the United States and Australia.<sup>6</sup>

---

4. There are about 3,000 to 6,000 foreign NGOs in China, according to statistics provided by Tsinghua University's NGO Research Centre.

5. "China has too few NGOs helping vulnerable groups: survey", *Beijing Time*, January 8, 2004, <[english.people.com.cn/200401/08/eng20040108\\_132070.shtml](http://english.people.com.cn/200401/08/eng20040108_132070.shtml)>.

6. *Ibid.*

NGOs in China are increasingly being heard and their influence felt in this country, especially in activities ranging from poverty relief and environmental protection to rural education. A recent case illustrates an independent role that Chinese NGOs are assumed to play in the decision-making process. The Nujiang River Dams project, proposed by local government to stimulate the economy in 2003, is a plan to build 13 hydroelectric dams along the Nujiang River, through Southwest China's Yunnan Province. Critics and environmentalists say the dams will cause enormous ecological damage to this pristine river, endanger many rare plants and animals living in this area, and even relocate at least 50,000 people from areas that will be submerged. Some environmental NGOs, concerned about the perceived environmental and ecological damage, embarked on a campaign to mobilize public support to halt the controversial project, which finally caused widespread public outcry and caught the attention of local authorities. In February 2004, the project was ordered to undergo further and more thorough assessments before going ahead. This episode is widely regarded as "an important turning point in that NGOs managed to influence the government's public policy-making process".<sup>7</sup> Even though this is a successful example of an NGO making the headline of the newspapers, there are still many grassroots NGOs, especially community or countryside-based ones, that fail to be noticed or exert their impact in society. We have to admit that there is still much room for improvement before public awareness of NGOs and public consciousness of civil society really takes hold.

Patchy development of NGOs is also a feature of the initial development of NGOs in China. In east China there are more NGOs actively engaged than in west China where fewer NGOs are seen acting as the third sector. The reason is simple: a more developed economy and more open society bring and cultivate more NGOs; and more NGOs stimulate faster development of civil society. People in coastal and urban areas are much more active in non-governmental associations than are people in remote and underdeveloped areas.

---

7. Li Fei, "NGO's getting more prominence", *China Daily*, April 22, 2005, p. 6.

A distinguishing feature of Chinese NGOs is that NGOs in China are more likely to play a role as a communication bridge linking government and society. By engaging in social welfare work and all sorts of social service activities, NGOs help the government solve social problems and promote the development of all manner of public interest and charitable tasks. NGOs are making full use of their own advantages, and their efforts to establish a market economy system help the government to draft laws, regulations and policies. Most NGOs in China do not see their mission as confronting the government or in protecting individuals and society from the state's intrusion, unlike what is described in Western theories of "civil society". On the contrary, they see non-governmental behavior as a citizen taking responsibility in collaboration with the government. For the foreseeable future, the NGOs in China will continue to have close relations with the government, and the government is likely to be comfortable to see the NGOs to continue to play this kind of supplementary role. This does not deny, however, the fact that Chinese NGOs have no intension to be more independent from the government.

Many international observers of NGOs emphasize that few Chinese NGOs are autonomous. That might be true to some extent, I would argue, nevertheless, that Chinese NGOs have been deeply shaped by Chinese political and cultural circumstances and history.

I would like to stress here that Chinese concept of NGO or social organization is based, not on the Western theory of civil society, but on their understanding of relations between state and society. For them, state and society are two sides of an integrated entity that is harmonizing and mutually dependent. This may differ totally from some of the most fundamental theories of the modern Western democratic system, but it is deeply embedded in our own political culture and philosophy, which has developed over 5,000 years.

Today in China, the so-called "ruling by morals" advocated by Confucius still has great influence among Chinese intellectuals and his legacy still plays an important role in Chinese society. In our cultural tradition, the authority of state

or government is honored and respected. Ordinary people were taught to take responsibility to help the government to maintain social order and social stability, by which people's interest could be achieved and protected. For a long time, Chinese people have been taught that "to put the world in order, we must first put the nation in order; to put the nation in order, we must put the family in order; to put the family in order, we must cultivate our personal life; and to cultivate our personal life, we must first set out hearts right."<sup>8</sup> By this it was meant that the relationship between the individual and the state was defined as a close link with each other. So bringing peace and order for the world or the whole country starts with the fact that people should first cultivate themselves and achieve five perfect virtues, which are "gravity, generosity of soul, sincerity, earnestness and kindness."<sup>9</sup>

What I am saying here is not that Chinese NGOs have not realized the importance of their autonomy, but speaking for them, this autonomy does not mean to confront or conflict with government, but to perform their roles more efficiently and effectively through cooperation with the government. Most Chinese NGOs continue to see their roles as to complement and assist government, even though their actions have created results that are far more substantial than they have claimed. It might be debatable that a Chinese feature of this kind means that Chinese civil society is not mature and should not be seen as a sign of a civil society. But admit it or not, this is reality. We might be able to say that this is civil society building with Chinese characteristics.

### **What Challenges face Chinese NGOs and Civil Society Building?**

As remarked earlier, the development of Chinese NGOs is still in an initial stage. The growth of NGOs and their influence in Chinese decision making is still far from ideal. Since the transitional process of China's society is still an

---

8. Remarks by neo-Confucian philosopher Zhu Xi (Chu Hsi 1130-1200), *Writings of Zhu Xi*, segment 76.

9. Remarks by Confucius (551-479 B.C.), *Lun Yu* (Analects of Confucius).

on-going process, and China is still experiencing tremendous change –from a planned economy to a market economy, from a traditional society to a modern society, from an agricultural to an industrial society– there is more room for Chinese NGOs to grow and to tackle emerging problems.

However, some impediments must be overcome if Chinese NGOs are to be developed to their potential. These impediments include three aspects:

Firstly, the current management system is not adequate to encourage NGOs to flourish because of insufficient and inadequate policies and regulations. As I mentioned before, according to the latest statistics from the Ministry of Civil Affairs, the number of officially registered NGOs is more than 289,000 in China. The true figure, if unregistered ones are included, could be as many as 3 million. This huge gap vividly illustrates the major problems facing the development of NGOs in China.

Under the current law, besides being registered with the Ministry of Civil Affairs, any NGOs, if they are to be officially recognized, must also register with the relevant industry watchdog. An AIDS-prevention NGO, for example, must both register with the health agency and the civil affairs body, and an environmental NGO must both register with the environmental protection agency and the civil affairs body in order to be officially recognized and operate legally. Such requirements have meant many NGOs cannot be officially endorsed because they cannot find an industry regulator whose administrative power covers their activities. So many grassroots NGOs, especially community or country based ones, fail to be formally registered because of this reason. There is a vivid example in Beijing to illustrate the problem that many NGOs are having. The Global Village of Beijing, one of China's most famous environmental NGOs, founded in 1995, has not been officially registered as a full-fledged NGO because it could not find an industry watchdog with which it could be registered. So it finally registered as a business entity with the business and commercial administration. But according to the founder of the Village, Mr. Liao, such an identity meant that the Village could not get preferential tax treatment from the government

and it also made it hard to get sponsorship from domestic enterprises because it cannot enjoy tax exemption status.<sup>10</sup> In order to get out of this difficult situation, Mr. Liao registered the Village, under the name of a school, as a private non-enterprise entity in 2004, an identity that still lacks the full status of an NGO, meaning it cannot expand its membership. So more and more people are advocating the amendment of current management policy and regulation, which came into force in 1998. There has also been a push to abolish the existing dual-management system for many years.

Although many local governments usually turn a blind eye to unregistered grassroots non-political NGOs, the lack of a legal identity has often led to conflict with the government, because the government sometimes fears that the existence of a great number of unregistered NGOs has become a breeding ground for many illegal organizations, which can result in many social problems. Recently the Ministry of Civil Affairs advised that the incomplete legal framework would be amended soon, and new regulation will be released by the end of 2005.

Secondly, there is a lot of room for NGOs themselves to improve. Presently, many NGOs have their own defects that hamper their development, and cause a low estimation of NGOs in Chinese society, with the exception of a few well-known ones. A lack of professionalism is one of the major problems that Chinese NGOs encounter. The reason for this is mainly because the personnel working in NGOs are generally lower-paid, which is a result of limited NGO resources. Worse than that, some NGOs are engaged in illicit profit-making ventures under the guise of a social organization, a practice that has seriously tarnished their collective identity and image. And these kinds of activities have given rise to public skepticism about their credibility. Since public trust in NGOs is not well cultivated, the supporting environment and network for NGO development is insufficient, especially for NGOs' funding needs. And lack of resources and capital consequently make it difficult for NGOs to recruit

---

10. Zong He, "Helping NGOs develop Strength", *China Daily*, May 28, 2005, p. 4.

well-qualified professionals. This further makes it difficult for NGOs to enhance their credibility. So a vicious circle exists for Chinese NGOs, preventing their healthy development, especially for those grass-root ones.

Thirdly, there is still much work to be done to nurture public consciousness for civil society building. In other words, Chinese consciousness of citizenship and voluntary participation in civic affairs should be continually cultivated. In China, on the one hand, people like to believe that the government has the responsibility to take care of all public affairs and public services. On the other hand, there is lack of individualism and independent thinking because of a long history of feudalism and particular features of Chinese traditional culture. After a two decade-long reform and opening-up, people have become more concerned for their personal strength, which has convinced them to depend on their own efforts, rather than relying on the government all the time. And many people have even begun to connect the concept of citizen's rights with citizen's responsibilities. Still there are many NGOs who want to maintain or have a close relation with the government. It is a typical phenomenon for NGOs to invite senior retired officials to be leaders of NGOs, because it is easier to gain social trust and financial support by appointing an official. In China, traditional culture is still exerting great influence on the public psyche. The government is still more trusted than NGOs.

## **Conclusion**

All in all, the interaction of economic reforms and social changes in the past two decades in China has created a huge gap between the state and the society. For the first time since the founding of the PRC, the government recognizes the need for nongovernmental actions. So the government, by advocating "small government and big society", has been determined to improve the legal and economic environment for NGO development, and has provided an indispensable political environment for the rapid emergence of social organizations. Equally important, economic reform and development

have revitalized people's civic consciousness. A better standard of living has given people more leisure time to participate in public affairs. Multiple interests of people promoted by the market economy need to be achieved through multiple means, and multiple social problems need to be addressed through multiple solutions. NGOs have emerged and boomed in such a backdrop, and have been assisted by the "retreat of the state".

But NGOs in China, as I mentioned above, still have a long way to go and have many obstacles to overcome. But I have high expectations for Chinese NGOs' further development, since this administration led by President Hu Jintao has already firmly vowed to build a harmonious society by addressing many serious social problems. Joint efforts between the government and NGOs are obviously needed. It can safely be predicted that in the years ahead existing social problems will not disappear overnight –on the contrary, some of them might be get worse. Combined with new challenges like unemployment, immigration, environmental problems, and unbalanced development, these social problems may form a grave situation, and this will call for the combined efforts of NGOs and the government to resolve them.

China's WTO commitments have put the registration of foreign NGOs on the agenda and more international cooperation is in sight. For those domestic NGOs, the 2008 Olympic games will stimulate another round of NGOs growth, with a lot more young educated people volunteering to be involved in serving the games. In terms of government policy, it is impractical to believe that the old system will disappear overnight, but under the pressure of social demand, the government is bound to take more positive actions and policies to facilitate the development of NGOs. One thing that should be kept in mind is that civil society building is a long-term process in tandem with many other transitions in China. The EU can help China with its own expertise, but civil society building in China will definitely follow a Chinese rather than a European model.



## Postface Speech

# Closing Remarks of the Conference

DR BENITA FERRERO-WALDNER<sup>1</sup>

A 30<sup>th</sup> anniversary is an important moment in any relationship. It's a time to celebrate the past and to look to the future. Both China and the EU have developed enormously in the last 30 years, and our relationship has changed beyond all recognition. What was primarily a trading relationship back in 1975 now embraces all the elements of a strategic partnership. Perhaps most telling is China's participation with the EU in two international projects at the cutting edge of technological innovation, ITER, the project to create the world's first nuclear fusion plant, and Galileo, the European satellite navigation system.

And let me highlight one fact which symbolizes the intensity of our partnership –if you multiply the 30 years of our relationship by 7, you come close to the number of trips European Commission officials made to China last year. In other words we made 206 trips, or 4 every week!

That is an impressive figure. Some of you may be wondering whether the EU's current internal difficulties will prevent us from matching it this year. Our partners have

---

1. European Commissioner for External Relations and European Neighbourhood Policy.

certainly been asking me what it all means for them. Will the EU enter a period of introspection? Will it lose interest in its international partners? Is it going to pull its weight in addressing the global challenges we face?

Allow me to reassure you. We are still committed to creating an outward-looking EU, and we will continue to play a leading role in world affairs. Whatever our internal difficulties, we will not allow them to distract us from our international commitments. The trend towards increasing our global strength must continue, first because our citizens support it, but also because so do a majority of the world's citizens.

China and the EU are both global players, and as such we have a responsibility to work together to address the most important challenges facing our world today. Let me mention just three of these: climate change; the non-proliferation of weapons of mass destruction; and conflict resolution.

China knows better than most the threats posed by environmental degradation and we welcome your support for the international efforts to combat climate change. We want to work together on designing a future climate regime, and I know we'll discuss it when we meet at our Summit in September.

On non-proliferation, our joint declaration last year provided the basis for mutual consultation and coordination in the framework of the United Nations. The EU very much counts on China's support and influence in settling the worrying question of nuclear proliferation in North Korea.

As for conflict resolution, China has a special role to play in ensuring peace and stability in its neighborhood –just as we do in Europe. Global powers are first and foremost regional powers, and have a particular responsibility to their neighbors. We welcome China's positive role in the six-party talks with North Korea, and its growing cooperation with India. The role China played in defusing tensions between India and Pakistan in 2002 earned it enormous respect. There have also been encouraging signs of increased contacts with Taiwan, and we hope this will soon develop into direct dialogue.

On the other hand, there is still much work to do to improve relations between China and Japan. And any effort China could make to persuade the regime in Burma/ Myanmar to pursue national reconciliation and progress towards democracy would be a tremendous contribution to peace and stability in the region.

As global players, China and the EU are obviously interested in the nature of global politics in the 21<sup>st</sup> century. Some have talked of building a “multipolar world”. For the EU, however, it is not the number of poles which counts, but rather the basis on which they operate. Our vision is a world governed by *rules* created and monitored by multilateral institutions. And I know China shares this approach.

This is where I come to the title of today’s conference, our contribution to the “quest for a multilateral world”. However, for a multilateral system to work, multilateral institutions must function properly and must be up to the challenges of the 21<sup>st</sup> century. So our quest should not only be for a multilateral world, but for effective multilateral institutions to govern it.

If there is one message you should remember from today it is this: as global actors, China and the EU are in a position to shape the world we live in. But this also means we have responsibilities –not least for multilateralism’s success. We must rise to the challenge, and work together to promote our shared vision of an effective multilateral system.

As with all important quests, there is some urgency. 2005 is a crunch year for our multilateral institutions, with the United Nations Summit in September, and the WTO meeting in December.

The UN is the pivot of the multilateral system. But to keep it there, we need far-reaching reform. We must empower the UN to respond effectively to future global challenges. China and the EU should take a leadership role and drive these reform efforts. Three areas deserve our particular attention.

First, human rights. It is time to move from the era of standard setting to one of implementation. The current set-up is not up to the task. We need an entirely new mechanism

with much greater resources –which is why we support the Secretary General’s proposal for a Human Rights Council. We look to China for support in its creation and we stand ready to help it implement the core human rights conventions– a necessary condition for membership of the Council.

Second, peacebuilding. The proposed Peace Building Commission would bridge the gap between post-conflict assistance and long-term stabilization and development. It should significantly reduce the potential for further conflict by providing a more effective, prompt and coherent approach to consolidating peace, and by preventing the resumption of conflict through setting countries on the road to sustainable development.

Third, given the enormity of the threats we face from environmental degradation and pollution, we should support the Secretary General’s call for a more integrated structure of international environmental governance. The current UN Environment Programme (UNEP) should be turned into a UN Agency for the environment.

Turning to the WTO, progress in the Doha “development” round of talks has been slow. We need to create a more development-friendly trade regime which facilitates poverty reduction and sustainable development. But achieving that goal has proven difficult. One missing part of the puzzle is for more advanced developing countries to engage intensively on market access in industrial products. If China and the EU cooperate together in this, and both take a leadership role in implementing current commitments and in pursuing the Doha talks, a successful outcome in December is possible.

I am confident that our relations will go from strength to strength and that as partners on the international stage we will achieve more by working together than we ever could apart. Yet we should also be realistic. Both of us must work hard to retain our position as global actors, and so continue to wield global influence. The EU must implement its Lisbon agenda for stronger economic growth and push for more coherence in its foreign policy. China’s development, which the EU’s wholeheartedly welcomes, will not be sustainable

unless it is accompanied by political reform. We look forward to China taking steps like ratifying the International Covenant on Civil and Political rights and releasing prisoners of conscience.

We must both move quickly to address these issues and to use the opportunities open to us in 2005 to pursue our quest for effective multilateralism. It is our responsibility as global powers to do so.

Let me close with the words of Confucius: “To put the world in order, we must first put the nation in order; to put the nation in order, we must put the family in order; to put the family in order, we must cultivate our personal life; and to cultivate our personal life, we must first set out hearts right.”

I believe China and the EU have their hearts set right, and that as strategic partners acting together we are a powerful force for putting the world in good, multilateral order. That way, a more just, prosperous and secure world for all *is* within our grasp.



# Appendixes

## Program of the Conference

- 9:30 Welcome  
by **Anne-Marie Sigmund**, President of the European Economic and Social Committee
- 9:45 Introduction  
by **Peter Carl**, Director General DG Trade,  
and by **Ambassador Guan Chengyuan**, Mission of the People's Republic of China to the European Union
- 10:00-11:15 **LOOKING BACK AT 30 YEARS OF COOPERATION**  
  
A Chinese Perspective (The political and economic dimensions)  
by **Ambassador Ma Zhengang**, President of China Institute of International Studies  
  
A European Perspective (The political and economic dimensions)  
by **Pierre Defraigne**, Director of Eur-Ifri  
  
*Panel discussion*  
*Chairperson: Leïla Fernandez-Stembridge, EU-China Trade Project, Beijing*  
*Panelists: Prof. Song Xinning, IIR, and Prof. Emeritus Sylvain Plaaschaert, KUL*
- 11:30-13:00 **LOOKING AHEAD: PROSPECTS FOR A POLITICAL PARTNERSHIP IN A MULTILATERAL FRAMEWORK**  
  
Chinese Views on Multilateralism and on the Economic and Political Development in East Asia and its Prospective Cooperation with EU  
by **Prof. Xu Jian**, Vice-President of China Institute of International Studies

*Panel discussion**Chairman: Ambassador Ma Zhengang**Panelists: James Moran, European Commission,  
and Prof. Zhu Liqun, IIR*14:30-17:30 **LOOKING AHEAD: TOWARDS AN ECONOMIC  
PARTNERSHIP IN SUSTAINABLE DEVELOPMENT**The Economic and Trade Relationship  
and the Sustainability Issueby **Prof. Song Xinning**, Director of the Centre  
for European Studies, Institute of International Relations,  
Remin University of ChinaThe Sustainability of EU-China Economic Relations  
in the 21<sup>st</sup> Century - Between Complementarity and Rivalry  
by **Françoise Nicolas**, Economist and Emerging Economies  
Specialist, Centre Asie Ifri,and **Prof. Bernadette Andreosso-O'Callaghan**,  
Director of Euro-Asia Centre, University of Limerick*Panel discussion**Chairman: Ambassador Ma Zhengang**Panelists: Rupert Schlegelmilch, European Commission,  
and Prof. Xing Hua, CIIS*Civil Societies and Non-governmental Exchanges  
from a European Perspectiveby **Axel Berkofsky**, Senior Policy Analyst,  
European Policy CentreCivil Societies and Non-governmental Exchanges  
from a Chinese Perspectiveby **Prof. Zhu Liqun**, Director of Institute of International  
Relations, China Foreign Affairs University*Panel discussion**Chairperson: Leila Fernandez-Stembridge, EU-China Trade  
Project, Beijing**Panelists: Prof. Xing Hua, CIIS, and Dirk Oosting,  
Amnesty International*17:30 **Conclusions**by **Commissioner Benita Ferrero-Waldner**,  
European Commissioner for External Relations  
and European Neighbourhood,  
and by **Ambassador Ma Zhengang**18:00 **Reception hosted by Commissioner Benita  
Ferrero-Waldner**

## Biographies of the Authors

**Bernadette Andreosso-O'Callaghan** is director of the Euro-Asia Centre at the University of Limerick (Ireland). She also holds the position of Jean Monnet Chair of European Economic Integration, is a senior lecturer in economics at the University of Limerick and has been head of the Department of Economics at the University of Limerick since 2002. Previously she was a lecturer in economics (University of Limerick) (1991-2002), final year project coordinator (Department of Economics) (2001-2002), assistant dean of research for the College of Business and director of the Graduate Centre of the College of Business, University of Limerick (1994-1999). She holds a Ph.D. in industrial economics from the Université des Sciences et Techniques de Lille (1986) and a MSc in European economics from the University of Paris (Panthéon-Sorbonne) (1983). Her research interests focus on economic integration and industrial organization; EU-Asian economic relations; structural change in European and Asian countries and regional economic development.

**Axel Berkofsky** is a senior policy analyst at the European Policy Centre (Brussels, Belgium) and holds the position of head of the EPC's EU-Asia Department. He has also been a freelance journalist with the *Asia Times Online* in Hong-Kong since 2001. He was previously policy analyst at the European Institute for Asian Studies (2003-2004). He was a research associate at the German Institute for Japanese Studies (Tokyo, 2000) and visiting research fellow at the Canon Foundation (1999-2000). He holds a Ph.D. from the faculty of Japanese Studies/Political Sciences (2000, University of Hamburg, Germany). His research interests focus on European affairs and EU-Asia relations (EU-China; EU-Japan; EU-Korea; EU-ASEAN).

**Pierre Defraigne** is the director of and a senior research fellow at Eur-Ifri. An economist and former European civil servant, he has held the positions of deputy director general of the European

Commission Directorate General for Trade (2002-2005), chief of staff for Pascal Lamy (1999-2002), director for North-South relations at the Directorate General for External Relations (1985-1999), and chief of staff for Etienne Davignon (1977-1983). He was fellow at the Harvard Center for International Affairs (1983-1984), and is a lecturer at Louvain Catholic University (Belgium), where he has taught European economic policy since 1985. His research interests focus on international economic policies, political economy and relations with developing countries.

**Ma Zhengang** is the president of the China Institute of International Studies (CIIS, Beijing). He is also chairman of the editorial board of *International Studies*, chairman of the CIIS Academic Committee, member of the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC) and co-chairman of the Foreign Affairs Committee of the CPPCC. He has been director-general of the Department of North American and Oceanian Affairs of the Ministry of Foreign Affairs of China (MFA), vice-minister of the Foreign Office of the State Council, and Ambassador to the United Kingdom. He has been awarded the titles of honorary doctor of the University of Middlesex, honorary academician of the University of Central Lancashire, honorary research fellow of the Royal Asiatic Society-United Kingdom, and honorary citizen of the City of London. After graduating from the Beijing Foreign Languages Institute (now known as the Beijing Foreign Studies University), he joined the Ministry of Foreign Affairs of China in 1965. From 1965 to 1967, he studied at Ealing Technical College and later at the London School of Economics and Political Science in the United Kingdom.

**Françoise Nicolas** is a senior research fellow at the Centre Asie Ifri. She has been with Ifri since 1990. She is also an assistant professor in international economics at the University of Marne-la-Vallée (France) and a member of GREET-ICARIE (Research group on emerging and transition countries). In the past she has taught at the Graduate Institute of International Studies (GIIS, Geneva, 1987-1990), at the Ecole Nationale des Ponts et Chaussées (1991-1995), as well as at the HEC School of Management (2000-2002). She has also worked as a consultant to the Directorate for Financial, Fiscal and Enterprise Affairs of the OECD (1997-1999). Françoise Nicolas holds a Ph.D. in international economics (1991) and a BA in political science (1985) from the Graduate Institute of International Studies (Geneva, Switzerland). She has also studied at the University of Sussex (1980-1981) and has spent time as a visiting fellow at the

Institute of Southeast Asian Studies (ISEAS) in Singapore (1999) and at the Korea Institute for International Economic Policy (KIEP) in Seoul (2004).

**Song Xinning** is associate dean of the School of International Studies, director of the National Research Centre for European Studies at Renmin University of China, and director of teaching affairs at the Centre for European Studies at Renmin University of China. He has been a member of the Standing Council of the China Association of European Studies since 1998, Jean Monnet Professor of European Political Integration (of the EU Commission) since 2001, member of the editorial committee since 2002, as well as honorary professor at the University of Durham in the United Kingdom. He was a Fulbright Scholar at the School of International Relations and Pacific Studies, University of California, San Diego, and the School of International Affairs, George Washington University in the United States (1995-1996). He was a research scholar in the Department of International Relations at the London School of Economics and Political Sciences in the United Kingdom (1991-1992). He earned his BA, MA and Ph.D. degrees from Renmin University of China respectively in 1982, 1985, 2000, in the field of political science.

**Xing Hua** is a senior research fellow of the China Institute of International Studies (CIIS, Beijing). He joined CIIS in 1973 and holds the position of deputy director and director of the Division of European Studies and is a vice president of the CIIS. He was a visiting scholar at the United Nations Institute for Disarmament Research (Geneva) in 1986 and at the Denmark Institute of International Studies in 1998. He has served as interpreter, second and first secretary and political counselor in the Department of Translation and Interpretation, and at Chinese embassies in Guinea, Mauritania, Switzerland and Mali. He graduated from the French Department of the Beijing Foreign Languages Institute. His research areas cover European situation analysis, relations with the US, Russia and the EU, NATO and European security, EU integration process, China-EU relations, Asia Europe closer ties, and French diplomacy. Mr. Xing enjoys the government's "distinguished contributor" specialist allowance.

**Xu Jian** is a senior research fellow at the China Institute of International Studies (CIIS, Beijing) where he holds the position of vice president. He joined CIIS in 1999. Before taking the current position, he was director of the Division of International Politics. From 1993 to 1999, Mr. Xu worked at the International Studies

Center of the State Council. Mr. Xu received his BA (1983) and MA (1988) degree in history from Peking Normal University. In 1988, he went to the United Kingdom where he received a MA degree in law from the University of Sussex in 1990 and a Ph.D. in law from the University of Bristol in 1993. His research areas cover international politics, Asia-Pacific security and globalization.

**Zhu Liqun** is currently director of the Institute of International Relations at the China Foreign Affairs University (CFAU), where she holds a full professorship, teaching courses of international theories, post-war international history, and history of European integration. She also supervises MA and Ph.D. students and candidates. As board member of the China National Association for International Studies, the China-EU Association, and the China Association for World Ethno-National Studies, she is actively engaged in research and other activities in international studies in China. She earned her BA, MA and Ph.D. degrees respectively from Nankai University (Tianjin) and the China Foreign Affairs University (Beijing). She has undertaken research in the United States and Ireland as a visiting scholar. She was also a Fulbright visiting research scholar based at the Sigur Center for Asian Studies, Elliott School of International affairs, George Washington University (2002-2003).



