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The evolution of the EU- China relationship: from constructive engagement to strategic partnership

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**The evolution of the EU-China
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from constructive engagement
to strategic partnership**



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This study traces the evolution of EU-China relations over the past three decades. Following a brief account of the history of the EU-China relationship in the first section, the second section focuses on the economic dimension of the relationship. It examines the growing significance attached by both sides to the development of trade links, which has resulted in China becoming the EU's second-biggest trading partner and the EU becoming China's biggest trading partner.

The third section concentrates on the security/strategic dimension of the relationship. After analysing European and Chinese policy-makers' discourses of 'strategic partnership', the paper examines three important – and interrelated – issues which have a significant bearing on the strategic partnership: (i) China's participation in the Galileo satellite network; (ii) European advance technology transfers to China; and (iii) the proposed lifting of the EU arms embargo on China. This section concludes with an examination of US concerns regarding – and US opposition to – this emerging EU-China security-strategic linkage.

It is suggested in the conclusion that EU policy-makers need to address the emerging security implications of EU-China relations, as well as to take US security concerns and strategic interests in the Asia-Pacific into serious consideration.

Introduction

In the last few years, EU-China relations have been growing steadily. Since 2004, China has become the EU's second biggest trading partner (after the US) and, according to the Chinese Customs, the EU has become China's biggest trading partner – ahead of the US, as well as Japan. If current trends continue, Beijing is poised to become the Union's most important commercial partner in the near future. Since 1998, an annual EU-China summit is held between European heads of state/government and Chinese leaders to discuss bilateral, as well as global, issues and since October 2003 the EU and China have acknowledged each other as 'strategic partners'. Central to this strategic partnership is the idea that relations between the EU and the People's Republic of China (PRC) have gained momentum and acquired a new strategic significance.

The declaration of strategic partnership has been accompanied by two substantial developments: the signature of the agreement allowing China to participate in the Galileo Global Navigation Satellite System and the promise by EU policy-makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo imposed on China in the aftermath of the Tiananmen Square events in 1989. The development of a security-strategic linkage between the EU and China has increasingly attracted the attention – and the concern – of the United States.

This paper aims to provide the reader with (i) a comprehensive and updated analysis of EU-China economic and security-strategic relations and (ii) an examination of US concerns towards the more security-related elements of the rela-

tionship.¹ In particular, this paper traces the evolution of EU-China relations from the adoption of the policy of constructive engagement in the mid-1990s to the establishment of the more recent EU-China strategic partnership. The latter has upgraded the policy of constructive engagement to include a significant security-strategic dimension. After having examined China's participation in Galileo, European advanced technology transfers to China and the debate on the proposal to lift the EU arms embargo on China, this study discusses the United States' response to this emerging EU-China security-strategic linkage. In the conclusion, it is argued that the EU must continue to develop and further upgrade relations with China. At the same time, EU policy-makers need to accommodate the growing EU-China strategic partnership with the traditional transatlantic relationship in order to create a positive EU-China-US triangular relationship, with the aim of avoiding serious transatlantic disputes over China.

In order to orient the reader, this paper is divided in three main sections plus a conclusion. Section One is a brief historical survey of EU-China relations. Section Two focuses on the economic dimension of the relationship. It examines the growing significance attached by both sides to the development of trade links, which has resulted in China becoming the EU's second biggest trading partner and the EU becoming China's biggest trading partner. Particular attention is devoted to the analysis of: (i) the policy of constructive engagement; (ii) EU member states' scramble to acquire increasing shares of the Chinese market; and (iii) the political conse-

¹ This study relies on open source and interview information gathered up to May 2006.

quences of this commercial competition for the EU-China human rights dialogue. Moreover, this section explores China's emerging challenge to some sensitive industries of the EU and the issue of granting China Market Economy Status (MES). Section Three concentrates on the security-strategic dimension. This section begins with an examination of European and Chinese policy-makers' discourses of 'strategic partnership' and it argues that beyond the rhetoric, three substantial – and interrelated issues –

underline the strategic partnership: (i) China's participation in the Galileo satellite network; (ii) European advance technology transfers to China; and (iii) the proposed lifting of the EU arms embargo on China. The last part of this section examines US concerns about – and opposition to – this growing EU-China security-strategic linkage. In the conclusion, some recommendations are offered to EU policy-makers to address emerging security implications of EU-China relations.

From secondary relationship to post-Cold War partnership

The EU-China relationship has been developing steadily for the past 30 years, since formal relations between the European Community (EC) and the People's Republic of China were established in 1975, following the diplomatic recognition of Beijing by the United States in 1972. However, during the Cold War Sino-European relations were mainly derivative of Cold War imperatives and broader relations with the two superpowers. Due to the political and ideological constraints of the era, it was the development of economic and commercial relations that became the priority. On 3 April 1978, the EC and China signed a trade agreement, which in 1985 was extended to a broader Trade and Cooperation Agreement (TCA). The EC offered China Most Favoured Nation (MFN) status and included Beijing in the Community's Generalised System of Preferences (GSP) provisions from 1980. As a result, by 1989 two-way trade totalled \$13 billion. This amounted to a mere 15% of China's total foreign trade, and a scant 1% of total EC trade. Among West European countries, Germany gained the upper hand, accounting for nearly 40%.²

Strategically, from the mid-1980s onwards Chinese leaders started to consider Western Europe's potential role as a new pole in a future multipolar world order, and not only as a bulwark against 'Soviet hegemonism' as in the 1970s. There was a growing realisation in Bei-

jing at that time that the European integration process would have a major role to play in the gradual political emancipation of Eastern Europe from Moscow. Accordingly, Chinese scholars argued for a multipolar perspective in international relations and came to interpret the role of a united Europe as a compromise between Europe's traditional dependence on the US and greater autonomy in the future.³ However, until 1991 only a few European countries pursued relations with Beijing independently of Washington and Moscow – the exceptions being the Scandinavian countries, Albania and France.⁴ The US's West European allies cooperated in the implementation of Washington's trade and strategic embargo on China, demonstrated in the efforts of the Paris-based COCOM (Coordinating Committee for the Control of Strategic Exports to Communist Countries) to place an embargo on high technology sales and transfers to the PRC.⁵

The crackdown on student demonstrations of 4 June 1989 in Tiananmen Square had a considerable impact on China's relations with Western Europe. In the aftermath of the massacre, the EC responded by imposing a range of sanctions that paralleled those of the US. At the European Council summit in Madrid on 26-27 June 1989, European leaders agreed to impose punitive economic sanctions individually and, in the framework of the EC, suspend all military

² David Shambaugh, 'China and Europe: the Development from a Secondary to an Independent Relationship', in Song Xinning and Zhang Xiaojin (eds.), *China and Europe towards the 21st Century* (Hong Kong: The Social Sciences Press, 1997); see also: David Shambaugh, *China and Europe: 1949-1995* (London: School of Oriental and African Studies, 1996).

³ Ding Hong and Zhang Baoxiang, *Opportunity, Policy and Role: On Western Europe's Role in the Present Day World* (Beijing: China Institute of Contemporary International Relations, 1987).

⁴ Shambaugh (1996), op.cit., p. 21.

⁵ William E. Griffith, 'China and Europe: Weak and Far Away', in Richard Solomon (ed.), *The China Factor* (Englewood Cliffs, NJ: Prentice Hall, 1981).

contacts and arms sales, withhold all ministerial-level official visits to China and defer those already scheduled, freeze all government-guaranteed loans, and issue a strong statement condemning the massacre.⁶ However, in the months following the massacre China made a number of minor changes to its human rights legislation and these were received by the EC as justification for restoring normal relations. As a result, most West European sanctions were lifted during the summer of 1990.

Domestic developments in China after Tiananmen, the end of the Cold War and the gathering pace of the globalisation process created new possibilities for the development of EU-China relations. With the exception of arms sales, cooperation and trade relations had been fully restored by 1991. Negotiations for China's General Agreement on Tariffs and Trade (GATT) accession, which had been broken off in 1989, were restarted in 1991. The value of Chinese imports accorded GSP preferences increased from 2.9 billion Ecu in 1989 to 14.1 billion Ecu in 1994. Also the EU's aid to China increased significantly in the first half of the 1990s. The only explicit form of political pressure that survived the immediate reaction to the Tiananmen Square events was the EU's practice of tabling a resolution criticising China's human rights record in the annual meeting of the United Nations Commission on Human Rights (UNCHR).

The normalisation of relations with China in the post-Cold War period was part of the development of a new European Asia strategy. The German government became the first EU member state to put forward, in 1993, a strategy towards Asia. The German document – *Asien Konzept der Bundesregierung* – outlined the new significance of the East Asian markets for Europe.⁷ This became evident in 1992, when EU

trade with East Asia overtook EU-US trade for the first time. The German concept paper stated that Germany – and Europe as a whole – had to 'strengthen economic relations with the largest growth region in the world' in order to maintain Germany's (and, by extension, the European Union's) leading role in the world economy. In a further attempt to catch up with Germany, the then French Minister for Industry, Gérard Longuet, while visiting Beijing and Hong Kong in 1994, launched a new French strategy called *Ten Initiatives for Asia*. In summer 1994 the European Commission adopted the EU's New Asia Strategy (NAS).⁸ A few months later, France's Foreign Minister, Hervé de la Charette, announced that Asia would receive special attention as the *nouvelle frontière* of French diplomacy.⁹

In the context of the NAS, in July 1995 the European Commission released its Communication *A Long-Term Policy for China-Europe Relations*. The document declared that 'the time has come to redefine the EU's relationship with China, in the spirit of the new Asia strategy'. With the aim of putting the EU member states' relationships with the PRC into a 'single integrated framework', the Commission declared that relations with China 'are bound to be a cornerstone in Europe's external relations, both with Asia and globally'. The Commission document's point of departure is the 'rise of China', seen as an unprecedented event since the Second World War. While the analysis concentrates on China's economic upsurge and the potentialities of its market for European business, the paper lays down a strategy of 'constructive engagement' for integrating China into the world community.¹⁰ The characteristics of the policy of constructive engagement and its focus on the economic dimension will be examined in the next section.

⁶ European Council, *Declaration on China of the European Council*, Madrid, 26-27 June 1989.

⁷ Government of the Federal Republic of Germany, 'Asien Konzept der Bundesregierung', in *Europa Archiv* 6/1994, no. 189, pp. 142-57.

⁸ European Commission, *Towards a New Asia Strategy*, Brussels, COM (94) 314 final, 1994.

⁹ Nicola Casarini, 'The making of the European Union's strategy towards Asia', in Nicola Casarini and Costanza Musu (eds.), *European Foreign Policy in an Evolving International System: The Road Towards Convergence* (Basingstoke, Palgrave/Macmillan, 2007).

¹⁰ European Commission, *A Long-Term Policy for China-Europe Relations*, COM (95), 279 final, Brussels, July 1995.

The economic dimension

2.1 The new significance of the Chinese market for Europe's economic security

The EU's new China policy attaches great importance to the development of economic and commercial relations. The European Commission stresses that the country's reform and opening-up process, its size, growth rate, and great potential for further development, signify enormous opportunities for EU businesses. Consequently, in order for European industry to be globally competitive, 'it must be present in the world's most dynamic market'.¹¹ This idea of the need to maintain the EU's global competitiveness would find support in the emergence of a new conception of European security in the post-Cold War period. In its 1993 White Paper, *Growth, Competitiveness, Employment – the Challenges and Ways Forward into the 21st Century*, the European Commission states that, while traditional definitions of security have been closely linked to defence against military threats, the end of the Cold War and the rise of the globalisation process have led to the emergence of new, broader notions of security, among which economic security is one of the most important. According to the Commission, in this globalised world the EU's economic security must be protected.¹²

According to the Commission, Europe's economic security can be defined as 'the long-term ability to protect its relative welfare position by ensuring access to resources and production capability, securing market outlets and maintaining macroeconomic stability'.¹³ Following the Commission's definition, the 1995 and subsequent Commission papers on China point out that the Union's economic security is directly affected by developments in China, in particular by Beijing's steady, sustained and environmentally sustainable economic growth. In the Commission's view, it is essential to take advantage of the opportunities provided by China's economic development in order to protect Europe's economic security.

How, in practice, does China's economic development affect the EU's economic security? For instance, the EU is very sensitive to world oil, food and raw materials markets. Since China, due to its large population and economic needs, depends on more and more imports, world markets have to make the corresponding adjustments. According to the Commission, if China could maintain a steady economic growth and a stable expansion of its imports, the possibilities for gradual adjustments could be facilitated. From a European perspective, disruptive shocks from sudden oil surges, or strongly fluctuating Chinese imports of raw materials, should be avoided. Otherwise, the world markets and, con-

¹¹ Ibid.; and subsequent papers.

¹² Commission of the European Communities, White Paper on *Growth, Competitiveness, Employment – the Challenges and Ways Forward into the 21st Century*, COM (93) 700 final, Brussels, December 1993.

¹³ The definition has been put forward by Unit I-2 (Policy Planning) of the Directorate General I, External Relations (DG RELEX) in charge of Commercial Policy and Relations with North America, the Far East, Australia and New Zealand. Some material has been published as a book chapter. See: Katja Afheldt, in collaboration with S. Weyand (environment) and M. Gago de la Mata (external relations), *Economic Security: The EU's Stake in a Sustainable Development in China*, in Werner Draguhn and Robert Ash (eds.), *China's Economic Security* (London: Curzon, 1999), pp.172-229.

sequently, the Union's economy, would be adversely affected. Furthermore, China is one of the major outlets for European goods and investments. At this time of greater economic interdependence, the outside market is becoming increasingly important for the EU. In addition, with the progress of globalisation in production, more and more European businesses are benefiting from the size of the Chinese market and its increasing demand for Foreign Direct Investment (FDI). In the last few years, a growing number of European companies have been relocating activities to China in order to profit from its cost advantage. As a result, they have been improving their overall competitiveness *vis-à-vis* international competitors.¹⁴

European FDI flows into China account for some 10% of all FDI. FDI flows into China soared from a very modest level in the early 1990s to reach US\$52,700 million in 2002. This is almost twice the level of FDI inflows into Central and Eastern Europe and fifteen times more than the FDI inflows into India.¹⁵ The largest investors into China are the overseas Chinese community in Hong Kong and Taiwan. Early European FDI into China was primarily motivated by low costs and went into exporting industries. In contrast, currently an increasing share of FDI is motivated by the incentive to produce for the growing Chinese market. The absolute volumes of China-bound FDI flows have multiplied in recent years.¹⁶ For instance, British companies' FDI in China amounted to only US\$72 million in 1985 but rose to US\$896 million in 2002. In the same period German FDI flows rose from US\$24 million to US\$928 million, while French companies committed US\$ 32 million to activities in China in 1985 but US\$576 million in 2002.¹⁷

In the 2004 *European Competitiveness Report*, the European Commission argues that success in the Chinese market does not only generate growth, but economies of scale which are even more important for large enterprises to protect their strategic position against their American and Japanese competitors. Since it is generally assumed that an increase in European exports, as well as the success of European companies abroad, would be translated into the creation of more jobs within the EU, it follows that securing market outlets and fair competition for European industries in China has become a major economic interest for the EU.¹⁸

The link made by the European Commission between the protection of the Union's economic interests and China's long-term development finds its counterpart in Beijing's view of the significance of Europe for China's economic security. Since the beginning of the 1990s, enhancing relations with European countries has been seen by Chinese leaders as part of the country's strategic goal of boosting China's comprehensive strength. For Chinese leaders, fostering relations with the EU is crucial for both commercial and security-strategic reasons – in particular, for obtaining advanced Western technology needed for China's modernisation. The next section focuses on Europe's role in China's modernisation process.

2.2 Europe's significance for China's economic security

Since the end of the Cold War, Chinese leaders have focused on finding the ways and means for creating a multipolar world order in order to oppose American hegemony. In particular, Chi-

¹⁴ European Commission, Commission Staff Working Document – *European Competitiveness Report 2004*, Brussels, SEC (2004) 1397, November 2004. See in particular Chapter 5: 'The Challenge to the EU of a Rising Chinese Economy', pp. 299-354.

¹⁵ Data from the Delegation of the European Commission in Beijing.

¹⁶ See: *European Competitiveness Report 2004*, Chapter 5, pp. 299-354.

¹⁷ Data from *Economic Survey of China*, Organisation for Economic Cooperation and Development (OECD), Paris, October 2005.

¹⁸ *European Competitiveness Report 2004*, pp. 353-354; see also European Commission, *A Maturing Partnership – Shared Interests and Challenges in EU-China Relations*, Brussels, COM (2003) 533 final, 10 September 2003.

nese leaders have stressed the need for their country to become strong economically in order to guard against US efforts to frustrate China's upsurge. Evidence for these perceptions can be found in the growing number of works published by some leading American think tanks (in particular, the RAND Corporation) on how to prevent the emergence of peer competitors to the US in the post-Cold War era.¹⁹ The logic goes that in order to become stronger and thus be able to counter the perceived US containment policies, China needs to improve economic ties and acquire advanced technology from the other leading nations of the world. In this context, enhancing economic and scientific relations with the EU and its member states is seen by the Chinese leadership as a highly strategic long-term objective. In the 2003 *China's EU Policy Paper*, Beijing even articulated the strategic goal that the 'EU becomes China's largest trading and investment partner'.²⁰

China's determination to strengthen economic ties and intensify technology transfers with the EU is closely linked with Beijing's re-definition of its national core interests. Since 1978, Chinese leaders have identified modernisation and economic development as one of the new national core interests and central goals (the others being opposing hegemony and achieving unification with Taiwan). Deng Xiaoping declared, in 1994, that China's future and fate, as well as its prosperity (or decline), comprehensive national power and international status are directly linked to economic development. The latter is also seen as the 'firm, unshakeable and overriding' goal of the Chinese Communist Party of China (CCP).²¹ In a situa-

tion where the Maoist ideology has lost its appeal and *raison d'être*, delivering economic development and rising standards of living has become the basis for the legitimisation of the ruling CCP.²²

According to the Chinese leadership, in order to carry out the modernisation process and press ahead with economic development, both reforms and an open-door policy are needed. With regard to the reform process, for the CCP this means the transformation from a system of a planned economy to a market-oriented one, while the open-door policy is based on a firm adherence to the development of economic and technological exchanges and cooperation with foreign countries. The overall objective is the maintenance of sustained economic growth over the coming decades in order to 'build a well-off society in a well-rounded way' by the middle of the 21st century.²³

With annual average growth rates close to 10% since the open-door policy began, China has become one of the world's major markets and the third largest exporter of goods. According to data released on 20 December 2005 by China's National Bureau of Statistics (NBS), China's output for 2004 was 15.987 trillion yuan (US\$1.971 trillion) – 16.8% more than the other estimates – putting China firmly in the sixth place of the top world economies (ahead of Italy). In a further estimate of China's output on 25 January 2006, the NBS has corrected the GDP for 2005 upwards (9.9%). As a result, China has also outperformed France and the UK, becoming the fourth largest global economy in 2005 with a GDP of US\$2.262 trillion (see table overleaf).

¹⁹ See for instance Thomas S. Szayna et al., *The Emergence of Peer Competitors: A Framework for Analysis* (Santa Monica, CA: RAND, 2001).

²⁰ Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, Beijing, October 2003.

²¹ Deng Xiaoping, *Selected Works. Volume II* (Beijing: The People's Printing House, 1994), pp. 162-63.

²² See: Christopher Hughes, *Chinese Nationalism in the Global Era* (London: Routledge, 2006).

²³ Chinese Communist Party, *Report of the 13th National Congress of the Chinese Communist Party*, Beijing, 25 October-1 November 1987; see also the conclusions of the Fifth Plenary Session of the 16th Central Committee of the Chinese Communist Party, Beijing, 8-11 October 2005.

Table 1 – GDP of the first seven economies in the world (2005)

(in US\$ billion)

United States	12.473
Japan	4.606
Germany	2.803
China	2.262
United Kingdom	2.188
France	2.112
Italy	1.706

Sources: Elaboration data from The Economist Intelligence Unit (2006), The World Bank (2005) and China's National Bureau of Statistics (2006).²⁴

If China's output is measured in terms of purchasing power parity (PPP), a measure that strips out the effects of the exchange rate, China

is already the third biggest economy in the world, contributing 13.4% of world GDP (see table below).

Table 2 – Changes in the world economy

	GDP growth (% average year-on-year change)		% of world GDP (at PPP)			
	1986-96	1996-06	1986	1996	2006	2016
United States	2.9	3.4	22.5	21.6	20.7	20.0
Eurozone	n.a	2.0	n.a.	17.6	15.1	13.1
Japan	3.2	0.9	8.8	8.7	6.9	5.3
China	10.0	8.3	5.0	9.4	13.4	19,9
India	5.9	5.9	4,0	5,1	6.0	7.1
Rest of Asia	7.8	6.6	13.1	20.1	25.1	31.9

Source: Elaboration data from: International Monetary Fund (2005), The World Bank (2005), OECD (2005).²⁵

²⁴ The data have been recently published in *Aspenia*, no. 32, 2006, p. 10.

²⁵ International Monetary Fund, *World Economic Outlook* (Washington: September 2005); World Bank, *World Development Report 2006* (Washington: September 2005); Organisation for Economic Cooperation and Development (OECD), *Economic Survey of China* (Paris: October 2005).

Owing to China's gradual opening up to the international economy, exports from China have grown by more than 10% per year since the second half of the 1990s. China is currently the third largest exporter of merchandise goods in the world. In 2005, exports accounted for around one-third of China's GDP.²⁶ Since admission in 2001, membership of the World Trade Organization (WTO) has given China much better access to Western markets and propelled it into the ranks of the world's top exporters. Beijing is currently the world's biggest exporter of bicycles, toys, microwaves, TVs and many other consumer electronic goods. It produces more than half of the world's shoes and is set to acquire a similar share of the world's market for clothes.²⁷ Moreover, China's industrial policy has selectively attracted FDI in technology-intensive industries in order to benefit from foreign technology and organisational know-how. At the same time, Chinese authorities have actively promoted domestic companies – 'national champions' – which are regarded as having the potential to compete in world markets. These have contributed to the rapid upgrading of China's industrial structures.

China's active industrial policy is turning the country into a low-cost competitor in high-skill industries. In the production of information technology goods – telecommunications equipment and computers – foreign invested enterprises account for 60-70% of output. These two

industries are among the top three exporters into the EU and have increased their exports at annual rates of some 20-30%. The overall share of high-skill industries in China's manufacturing exports to the EU-25 has already risen above 20%, which is twice as high as the share of high-skill industries in the exports of the ten new EU member states to the EU-15.²⁸ The rapid growth of skill-intensive imports from China represents a major economic challenge for the EU and it is partly responsible for EU member states' growing trade deficits with China, which will be discussed in the next section.

2.3 EU-China commercial relations

The EU-25 is currently China's biggest trading partner (and has been since 2004) and one of its most important foreign investors. Between 2000 and 2004, EU-China trade almost doubled, with exports rising from €25.8 billion to €48 billion and imports growing from €74.4 billion to €126.7 billion. Since 1978, when China started to open up its economy, EU-China trade has increased more than fortyfold to reach around €175 billion in 2004. Chinese trade imbalances are increasingly creating problems with the EU. The Union's trade deficit with China increased from €48.6 billion in 2000 to €78.7 billion in 2004 (see Table 3).

²⁶ Data from China's Ministry of Commerce.

²⁷ See Katinka Barysch with Charles Grant and Mark Leonard, *Embracing the Dragon: The EU's Partnership with China* (London: Centre for European Reform [CER], May 2005).

²⁸ *European Competitiveness Report 2004*, Chapter 5, op. cit., pp. 299-354.

Table 3 – EU-25 trade with China

(in millions of euro)

	2000	2001	2002	2003	2004	Average growth 2000-2004 (%)
Imports	74.4	81.6	89.6	105.4	126.7	+14.3
Exports	25.8	30.6	34.9	41.2	48.0	+16.9
Balance	-48.6	-51.0	-54.7	-64.2	-78.7	

Source: Eurostat (http://europa.eu.int/comm/external_relations/china/intro/index.htm).

This is the EU's largest bilateral trade deficit and it has almost doubled over the last four years. The Union and China are – so far – quite complementary in the global division of labour. China exports mainly labour-intensive goods, or mechanical and electrical products with low technology content, to the EU, while EU exports to China consist principally of capital-intensive goods, such as steel and chemical products, or technology-intensive goods. As discussed earlier, over the last few years China's active industrial policy has been turning the country into a low-cost competitor in high-skill industries. Consequently, China has started to seriously challenge EU industries that are considered sensitive, in particular the chemical, engineering and the textile sectors. The latter, in particular, has become a contentious issue across Europe, reinforcing the perceived need for protectionist measures against China.

With regard to the textile sector, since January 2005, with the Multi-Fibre Agreement (MFA) coming into effect, EU tariffs and quotas on Chinese textiles had to be removed, only to be partly reintroduced in July 2005 following protectionist protests across Europe. The question of cheap Chinese products invading the EU's market has become a political issue in some EU member states, in particular in France and Italy. This question is also linked to the Market Econ-

omy Status (MES) issue. When China joined the WTO in 2001, the existing members, including the EU, insisted that Beijing remain classified as a non-market economy for a period of 15 years. Such classification makes it easier for other countries to impose anti-dumping measures on Chinese exports.

Chinese leaders argue that their country has already made tremendous efforts on the way to becoming a market economy and that many countries have already upgraded China to MES. Moreover, Chinese officials argue that the Union has upgraded Russia to MES, without Moscow being a member of the WTO or its economy being more liberal than China's.²⁹ For China, MES has become a question of political prestige, since the upgrade would signify that China is regarded as an equal economic partner of the EU. In addition, MES will make it more difficult for the EU to impose anti-dumping duties on Beijing. At a time when most EU members are experiencing large trade deficits with Beijing and China is challenging the relative competitiveness of the new EU member states, MES has become a sensitive issue, which explains, in part, the EU's refusal to grant this status to Beijing. The next section deals with the economic strategies that the EU member states have adopted over the years to conquer the Chinese market and try to reduce Europe's trade deficits.

²⁹ Interview, Division of European Affairs, Ministry of Foreign Affairs, Beijing, May 2005.

2.4 EU member states' competition for China's market shares

Since the 1985 Trade and Cooperation Agreement (TCA), EU member states have entrusted the Commissioner for External Trade with the task of conducting economic negotiations with China at the EU level in order to collectively exercise a greater bargaining power. By throwing their support behind the Trade Commissioner, EU members have succeeded in maximising their economic leverage as a trading superpower *vis-à-vis* China. In particular, the negotiations for China's entry into the WTO in 2001 have consolidated the European Commission's role as the central actor in EU-China economic relations. However, EU governments have continued to pursue economic strategies towards China whose primary aim is to champion their national industries. After examining the economic strategies adopted by the large EU member states for acquiring China's market shares, we will discuss the political consequences of this contemporary European 'scramble' for the Chinese market.

France and Germany have taken the lead in promoting the interests of their national companies *vis-à-vis* China. The French government, for instance, has traditionally adopted a mercantilist strategy of pushing politically supported large-scale *grands contrats*.³⁰ The last state visit to France in December 2005 by Wen Jiabao, China's Prime Minister, resulted in China buying 150 A320 Airbuses (worth €9 billion) and a telecommunications satellite from Alcatel (worth €140 million). Moreover, the Chinese leader signed an agreement with Eurocopter for the joint-development of helicopters (€300 mil-

lion), and a financial protocol for the construction of high-speed rail systems (€150 million).³¹ Notwithstanding the significance of these *grands contrats*, the overall value of France-China trade remains modest. In 2004, France's share of China's market (in terms of exports) was 1.5%, quite a bit below Germany's 4.4%, but ahead of Italy (1.4%), while the market share for imports was 4.1%.³² The resulting trade deficit (–€8.7 billion) is France's largest with any trading partner. More importantly, this trade deficit has started to become a contentious issue in French domestic politics, especially in 2005 in the row over Chinese textiles.³³

Germany has followed the French example of the *grands contrats*: Berlin has lent its support, for instance, to the sale to China of the German-built trans-rapid magnetic levitation train, a project that met with stiff competition from Japanese and French rivals. In November 2005, the state visit to Germany by Hu Jintao, the Chinese President, ended with the signature of an agreement with German electronics giant Siemens to produce 60 trans-rapid trains (worth €2 billion). Since 2002, China has been Germany's second biggest export market outside Europe after the US, even ahead of Japan. Conversely, Germany is, by far, China's largest EU trading partner and ranks sixth among China's trading partners overall. Since 1998, German exports to China have been growing between 20% and 28%. Germany consistently maintains a trade deficit with China which has ranged between €5 billion and €9 billion for years. However, the proportion of the trade deficit to the total of bilateral trade is relatively small: in 2004 the deficit was €7.5 billion on a total trade volume of €49.5 billion. It should be noted that this trade deficit has never become a matter of political significance. With regard to FDI, since 1999

³⁰ Markus Taube, 'Economic Relations between the PRC and the States of Europe', *The China Quarterly*, no. 169, March 2002, pp. 78-107.

³¹ *Le Monde*, Tuesday 6 December 2005; see also 'La Chine: le nouvel eldorado d'EADS', *Air & Cosmos*, no. 2009, 9 December 2005, pp. 10-11.

³² Data from the French Ministry of Foreign Affairs.

³³ For an up-to-date discussion of the impact of the 'China question' on French domestic politics, see: Erik Izraelewicz, *Quand la Chine change le monde* (Paris: Grasset, 2005).

Germany has been China's largest European investor. By the end of 2003, German companies had invested a total of US\$9.8 billion in China. In addition to the chemical industry (BASF and Bayer), the investments have been mainly in the automobile sector (Volkswagen, BMW) and mechanical engineering.³⁴

The UK has also adopted a commercial strategy of political support to British companies. During his state visit to the UK in November 2005, Hu Jintao, the Chinese President, approved the entry of Lloyd's of London into the Chinese market. Moreover, a deal for the sale of Rolls-Royce Trent 700 engines to Air China to power the new fleet of 20 A330-200 Airbuses (worth US\$800 million), as well as a protocol extending co-operation on a US\$500 million contract to produce Airbus A320 family wing boxes in China, were signed.³⁵ The UK consistently runs one of the largest trade deficits in the EU with China. In 2004 the trade deficit was €17 billion on total bilateral trade of €24 billion. Although the UK government and the business community would certainly like to correct this imbalance, the issue has never acquired a political dimension. The stance of the UK government is generally anti-protectionist, and the strategy of London in correcting the trade deficit is indicated by the support given to British companies.

Unlike France, Germany and the UK, Italy and Spain have relied less on politically supported large-scale *grands contrats*. Italian small and medium-sized enterprises (SMEs), in particular, have entered the Chinese market without direct support from Rome. The Italian government has, however, helped its companies indirectly, by concentrating on the overall promotion of the 'made in Italy' brand. In 2004, with a total export value of €4.7 billion and a market

share of 1.4%, Italy ranked third among Chinese EU suppliers, after Germany and France. Conversely, with a total import value of €5.5 billion and a market share of 1.5%, Italy ranked fifth among China's EU clients (after Germany, the Netherlands, Britain and France).³⁶ Although Italy's trade deficit is smaller than that of the other large EU member states, the fear of an invasion of large quantities of Chinese products has become part of the domestic political debate. The emergence of a 'China question' in Italy is explained, to a large degree, by the fact that in a wide range of low-tech sectors (such as textiles, shoes, etc.), Italy and China are in direct competition against each other, with the difference that Italy does not enjoy China's comparative low labour costs.³⁷

Finally, Spain runs a deficit with China as well, but its total bilateral trade was a mere €8.5 billion in 2004. Madrid is giving more and more priority to the establishment of good economic and political relations with Beijing, as demonstrated by the state visit to Spain of Hu Jintao in November 2005. The Chinese President and Jose Luis Rodriguez Zapatero, the Spanish Prime Minister, announced the establishment of a comprehensive strategic partnership between the two countries. In particular, Spain seems to be very interested in the opening up of China's tourist industry. As one of the world's most popular tourist destinations, Spain plans to receive 150,000 to 200,000 Chinese tourists in the next three to five years, with the hope of acquiring a large share of the lucrative Chinese tourist market.³⁸

In conclusion, despite a Common Commercial Policy (CCP) and repeated calls by the Commission for increased policy coordination, EU member states have continued to compete against each other for China's market shares in

³⁴ Data from the German Ministry of Foreign Affairs.

³⁵ Data from the Foreign & Commonwealth Office.

³⁶ Data from the Italian Embassy in Beijing.

³⁷ For more details on the Italian political debate around the 'China question', see the latest book by the former Italian Minister for the Economy: Giulio Tremonti, *Rischi Fatali. L'Europa vecchia, la Cina, il mercatismo suicida: come reagire* (Milan: Arnoldo Mondadori Editore, 2005).

³⁸ Data from the Spanish Ministry of Foreign Affairs.

order to redress the growing bilateral trade deficits and maintain the global competitiveness of their companies. This European scramble for the Chinese market has been skilfully exploited by the Chinese leadership in order to obtain political concessions, usually in the form of 'silence' over sensitive issues pertaining to China's domestic affairs (human rights violations, lack of political liberalisation, Tibet, Xinjiang, etc) or national pride (Taiwan). By giving priority to commercial considerations and by tending to shy away from openly criticising Beijing, the bigger EU member states have been largely responsible for the Union's overall diminution of critical pressure. This attitude has repeatedly met with criticism from the European Parliament (EP), the smaller EU members (especially the Nordic countries) and NGOs. The EU's approach has also been criticised by the US on the grounds that the large EU member states' tendency to adopt an uncritical attitude towards Beijing has not been supportive of the West's efforts to bring about political change in China. We will discuss these issues in more detail in the next section.

2.5 The EU-China human rights dialogue

As discussed earlier, the large EU member states have consistently sought to maintain good political relations with Beijing in order to obtain politically-motivated commercial advantages. The shift towards a more uncritical attitude was manifest most visibly in the EU's decision to cease supporting the annually tabled motion against China in the United Nations Commission on Human Rights (UNCHR). In 1997, EU unity on this issue collapsed. A number of states, led by France, with support from Germany, Italy, and Spain, argued that the exercise had become a farce, given that the resolution had never been

passed and had only once made it onto the agenda. The belief was that the resolution not only had had no concrete impact on human rights conditions in China, but that it was also souring relations with Beijing in a way that frustrated efforts to acquire influence over political developments within the PRC. In 1997, Denmark, the UK, and the Netherlands co-sponsored the resolution on China in a national capacity, Copenhagen tabling the resolution. Eventually ten states supported the resolution, and five voted against (Germany, Greece, France, Italy and Spain). After this, it was agreed that, henceforth, the EU would cease its practice of supporting this resolution each year.

After the French-led defection in 1997, a new EU approach to human rights in China was unveiled by the General Affairs Council (GAC), and codified in the Commission's 1998 paper *Building a Comprehensive Partnership with China*.³⁹ At the GAC meeting on 14 March 1998, EU member states agreed that at the upcoming 1998 UNCHR session, the EU would 'neither propose, nor endorse' any resolution criticising China. This position not to co-sponsor the UNCHR resolution with the US has remained constant in the GAC each year since 1998.⁴⁰ In return for this conciliatory approach, China agreed to re-engage in a dialogue on human rights, a *quid pro quo* imposed most strongly by the more principled Nordic states. Sweden, Finland, Denmark and the Netherlands have, in fact, consistently put the issue of human rights at the top of their agenda, since public opinion in these countries and the national parliaments pay great attention to the problem.

Since 1998 the EU-China human rights dialogue has been held twice a year. It constitutes the only forum in which to engage China on sensitive issues and for EU concerns to be communicated directly to the Chinese authorities. Moreover, the Commission supports a number of human rights-related co-operation pro-

³⁹ European Commission, *Building a Comprehensive Partnership with China*, COM (1998) 181, Brussels, 1998.

⁴⁰ See: Reuben Wong, *Towards a Common European Policy on China? Economic, Diplomatic and Human Rights Trends since 1985*, paper presented at the International Political Science Association Conference on 'The European Union and the World: Asia, Enlargement and Constitutional Change', Beijing, China, 5-6 May 2005.

grammes (on village governance, legal co-operation, promotion of women's rights, network on Human Rights Covenants etc.). The Commission's role was further bolstered by the proactive stance on human rights adopted by the former External Relations Commissioner, Chris Patten. Known for his strong views on human rights in China since his days as the last British Governor-General of Hong Kong, Patten listed constructive engagement, multilateral cooperation, as well as the promotion of human rights, good governance and the rule of law, as three basic objectives of the EU in its relations with Asia.⁴¹

According to the former External Commissioner, the EU-China dialogue on human rights is 'the most complex and multifaceted dialogue on human rights' which the EU has with any country.⁴² The dialogue has been held for almost ten years now, guided by benchmarks set out by the Council. The human rights situation and the impact of the dialogue upon it was evaluated by the Council in October 2004. In the resulting Council Conclusions it was stated that:

The overall assessment of developments showed a mixed picture of progress in some areas and continuing concerns in others. On the one hand, the Council acknowledged that China has made considerable progress over the last decade in its social-economic development and welcomed steps towards strengthening the rule of law, while urging China to ensure effective implementation of such measures. On the other hand, the Council expressed concern that, despite these developments, violations of human rights continued to occur, such as freedom of expression, freedom of religion, freedom of assembly and association, lack of progress in respect for the rights of per-

sons belonging to minorities, continued widespread application of the death penalty, and the persistence of torture.⁴³

Moreover, the EU continues to express its concerns through its *Annual Report on Human Rights*. In its 2005 edition, the EU states that:

Although China amended its constitution in March 2004 to include a reference to human rights and although there have been positive developments on social questions including migrant workers and HIV/AIDS and on the ongoing reform of the judicial and legal system, the EU remains concerned about continuing violations of human rights in China.⁴⁴

Furthermore, the European parliament (EP) has consistently expressed public criticism of China's human rights record, especially on Tibet, arbitrary detention, capital punishment and infringements of religious and political freedoms. The European Parliament upset Beijing when, in 1996, it awarded the Sakharov Prize for Freedom of Thought to Wei Jingsheng, at that time China's most celebrated dissident. Beijing also voiced its criticisms in October 2001 when the European Parliament invited the Dalai Lama to address a joint session in Strasbourg. Notwithstanding the efforts by the European Parliament, the Commission and the Nordic states in the promotion of democracy and human rights in China, the large EU member states have tended to shy away from openly criticising Beijing for fear of the adverse effects that this might have on their commercial interests. This is due to a number of considerations. First of all, EU member states must cope with the Chinese leadership's persistent habit of linking politics with trade, i.e. granting access to foreign

⁴¹ Chris Patten, 'What does Europe's Common Foreign and Security Policy mean for Asia?', Speech by the Commissioner for External Relations, Japan Institute for International Affairs, Tokyo, 5 July 2000.

⁴² Chris Patten, 'China's Candidature for Hosting the Olympic Games in 2008', Commission Statements in urgency debates, by External Relations Commissioner in the European Parliament, Plenary Session, Strasbourg, SPEECH/01/33 – 5 July 2001.

⁴³ General Affairs & External Relations Councils (GAERC), *Council Conclusions on the EU-China dialogue on human rights*, 11 October 2004.

⁴⁴ European Union, *Annual Report on Human Rights 2005*, pp. 34-9.

investments and business on the basis of political considerations. With key investment contracts often decided personally by senior members of the Chinese government, it is assumed that commercial benefits can be gained only by maintaining good political relations with Beijing. Indeed, in the late 1990s Beijing openly introduced concrete commercial reprisals specifically targeting those EU states, such as Denmark and Sweden, which had insisted most strongly on a firm human rights policy.⁴⁵

Secondly, there continues to be a lack of policy coordination mechanisms among EU member states coupled with an ingrained habit of undermining each other in the quest for commercial advantages, a chink in the EU's armour which has been skilfully exploited by the Chinese leadership in order to obtain political concessions. Thirdly, in a situation of sluggish economic growth and high unemployment in the large EU core member states (France, Germany and Italy) there appears to have been limited scope for strategic manoeuvring by EU policymakers who have concentrated on the protection of their countries' relatively strong (albeit declining) economic position. In other words, in the last decade domestic considerations in the large EU member states have overshadowed concern for the human rights situation in distant China.

The differences between the US and the EU are evident in the different emphasis given by each to China's transformation process. While some US aid has tended to overtly fund politicised initiatives like the Radio Free Asia and Voice of America stations, Europe's stance has mainly been to respond to the Chinese government's own priorities in the field of governance, with the hope of securing a firmer foundation for subsequently expanding the scope of political aid. Through grassroots capacity-building and awareness-raising initiatives, such as the European Commission-managed village gover-

nance project, the EU's approach is principally aimed at establishing the democracy-related 'human capital' envisaged as a prerequisite to prompting eventual political change.⁴⁶

This approach is based on the belief that by engaging Beijing in a constructive way and by concentrating on supporting China's transformation process, over time the Union would be able to acquire more leverage over political developments in China. It is this belief that sustains – and qualifies – the policy of constructive engagement. To translate this approach into concrete action, in the last decade the EU and its member states have channelled a considerable amount of resources and energies into projects aimed at supporting China's transformation process.

2.6 At the heart of the policy of constructive engagement: supporting China's transformation process and its integration in international society

Since the mid-1990s, the policy of constructive engagement has aimed at promoting the fullest possible Chinese involvement in the international arena, whether in the economic, social, political, security or military dimensions. The focus has been on helping China support its transformation process to become a good citizen of international society, with the underlying belief that this approach would lead, over time, to greater political liberalisation and promotion of human rights.

The Commission and the EU member states provide support to China's transformation process through a variety of projects contained in the *China Country Strategy Paper 2002-2006 (CSP)*, a multi-annual planning and strategy

⁴⁵ See: Richard Youngs, *The European Union and the Promotion of Democracy: Europe's Mediterranean and Asian Policies* (Oxford: Oxford University Press, 2001).

⁴⁶ Interview, European Commission delegation in China, Beijing, September 2004.

document adopted in February 2002.⁴⁷ The *CSP 2002-2006* translates into action the EU's objectives towards China. With an indicative budget of €250 million, the *China CSP* provides the general framework for guiding, monitoring and reviewing EU assistance to Beijing. The Commission has identified three major goals in its efforts to assist China's transformation process: firstly, support for the social and economic reform process, focusing primarily on China's integration in the WTO, on social security (pensions, health, unemployment) and on the development of human resources such as the exchange and training of managers and the participation of Chinese students in the *Erasmus Mundus* programme. Secondly, the EU provides Beijing with expertise on environment and sustainable development. Thirdly, the Commission supports a number of projects in China aimed at bolstering good governance and the strengthening of the rule of law.

The support given by the EU to China's modernisation process and integration in the world economy is based on the belief that in a situation

of growing interdependence, developments occurring within China not only have a far-reaching impact on the country itself, but also have global and regional implications. According to the Commission, China plays an increasingly important role in maintaining regional stability. Political developments in China that could affect East Asia's security environment would have a direct detrimental effect on China's – and East Asia's – economic growth. Consequently, EU exports and FDI in the region could be affected, thus impacting directly upon the EU's economic interests and security. For these reasons, the EU has concluded that it is in its interests (and in the interest of the international community as a whole) to engage China in all fields of policy, i.e. in the economic, social, political, security, and even military spheres. In this vein, the policy of constructive engagement has been upgraded in the last few years to include a security-strategic dimension. This EU-China 'strategic partnership' will be examined in the next section.

⁴⁷ European Commission, *China Country Strategy Paper 2002-2006*, Brussels, 2002.

The security-strategic dimension

Since October 2003, the EU and China have acknowledged each other as ‘strategic partners’. Central to this partnership is the idea that relations between the EU and the PRC have gained momentum and acquired a new strategic significance. More significantly, the declaration of strategic partnership in October 2003 was accompanied by two substantial developments: the signature of the agreement allowing China to participate in the Galileo Global Navigation Satellite System and the promise made by EU policy-makers to their Chinese counterparts to initiate discussions on the lifting of the EU arms embargo imposed on China in the aftermath of the Tiananmen Square events. The proposal was first officially included in the Presidency conclusions of the European Council of Brussels in December 2003.

This section begins with an examination of European and Chinese policy-makers’ discourses on ‘strategic partnership’. It is argued here that beyond the rhetoric, three important – and interrelated – issues underline the strategic partnership: (i) China’s participation in the Galileo satellite network; (ii) European advance technology transfers to China; and (iii) the proposed lifting of the EU arms embargo on China. In the last part, the US’s opposition to the emerging EU-China security-strategic linkage is examined, in particular with regard to the proposed lifting of the arms embargo.

3.1 The discourse of strategic partnership

In the last few years, the predominant discourse among EU and Chinese policy-makers has revolved around the concept of ‘strategic partnership’.⁴⁸ In September 2003, the Commission released its last policy paper on China, *A Maturing Partnership: Shared Interests and Challenges in EU-China Relations*, which called for a strategic partnership with Beijing, stating that:

It is in the clear interest of the EU and China to work as strategic partners on the international scene ... Through a further reinforcement of their cooperation, the EU and China will be better able to shore up their joint security and other interests in Asia and elsewhere.⁴⁹

In October 2003 the Chinese Ministry of Foreign Affairs released its answer to the Commission’s document. In its *China’s EU Policy Paper* it is pointed out that ‘China is committed to a long-term, stable and full partnership’. The Chinese document clearly states that Beijing wants closer political ties with the EU, indicating that China will continue to deepen its relations with individual EU governments. The document also stresses that the ‘one China’ principle is a cornerstone of EU-China relations and that Beijing ‘appreciates the EU’s non-confrontational attitude to human

⁴⁸ See: Fraser Cameron, Axel Berkofsky, Stanley Crossick, *EU-China Relations – Towards a Strategic Partnership*, European Policy Centre, Working Paper no. 19, July 2005; see also *Embracing the Dragon: The EU’s Partnership with China*, op. cit.

⁴⁹ European Commission, *A Maturing Partnership – Shared Interests and Challenges in EU-China Relations*, Brussels, COM (2003) 533 final, 10 September 2003.

rights in China'. Moreover, the Chinese document indicates that Beijing welcomes co-operation in the military sphere, leading to a 'strategic security consultation mechanism'.⁵⁰

China's interest in cultivating a partnership with the EU and, individually, with the large EU members (France, Germany, Italy, Spain and the UK) is part of China's attempt to cope with the constraints of American power in the post-Cold War era and to hasten the advent of an international system in which the US would no longer be so dominant. Chinese policy-makers and scholars repeatedly stress that Beijing's partnerships with other great powers are both a reflection of the transition to multipolarity and a means of accelerating the process.⁵¹ According to Avery Goldstein, the purpose of establishing strategic partnerships 'has been to enhance [China's] attractiveness to the other great powers while retaining flexibility by not decisively aligning with any particular state or group of states'.⁵² Thus, since the mid-1990s, strategic partnerships allow Beijing to address its own concerns about America's primacy without alienating the economically indispensable US. In this context, establishing a strategic partnership with the EU and its large member states is seen in Beijing as a move that enhances China's international status, as well as fostering the emergence of a multipolar world order (but being flexible enough to enable China to change direction if circumstances change).

In this context, Chinese leaders have repeatedly stated that the strategic partnership with the EU should serve to promote 'global multilateralism', the 'democratisation of international relations' and what is being referred to as 'global multipolarisation'. In Beijing's view, China and

the EU are both engaged in a 'peaceful rise', i.e., on the way to becoming 'global balancing forces' pursuing similar international political strategies. Thus, Chinese leaders hope to enlist the EU as one of the emerging poles that, at least in principle, could work with Beijing on fostering a multilateral environment and limit some of the perceived American unilateral attitudes in world affairs.⁵³ The discourse on multipolarity is shared by some EU policy-makers, in particular the French political elite and, to a lesser extent, elements within the European Commission in Brussels. This has raised some worries in the US, generated especially by the fear that the establishment of the EU-China strategic partnership may be motivated in part by the desire to seek to limit the US's global influence.

According to Christopher Hughes, China's discourse of multipolarity cannot be seen as power balancing in the classic sense, but as an 'essentially domestic discourse that is designed primarily to soothe nationalist pressures, rather than as a foreign policy prescription'.⁵⁴ Thus, in the case of China multipolarity is taking the form of the establishment of strategic partnerships with other great powers within a broader multilateral system based on the United Nations and international law. For French policy-makers as well, the notion of multipolarity is not employed for counterbalancing the US in the classic sense, but rather to mean an international system in which 'each large geographic region, each big power and collectivity of states, can assume together their responsibilities, with the UN being the grand symbol'.⁵⁵ In other words, 'a benign multipolar international system whose *modus operandi* is multilateralism'.⁵⁶

⁵⁰ Chinese Ministry of Foreign Affairs, *China's EU Policy Paper*, Beijing, October 2003.

⁵¹ Interviews, Chinese Ministry of Foreign Affairs and Chinese Academy of Social Sciences (CASS), Beijing, May 2005.

⁵² Avery Goldstein, 'The Diplomatic Face of China's Grand Strategy: A Rising Power's Emerging Choice', *The China Quarterly*, no. 168, December 2001, pp. 835-64, p. 46.

⁵³ Interviews, Department of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, September 2004 and May 2005.

⁵⁴ Christopher R. Hughes, 'Nationalism and multilateralism in Chinese foreign policy: implications for Southeast Asia', *The Pacific Review*, vol. 18, no. 1, March 2005, pp. 119-35, p. 124.

⁵⁵ Dominique de Villepin during the joint press conference of the French, Russian and German Foreign Ministers, Paris, 5 March 2003.

⁵⁶ Michael Brenner and Guillaume Parmentier, *Reconcilable Differences: US-French Relations in the New Era* (Washington DC: Brookings Institution, 2002), p. 118.

The EU has stressed multilateralism as a common ground for the development of the Sino-European strategic partnership.⁵⁷ However, EU policy-makers have remained rather vague with regard to the concrete objectives and purpose of the strategic partnership with China. In a recent speech in Shanghai, Javier Solana, the EU High Representative for the Common Foreign and Security Policy (CFSP), stated that the strategic partnership is based on the fact the Europe and China discuss and seek to cooperate on 'global strategic issues such as the proliferation of weapons of mass destruction and international terrorism ... global security of energy supply, regional crises and the environment'.⁵⁸ In addition, Solana declared that:

China and the EU have the same broad agenda in seeking to address current global challenges ... they are natural partners in many ways ... they both prize international stability and order ... and they are both strong supporters of multilateralism and international law as the best means to achieve this. Consultation with each other, and other partners, is the rule for us, not the exception ... We are also consulting more on our regional policies and programmes. To my mind, this is what strategic partnership is all about.⁵⁹

In the same vein, José Manuel Barroso, the President of the European Commission, declared in a recent speech in Beijing that:

The development of a strategic, mutually beneficial and enduring relationship with China is one of the EU's top foreign policy priorities for this century. In achieving this

goal we must convince the international community that the EU-China partnership is not a threat, but an opportunity to create a more stable and balanced international order.⁶⁰

The Chinese leadership in its turn, has stated that the EU-China strategic partnership should be comprehensive, including co-operation in the field of traditional security (terrorism, the joint fight against illegal immigration, and the proliferation of weapons of mass destruction), as well as non-traditional security issues (such as energy security, environmental and health security). In a speech in May 2004 in Brussels, Wen Jiabao declared that:

It is a shared view of the two sides to work for a comprehensive strategic partnership. By 'comprehensive', it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups. By 'strategic', it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system and is not subjected to the impacts of individual events that occur from time to time. By 'partnership', it means that the cooperation should be equal-footed, mutually beneficial and win-win.⁶¹

Chinese leaders have affirmed on various occasions that cooperation in science and technology, the joint development of the Galileo satellite navigation system, cooperation on mil-

⁵⁷ On the question of multilateralism, see the *European Security Strategy* (ESS), Brussels, December 2003.

⁵⁸ Javier Solana, 'Driving Forward the China-EU Strategic Partnership', Speech by the EU High Representative for the Common Foreign and Security Policy at the China-Europe International Business School, Shanghai, 6 September 2005.

⁵⁹ Ibid.

⁶⁰ José Manuel Barroso, 'The EU and China: Painting a Brighter Future Together', Speech by the President of the European Commission at the Chinese Academy of Social Sciences, Beijing, 15 July 2005.

⁶¹ Wen Jiabao, 'Vigorously Promoting Comprehensive Strategic Partnership Between China and the European Union', Speech by the Chinese Prime Minister at the China-EU Investment and Trade Forum, Brussels, 6 May 2004.

itary matters and the lifting of the EU arms embargo on China are important elements of the strategic partnership.⁶² In *China's EU Policy Paper* it is stated that:

China will, on the premise of equality and mutual benefit and a balance between interests and obligations, participate in the Galileo Programme and enhance cooperation in international 'big science' projects ... Support should be given to Chinese and EU enterprises in their involvement in scientific and technological cooperation.⁶³

China's EU Policy Paper also mentions cooperation on military matters and, in particular, Beijing's request for the early lifting of the EU arms embargo:

China and the EU will maintain high-level military-to-military exchanges, develop and improve, step by step, a strategic security consultation mechanism, exchange more missions of military experts, and expand exchanges in respect of military officers' training and defence studies ... The EU should lift its ban on arms sales to China at an early date so as to remove barriers to greater bilateral cooperation on defence industry and technologies.⁶⁴

In sum, beneath the surface of the official declarations, it is argued here that China's participation in the Galileo project, advanced technology transfers and the proposed lifting of the arms embargo have come to represent the three most important security-strategic issues in Sino-European relations.⁶⁵

We will now examine, in order, the question of China's participation in the development of

the Galileo satellite network, European advanced technology transfers to Beijing and the arms embargo issue. The three issues are interrelated and it is hoped that by presenting the issues in this order, the reader will gain a better understanding of the security-strategic dimension in EU-China relations.

3.2 *The Galileo satellite network and China*

Galileo is a Global Navigation Satellite System (GNSS), alternative to the dominant US Global Positioning System (GPS) that will offer both civilian and potential military applications once it becomes operational in 2008. The European Commission and the Paris-based European Space Agency (ESA) kicked off the Galileo project in March 2002.⁶⁶

On 30 October 2003, an agreement was reached for China's cooperation and commitment to provide 200 million euro worth of finance (out of an estimated total cost of 3.2-3.4 billion euro) towards the cost of Galileo.⁶⁷ According to this agreement, the main focus of Chinese participation will be on developing applications, as well as research and development, manufacturing and technical aspects of the Galileo project. In the words of François Lamoureux, the then Director General of the Directorate-General for Energy and Transport (DG TREN):

Never before has the European Union and China embarked on a cooperation project of the same magnitude as in Galileo. This project goes well beyond industrial or standardization issues. It entails a strong strategic component which will have far-reaching

⁶² Interviews, Chinese Ministry of Foreign Affairs, September 2004 and May 2005.

⁶³ *China's EU Policy Paper*, (2003) Title III.

⁶⁴ *China's EU Policy Paper*, (2003) Title V.

⁶⁵ This emerged during this author's interviews with officials and scholars in Europe and China.

⁶⁶ For more details on the technical, military and political aspects of Galileo see: Gustav Lindström and Giovanni Gasparini, 'The Galileo Satellite System and Its Security Implications', *Occasional Paper* no. 44 (Paris: EU Institute for Security Studies, April 2003).

⁶⁷ 'EU China Summit concludes agreements on industrial policy, Galileo and Tourism', 6th EU-China summit, 30 October 2003.

consequences on future Sino-European political relations.⁶⁸

Moreover, as Commissioner Loyola de Palacio underlined, ‘the EU-China agreement will ... secure a promising future for Galileo and European business interests’.⁶⁹ European industries are indeed eager to collaborate with Chinese companies in space-based technologies and, more generally, aerospace. Galileo will provide European businesses with an ‘entry’ into the promising Chinese aerospace sector, while it will allow Chinese companies to acquire know-how and advanced space technology.

EU-China cooperation over Galileo and, more generally, aerospace, must be seen as an answer to the perceived US primacy in the sector. In Europe, since the early 1990s, an independent aerospace capability has been perceived as having a key role for European industrial and technological development and it has begun to be closely associated with concepts of European security and political autonomy. This idea has been clearly expressed by the EU in its report *Strategic Aerospace Review for the 21st Century (STAR 21)* presented by the European Advisory Group on Aerospace to the President of the European Commission in July 2002.⁷⁰ The report underlines the importance of international cooperation and the fact that the demand for civil aircraft and other aerospace products over the next 20 years is projected to arise outside the US or European markets and come mainly from Asia and, in particular, China. In this context, establishing a security-strategic linkage with Beijing is essential for acquiring increasing shares of its market and, as a consequence, to maintain Europe’s global competitiveness. Asian countries – and, in particular,

China – have become the battleground between Boeing and Airbus, which are in fierce competition with each other for the leadership of the world aerospace sector. Analysts estimate that since 2005, China has become the second largest market for aerospace, behind the US.⁷¹

In November 2005, during the state visit of Wen Jiabao to France, the Chinese Prime Minister started his four-day tour in Toulouse, at the headquarters of Airbus. On that occasion, the Chinese Premier committed his government to buying 150 A320 Airbuses (worth US\$9.3 billion), the biggest ever order for the Airbus conglomerate. Thanks to this order, Airbus has regained a large share of China’s market and by the end of 2005 the European constructor had surpassed Boeing in terms of ‘contracted orders’ from China (804 for Airbus, against 801 for Boeing).⁷² This allows Airbus to position itself strategically in what is poised to become the most important market for the civil aircraft industry. Strategically, therefore, China has become the most contentious battlefield between the two constructors, as demonstrated by Hu Jintao’s visit to the US in April 2006 which started in Seattle at the headquarters of Boeing. In this context of global competition, Airbus and Galileo must be seen as part of the EU’s increasing efforts to counter what is perceived as America’s dominant position in the aerospace sector in the post-Cold War period.

China’s participation in the Galileo project entails a significant political and strategic dimension. In particular, the decision to allow China to participate in the development of the Galileo project highlights divergent approaches between the EU and the US towards (i) China’s rise and (ii) the use of space. Europe does not view China as a possible military threat or strate-

⁶⁸ Speech of François Lamoureux, Director General, European Commission Directorate-General for Energy and Transport, (DG TREN), at the opening of EU-China negotiations on satellite navigation, 16 May 2003.

⁶⁹ ‘Galileo: Loyola de Palacio welcomes the green light for an EU-China agreement’, China-Europe GNSS Technology Training and Cooperation Center (CNEC) website, 28 October 2003.

⁷⁰ European Advisory Group on Aerospace, *STAR 21: Strategic Aerospace Review for the 21st Century. Creating a Coherent Market and Policy Framework for a Vital European Industry*, Brussels, European Commission/Enterprise publications, July 2002.

⁷¹ ‘La Chine: le nouvel eldorado d’EADS’, op. cit.

⁷² Claude Fouquet, ‘La France engrange 9 milliards d’euros de contrats avec la Chine’, *Les Echos*, Tuesday 6 December 2005, p. 6.

gic competitor. In this vein, China's participation in Galileo must be seen as a logical extension in the security-strategic dimension of the policy of constructive engagement which has characterised EU foreign policy towards China since the mid-1990s. Moreover, EU-China cooperation over Galileo reflects the diverging conceptions between the EU and the US regarding the use of space. In essence, Washington places the emphasis on the strategic dimension of space, while Europe stresses that space should be used for peaceful purposes.⁷³ Thus, while the US concentrates on using space to provide America and its allies with an asymmetric military advantage, the EU is more concerned with creating useful – i.e. commercial – space applications for the peoples of Europe and European industries. For European policy-makers, EU-China cooperation is meant to boost commercial activities while the US looks at space from a different angle, i.e. the protection of its global interests and primacy in world affairs. The current Bush Administration has curtailed cooperation in space activities with Beijing initiated by the Clinton Administration. The US appears to believe that space technology should not be disseminated.

The Europeans, on the other hand, seem to view space-related activities (technology included) as a medium for international cooperation. It is important to stress that according to EU policy-makers, the EU-China partnership over Galileo and other potential space applications is not meant to isolate the US, or provide a counterweight to it. Nor it is meant to increase the proliferation of space technologies that would be used for anything other than peaceful aims. For EU policy-makers, Galileo is meant to build trust with China.⁷⁴ It is, again, the continuation of the policy of constructive

engagement based on the idea of engaging China fully, i.e. at all levels and in all dimensions. In addition, it is widely perceived in some European capitals that the EU-China cooperation over Galileo is a reaction to the isolationist space policies of the US in the last years. The US has committed itself to the control and militarisation of space, adversely impacting on international space cooperation through draconian export regulations. As a result, other space-faring nations such as China and Europe have been pushed to cooperate among themselves.

3.3 The reasons behind China's participation in Galileo: developing Beijing's space programme

Beijing views co-operation with the EU over Galileo as an additional initiative aimed at promoting China's space programme. China's White Paper on space – *White Paper on China's Space Activities* – released in November 2000 stated that Beijing is intent on industrialising and commercialising space to advance 'comprehensive national strength' in the areas of economics, state security and technology.⁷⁵ In recent years, China's space programme has become a major political symbol of Chinese nationalism, contributing to expanding both the economic and military sectors. Since November 1999, with the launch of the *Shenzhou 1*, China has made important technological progress, all the while carefully monitored by the US.⁷⁶ China's space aspirations pose significant security and strategic concerns for Washington. Although most of China's space pro-

⁷³ See: Bastian Giegerich, *Satellite States – Transatlantic Conflict and the Galileo System*, paper presented at the 46th ISA Annual Convention, Honolulu, Hawaii, 1-5 March 2005.

⁷⁴ Interview, European Commission, Brussels, December 2005.

⁷⁵ The Information Office of the State Council of the People's Republic of China, *White Paper on China's Space Activities*, Beijing, 22 November 2000. For a comprehensive survey of China's space capabilities and, more generally, Beijing's defence industry, see: Evan S. Medeiros, Roger Cliff, Keith Crane and James C. Mulvenon, *A New Direction for China's Defense Industry* (Santa Monica: RAND, 2005).

⁷⁶ See: David O. Meteyer, 'The Art of Peace: Dissuading China from Developing Counter-Space Weapons', Institute for National Security Studies, US Air Force Academy, Colorado, INSS *Occasional Paper* no. 60, August 2005.

grammes have mainly commercial and scientific purposes, improved space technology has the potential to significantly improve Chinese military capabilities.⁷⁷ Washington increasingly views Beijing as a 'space competitor' and it is concerned that through Galileo and related space-based technology cooperation the EU is contributing to the modernisation of China's space programme.

The US is worried that China's participation in the Galileo project will boost the People's Liberation Army's ability to acquire the expertise that allows armed forces to be integrated for today's increasingly digital warfare, in particular the most advanced early-warning systems and recognition satellites that would put China in a position to counter Taiwanese arms systems imported from the US. In the 2004 *White Paper on Defence*, Chinese military planners make it clear that the use of advanced information technology is a top priority in efforts to make the army a fully modern force. The acquisition of space-guided missiles would certainly spearhead Chinese military strategic efforts to gain the upper hand over Taiwan.⁷⁸ According to American critics of Galileo, China's participation in the European satellite system will be a major setback to US efforts to limit China's access to advanced space technology with potential military uses.⁷⁹

EU officials have rejected suggestions that China could gain a military advantage from Galileo. The European Commission argues that the Public Regulated Service (PRS) would be withheld from China and any other non-EU participants in the system. The PRS is an encrypted signal, meant to guarantee continuous signal access in the event of threats or crises. Unlike other Galileo signals, the PRS will be accessible even when the other services are not available,

making it suitable for security- and military-related uses.⁸⁰ The European Commission and Chinese officials recognise that EU-China cooperation over Galileo and other space applications will go through 're-adjustments'.⁸¹ Galileo is part of the development of a security-strategic linkage with China and as such the final content and mechanism of China's participation in Galileo will eventually be determined by the evolution of EU-China political relations. Hence, there is still a fair amount of unpredictability as to what China will be able to use – or not to use – in the end. However, research work on Galileo will assist China – in any case – in fostering the development of its own, independent satellite navigation system. In fact, as already happened in the past, China will almost certainly be able to use foreign technology to upgrade its indigenous space capabilities. In the next section we will discuss the question of European high-technology transfers to China.

3.4 European advanced technology transfers to China

Cooperation over Galileo and other space-based technologies will entail a certain amount of European advanced technology transfers to China. As discussed earlier, Europe has become, over the years, a source for advanced technology that would otherwise be more difficult (if not impossible) to obtain from the US or Japan.

In 2004, China's expenditure in science and technology accounted for 1.23% of GDP. In the outline of the 11th Five-Year Plan for China's National Economic and Social Development, approved in March 2006 by the National People's Congress, it is stated that Beijing will launch a number of major science and technology (S&T)

⁷⁷ Ibid.; and William S. Murray III and Robert Antonellis, 'China's Space Program: The Dragon Eyes the Moon (and Us)', *Orbis*, Autumn 2003, pp. 645-52.

⁷⁸ See: Michael O'Hanlon, 'US Military Modernization: Implications for US Policy in Asia', in Ashley J. Tellis and Michael Wills (eds.), *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty* (Seattle: The National Bureau of Asian Research, 2005), pp. 41-66, p. 61.

⁷⁹ 'GPS Substitute for China?', *International Herald Tribune*, Tuesday 19 April 2005.

⁸⁰ Gustav Lindström and Giovanni Gasparini (2003), op. cit., p. 19.

⁸¹ Personal consultations with European Commission and Chinese officials.

projects, especially in ICT, life sciences and space technologies. Moreover, China's State Council has recently published an outline of the National Programme for long- and medium-term development of S&T, indicating that the country's expenditure on S&T would account for 2.5% of GDP by 2020 and that annual Research & Development (R&D) would amount to US\$111 billion – similar in percentage terms to that of the other developed countries.⁸²

Advanced technology transfers from developed countries, through foreign investments, are considered by Beijing as an important tool to upgrade China's technology base and to increase the technology content of its export products in order to sustain global competitiveness over the longer term. In this context, China's state industrial policy actively encourages the transfer of foreign technology. Access to China's attractive market is often used as leverage to get foreign partners in larger Joint Ventures (JVs) to provide their technology on terms that most Western companies would not be ready to accept anywhere else.⁸³

The European Commission has played an active role in enhancing EU-China S&T cooperation. In this context, a bilateral S&T agreement entered into force in 1999 and a joint EU-China office for the promotion of research cooperation was established in June 2001 in Beijing. However, transferring the latest technology and R&D capacity as actively encouraged – and increasingly required – by China's policy of technological upgrading could, in the longer term, undermine the EU's (relative) global competitive position. The EU obviously has an economic interest in exploiting its competitive edge and selling advanced European technology to China – though the inadequate enforcement of International Property Rights legislation remains an important hurdle. This also represents an important long-term interest for Europe. In an increasingly globalised economy, Europe's competitiveness is likely to depend on its capacity to

maintain and develop its comparative advantage in high-technology goods.

It seems, however, that in the face of the fierce global competition for the Chinese market the Europeans have bowed to the insistent requests from Beijing that companies and governments should contribute to the establishment of cooperative R&D departments, if not transfer some production-lines altogether. Airbus, for instance, has increasingly offered China projects that will, over time, make Chinese producers critical suppliers of components and sub-assemblies for some of the most important Airbus products.⁸⁴ In the same vein, in February 2003 the Sino-European satellite navigation training and cooperation centre opened in Beijing.

In the last few years, China and the EU have agreed to open their research programmes to accommodate the increasing number of joint research projects. More and more Chinese have been invited to participate in the EU-funded 7th Framework Programme for Research, Technology Development and Demonstration Activities (RTD) for the period 2007-2013 and China is attracting Europeans into projects under its research programmes. Access to advanced technology not only ensures competitiveness over the medium to longer term, but it is also a prerequisite for the modernisation of Chinese industry and, by default, the PLA. The question of advanced technology transfers is also linked to European sales of components for arms or dual-use goods (with both military and civilian applications). These issues have resurfaced in recent years with regard to the proposed lifting of the EU arms embargo on China.

3.5 The arms embargo issue

Any decision on the lifting of the EU arms embargo on China is currently postponed due to strong US opposition and China's passing of the anti-secession law in March 2005. However,

⁸² Data from the Chinese Academy of Social Sciences.

⁸³ Interview, Europe-China Chamber of Commerce, Beijing, September 2004.

⁸⁴ Claude Fouquet, op.cit.

for our purposes it is important to recall the main themes that have been raised for – and against – the lifting of the embargo (as the issue is still, in theory, on the EU agenda).

The lifting of the arms embargo was first officially proposed by France and Germany at the European Council of Brussels in December 2003. On that occasion, all EU member states agreed, in principle, to initiate discussions on the issue.⁸⁵ The advocates of an end to the arms embargo base their case on a number of reasons. First of all, they claim, China has changed. Since the 1989 Tiananmen Square crackdown on students, Beijing has significantly reformed its system of government and its economy, as well as moderated its aggressive tendencies in Asia. For this, it should be offered a reward. French President Jacques Chirac, in particular, has advocated this position, dubbing the arms embargo as ‘outdated’. In January 2004, Chirac stated that ‘the ban no longer corresponds to the political reality of the contemporary world’ and therefore that it makes no sense today.⁸⁶ German Chancellor Gerhard Schröder, during a state visit to China in December 2003, had declared that the embargo should be lifted.⁸⁷ By the end of 2003, both Italian Prime Minister Silvio Berlusconi and the Spanish Prime Minister had taken the same position. By May 2004, the UK, Finland and the Netherlands had joined the camp of those supporting the lifting of the embargo.⁸⁸ Sweden’s and Denmark’s situations were the most complex. Neither of the two wanted to break the EU consensus but at the same time their Parliaments opposed the lifting. It should be noted that especially Sweden has a rather active Taiwan lobby in Parliament.

The advocates of lifting the embargo argue that the EU Code of Conduct on arms sales and normal national arms export policies and controls will still apply, thereby preventing abuses when it comes to exporting arms to China. Moreover, EU officials say that by treating China as a respected interlocutor, they can encourage its peaceful integration into the international community. They even argue that European weapons are too expensive and that China has frequently declared that it has no intention of buying weapons from Europe.⁸⁹ Thus, the end of the embargo would principally serve to show that the EU does not discriminate against Beijing but treats it on a par with nations such as Russia.⁹⁰

However, the Nordic countries, led by Denmark, Sweden and the Netherlands, although agreeing in principle to discuss lifting the embargo, have repeatedly voiced their criticism with regard to China’s failure to provide clear and specific evidence on the improvement of its human rights record. Chris Patten explained the position of the more principled countries by stating that ‘more assurances from Beijing on human rights would make it easier for EU governments to explain any decision to lift the embargo’.⁹¹

Also, the European Parliament and some national Parliaments have intervened in the debate opposing the lifting. On 28 October 2003, the German Parliament, including the vast majority of former Chancellor Gerhard Schröder’s own Social Democrats and virtually all of former Foreign Minister Joschka Fischer’s Greens, passed a resolution opposing Berlin’s attempts to lift the embargo. On 19 November

⁸⁵ See Presidency Conclusions of the European Council, Brussels, 12 December 2003; point 72 (p. 19) states that: ‘The European Council invites the General Affairs and External Relations Council to re-examine the question of the embargo on the sale of arms to China’.

⁸⁶ ‘Chirac renews call for end of EU arms embargo on China’, *Agence France-Presse*, 27 January 2004.

⁸⁷ ‘Schröder Backs Sales to China of EU Weapons’, *Wall Street Journal*, 2 December 2003.

⁸⁸ James Kirkup, ‘Blair’s Backing for China Trade Angers Activists’, *The Scotsman*, 11 May 2004.

⁸⁹ Interview, European Commission, Brussels, July 2004.

⁹⁰ Chinese officials stress the fact that the only other countries with which the EU has maintained an arms embargo are Zimbabwe, Sudan and Burma/Myanmar. Interview, Department of European Affairs, Chinese Ministry of Foreign Affairs, Beijing, September 2004.

⁹¹ Chris Patten, ‘Lifting of the Arms Embargo on China: the Rueda Report on Arms Exports’, Speech by Chris Patten, European Commissioner for External Relations to the European Parliament, Strasbourg, 16 November 2004.

2003, the European Parliament passed a similar resolution with 572 votes against 72. And on 11 March 2004, leaders of the four German political parties representing Germany in the European Parliament sent an open letter to former Chancellor Schröder urging him to abandon his support for the lifting of the embargo. In the 2005 Annual Report on the CFSP, with 431 votes in favour and 85 against, the European Parliament again urged the Council not to lift the arms embargo. In the Report, the MEPs 'call on the Council not to lift the arms embargo until greater progress is made in the field of human rights and arms exports controls in China and on Cross-Strait relations'.⁹²

Since the beginning of 2004, Washington has stepped up pressure on EU members with regard to the proposal of lifting the arms embargo. In response to US criticism, EU officials have asserted that the lifting of the arms embargo would be mainly a 'symbolic gesture'. In other words, lifting the embargo would be a political act that does not suggest that the EU member states seek to sell arms or defence technologies (which the embargo also covers) to China. EU members have clarified that the lifting is not meant to change the current strategic balance in East Asia. In this context, EU members have been asked not to increase arms exports to China either 'in quantitative or qualitative terms'.

In the Presidency Conclusions of the European Council of Brussels in December 2004, the EU member states stressed that a revised – and stricter – Code of Conduct will be put in place. This new Code of Conduct will amend the one adopted in 1998 and establish criteria for EU

arms sales worldwide.⁹³ While discussions are still underway with regard to the new Code of Conduct, we will now examine the existing provisions.

3.6 European arms export control policies and the EU Code of Conduct

The EU ban on arms sales to China was adopted by the European Council on 27 June 1989. The embargo took the form of a European Council Declaration since in 1989 the Treaty did not provide for the possibility of the adoption of a legal instrument in this field.⁹⁴ Due to the nature of the declaration, the scope of the embargo was not clearly defined. Thus, different EU member states have interpreted the embargo on arms sales to China in different ways. In addition, the arms embargo on China does not cover a large proportion of sensitive items, which are, on the contrary, covered by the Dual Use Regulation.⁹⁵ The latter is a legally binding instrument directly applicable in EU member states. It sets out all the requirements which need to be met and the procedures to be followed for the granting of an export licence.⁹⁶

In the years following the adoption of the embargo, EU member states' arms export control policies have continued to converge as illustrated by the adoption of common criteria to be applied to arms exports in 1991 and 1993 and by the subsequent adoption, in 1998, of the EU Code of Conduct on Arms Exports. The Code of Conduct lays down eight criteria against which

⁹² European Parliament, *Report on the Common Foreign and Security Policy* (Brok's Report, 28 November, 2005) discussed and adopted by the European Parliament on 2 February 2006. Quotation from point 34.

⁹³ This is the official position of the Council. During the debate on the lifting, Annalisa Giannella, Javier Solana's Personal Representative on Non-proliferation of Weapons of Mass Destruction, travelled to the United States, Japan, Australia and to the other concerned Asian partners of the EU, to explain why the Europeans were considering lifting the EU arms embargo on China.

⁹⁴ European Council Declaration on China: Madrid, 26-27 June 1989.

⁹⁵ *Council Regulation* (EC) No. 1334/2000 of 22 June 2000 setting up an European Community regime for the control of exports of dual-use items and technology.

⁹⁶ See: Alberto Trabalesi (ed.), *Controlling the Transfer of Military Equipment and Technologies in Italy* (Rome: Centre for High Defence Studies, December 2004).

member states assess applications to export military equipment. Among the criteria set out in the Code, several take into account concerns expressed by some partners of the EU, especially the US. For instance, respect for human rights in the country of final destination (Criterion Two); preservation of regional peace, security and stability (Criterion Four); national security of the member states and of territories whose external relations are the responsibility of a member state, as well as that of friendly and allied countries (Criterion Five); existence of a risk that the equipment will be diverted within the buyer country or re-exported under undesirable conditions (Criterion Seven); and compatibility of the arms exports with the technical and economic capacity of the recipient country (Criterion Eight).⁹⁷

In addition, the operative provisions of the Code require, *inter alia*, that: (i) as appropriate, EU member states should assess, through the CFSP framework, the situation of potential or actual recipients of arms exports from EU member states; (ii) EU member states should circulate between themselves details of licences refused in accordance with the Code of Conduct, with explanations of why the licences have been refused; (iii) an annual EU report on arms exports by member states, containing statistical annexes, should be published.

The statistical annexes have become more and more detailed since the first EU annual report in 1999, so that they now contain figures on the number and value of licences granted per destination with some member states supplying details broken down per military list category. The statistical annexes also contain fig-

ures for the number of denials issued, and the criteria on which such denials are based.⁹⁸ On 25 April 2005, in accordance with Operative Provision 5 of the Code of Conduct, the Council adopted a new version of the Common Military List of the EU. In October 2005, in a further move, the EU member states adopted a *User's Guide to the EU Code of Conduct on Arms Exports*, with the aim to help member states (in particular, export licensing officials) apply the Code of Conduct.⁹⁹

According to EU officials, the above provisions are aimed at ensuring mutual political control among member states as well as transparency and accountability.¹⁰⁰ However, a report by the European Parliament released in October 2004 points out that, in the past, both the embargo and the EU Code of Conduct have been varyingly and erratically applied by EU member states.¹⁰¹ In addition, the Council in its *Sixth Annual Report of the EU Code of Conduct on Arms Exports* declares that a number of EU member states have partially sidestepped the embargo by supplying China with components for military equipment, particularly engines for aircraft, frigates and submarines. The report shows that the value of licences for arms exports to China increased from €54 million in 2001 to €210 million in 2002 and €416 million in 2003. France, Italy and the UK accounted for almost all of the sales.¹⁰²

In its 2005 *Annual Report*, the Council states that in 2004 EU member states exported military equipment worth more than €340 million to China, significantly less than in 2003. Among the EU-25, eight member states concluded a total of 202 deals for transferring military

⁹⁷ Council of the European Union, *EU Code of Conduct on Arms Exports*, Brussels, 8 June 1998.

⁹⁸ Council of the European Union, *Sixth Annual Report According to Operative Provision 8 of the European Union Code of Conduct on Arms Exports* (2004/C 316/01), Brussels, 12 December 2004.

⁹⁹ Council of the European Union, *User's Guide to the EU Code of Conduct on Arms Exports*, 13296/05, PESC 853, COARM 43, Brussels, 14 October 2005.

¹⁰⁰ Interview, Council of the European Union, Brussels, November 2005.

¹⁰¹ *Report on the Council's Fifth Annual Report According to Operative Provision 8 of the European Union Code of Conduct on Arms Exports*, A6-0022/2004, Rapporteur: Raúl Romeva Rueda, European Parliament Committee on Foreign Affairs, 19 October 2004.

¹⁰² Council of the European Union, *Sixth Annual Report of the EU Code of Conduct on Arms Exports*, Brussels, November 2004.

equipment to China. France accounted for the largest share, signing 123 contracts worth €169 million in total, followed by the UK (38 contracts, €148 million), and the Czech Republic (7 contracts, €19 million).¹⁰³ Thus, notwithstanding the embargo, some EU governments – and their arms manufacturers – have been able to sell components for arms or dual-use goods (with both military and civilian applications).¹⁰⁴ It therefore seems relevant to move onto an analysis of Europe's defence industry.

3.7 *The European defence sector and China*

EU arms producers are very keen on entering into the promising Chinese market. For Europe's defence sector, China – and indeed, the whole of East Asia – is just another market. It is, in fact, a very critical market for a European defence industry that increasingly depends on exports for the bulk of its revenues. Furthermore, the European defence industry suffers much more from the embargo than do US arms producers, who have the benefit of a domestic defence market four times larger than all of Europe combined. In addition, US defence firms regularly capture around half of a \$40 billion-a-year business in international arms exports.¹⁰⁵

Putting an end to the arms embargo is, however, unlikely to result in Beijing buying more European weapons. European defence firms cannot hope to compete with Russia's prices or technology-transfer arrangements, nor with the fact that Russian weapons are simply a better fit for a Chinese army based on Soviet design and technology. More likely, European arms pro-

ducers would mainly provide the PLA with competing bids in order to extract better deals from Moscow.¹⁰⁶ Nevertheless, Europe might be able to sell components or subsystems that could greatly contribute to the modernisation of the PLA and fill critical technology gaps, particularly in such areas as command and control, communications, or sensors. In sum, EU arms producers will profit from the lifting of the arms embargo, since it would open the way to arms sales from China's procurement budget, the second fastest-growing such budget in the world after that of the US.

The problem facing industrialists wanting to enter the lucrative Chinese market is that European defence companies are still largely dependent on US cooperation on defence technology, not to mention the importance of the US market for some of them. American retaliation could take the form of sanctions targeting specific defence contractors that sell sensitive military-use technology or weapons systems to China. According to US policy-makers, these companies could be restricted from participating in defence-related cooperative research, development, and production programmes with the US in specific technology areas or in general. Such measures are allowable under the rules of the World Trade Organization, which permit protectionist measures based on national security concerns.¹⁰⁷

The hope in Brussels is that informal consultations with the US on what the EU member states sell to China would prevent sensitive technology transfers and defuse a serious transatlantic dispute.¹⁰⁸ However, this underestimates the strength of US opposition to the lifting of the embargo.

¹⁰³ Council of the European Union, *Seventh Annual Report of the EU Code of Conduct on Arms Exports*, Brussels, December 2005.

¹⁰⁴ See: David Cronin, 'EU military exports to China continue despite arms embargo', *European Voice*, 8-14 December 2005, p. 4.

¹⁰⁵ See: The International Institute for Strategic Studies (IISS), *The Military Balance 2004/2005* (Oxford: Oxford University Press, 2004).

¹⁰⁶ Interview, European Commission, Brussels, July 2004.

¹⁰⁷ US Code, Title 41, Chapter 1, Section 50.

¹⁰⁸ Interview, Council of the EU, Brussels, 18 November 2005.

3.8. US opposition to the lifting of the arms embargo

For the Bush administration, the prospect of the People's Republic of China armed with weapons technologies from the EU facing American forces in the South China Sea would be a development that could forever change the post-Cold War geopolitical order. Both the Republicans and the Democrats have argued that the proposal to lift the arms embargo is a cynical ploy to open doors for the European defence industry and that, even if arms sales remain limited, the EU is casting aside more than a decade of human rights concerns for economic gains.¹⁰⁹ American criticism gathered pace at the beginning of 2005, when all commentators were expecting that the EU would lift the 16-year old arms embargo to coincide with the 30th anniversary of the establishment of diplomatic relations between the EC and the PRC in 1975.

In the first months of 2005, US policy-makers adopted a series of initiatives that clearly demonstrated to their European counterparts the bipartisan nature of the opposition to the lifting. For instance, at the beginning of February 2005, the Republican Policy Committee circulated a paper compiled by John Kyl, an Arizona Senator, which warned, in essence, that if the EU ignores US security concerns, the US will place restrictions on technology transfers to EU member states.¹¹⁰ On 16 February 2005 Porter Goss, the director of the US Central Intelligence Agency (CIA), while delivering the agency's annual assessment of worldwide threats, warned that China's military modernisation was tilting the balance of power in the Taiwan Strait and increasing the threat to US forces in the region.

Dropping any mention of the co-operative elements of the US-China relationship that had characterised previous CIA statements, Goss stated that China was making determined military and diplomatic efforts to 'counter what it sees as US efforts to contain or encircle China'.¹¹¹ A few weeks earlier, on 2 February 2005, the US House of Representatives had voted unanimously (411-3) to pass a resolution condemning the EU's moves toward lifting its arms embargo on China. The resolution alleged that lifting the embargo could destabilise the Taiwan Strait and put the US Seventh Fleet at risk. 'It is in this context that the EU's current deliberations on lifting its arms embargo on China are so outrageous,' declared Tom Lantos, the senior Democrat on the House of Representatives' International Relations Committee.¹¹²

What has driven US opposition is, firstly, that the EU code of conduct is not legally binding and, secondly, that the embargo is interpreted differently by the 25 member states of the EU. What worries the US more is the transfer from the EU to China of the most advanced early-warning systems and recognition satellites that would put China in a position to counter Taiwanese arms systems imported from the US.¹¹³ According to Washington, with the lifting of the arms embargo the EU may contribute to tilting East Asia's strategic balance in Beijing's favour, thus putting at risk American troops committed to the maintenance of the *status quo*.

The debate has resurfaced in recent months in the US as to whether China has the potential to challenge Washington's dominant position in Asia.¹¹⁴ In the 2002 National Security Strategy, the Bush administration stated that the US 'welcome[s] the emergence of a strong, peaceful,

¹⁰⁹ Ellen Bork, *Human Rights and the EU Arms Embargo*, Memorandum to Opinion Leaders, Washington, Project for the New American Century (PNAC), 22 March 2005.

¹¹⁰ United States Senate, Republican Policy Committee (Jon Kyl, Chairman), *US Generosity Leads the World: The Truth about US Foreign Assistance*, 22 February 2005.

¹¹¹ 'Global Intelligence Challenges 2005: Meeting Long-Term Challenges with a Long-Term Strategy', testimony of Director of Central Intelligence Porter J. Goss before the Senate Select Committee on Intelligence.

¹¹² 109th Congress, 1st Session H.Res.57, *Urging the European Union to maintain its arms embargo on China*.

¹¹³ See Richard D. Fisher Jr., *The Impact of Foreign Weapons and Technology on the Modernization of China's People's Liberation Army*, draft report for the US-China Economic and Security Review Commission, January 2004.

¹¹⁴ See the articles on China's rise in *Foreign Affairs*, September/October 2005.

and prosperous China'.¹¹⁵ However, the US also believes that China's declared 'peaceful rise' cannot be taken for granted and that the lack of democratisation and political liberalisation in China could presage tensions in future US-China relations. Moreover, the Taiwan issue continues to loom large in US-China relations. At the beginning of his first mandate in 2000, President Bush dubbed China a 'strategic competitor'. Bush himself has declared his firm commitment to the defence of Taiwan and Secretary of State for Defence, Donald Rumsfeld, has expressed alarm with regard to the pace and nature of China's military build-up.¹¹⁶ The Bush Administration is worried that China's fast-growing economy and the country's rapid industrialisation are giving Beijing previously unimaginable financial and technical resources to modernise its armed forces.¹¹⁷ Blocked by the EU arms embargo and Washington's refusal to authorise arms sales to the mainland, Beijing has depended largely on Moscow as a supplier in recent years and – to a lesser extent – on other countries like Ukraine and Israel.¹¹⁸

Estimates of China's real military budget are, however, difficult to assess. American analysts tend to believe that 'even the PLA is probably unsure of how much money the Chinese military has at its disposal'.¹¹⁹ During the annual session of the National People's Congress in March 2005, Beijing announced a 12.6% increase in its official defence budget, to US\$30 billion. In 2005, the RAND Corporation con-

cluded that China's total defence expenditures (based on 2003 data) were between 1.4 and 1.7 times that official number.¹²⁰ The US has expressed concern over the size of China's foreign procurement budget. In the view of the International Institute for Strategic Studies (IISS), the latter 'is not known, but is likely to be substantial'.¹²¹ Based on these estimates, China ranks third in the world in overall defence spending after the US and Russia. The US and its Asian allies are concerned that China's military spending is growing both rapidly and in a sustained fashion precisely at a time when there is no pressing external threat to China. This alone fuels suspicions in the Bush Administration – as well as in some of China's neighbours, in particular, Japan – that Beijing is actively pursuing a military build-up.

The recent US Department of Defense Report on the Military Power of the People's Republic of China (MPPRC) concludes that the modernisation of the PLA has gone beyond preparing for a Taiwan scenario and is likely to threaten third parties operating in the area, including the US.¹²² While Chinese leaders insist that their country is engaged in a 'peaceful rise' to power, the US says that China is focusing on procuring and developing weapons that would counter US naval and air power, especially in the Taiwan Strait.¹²³ The US is committed to assisting the island under the Taiwan Relations Act, the 1979 law that accompanied the US switch of diplomatic recognition from

¹¹⁵ George W. Bush, President of the United States of America, *The National Security Strategy of the United States of America*, Washington, September 2002.

¹¹⁶ Victor Mallet and Guy Dinmore, 'The Rivals: Washington's Sway in Asia is Challenged by China', *Financial Times*, 18 March 2005, p. 19; see also *The United States and Asia: Toward a New US Strategy and Force Posture* (Santa Monica: RAND, 2001).

¹¹⁷ See: Dwight Perkins, 'China's Economic Growth: Implications for the Defense Budget', in Ashley J. Tellis and Michael Wills (eds.), *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty* (Seattle: The National Bureau of Asian Research, 2005), pp. 363-86.

¹¹⁸ Konstantin Makienko, 'Les ventes d'armes de la Russie à la Chine. Aspects stratégiques et économiques', in *Le courrier des pays de l'Est*, no. 1032, February 2003, pp. 29-38.

¹¹⁹ David Shambaugh, 'China's Military Modernization: Making Steady and Surprising Progress', in Ashley J. Tellis and Michael Wills (eds.), *Strategic Asia 2005-06: Military Modernization in an Era of Uncertainty* (Seattle: The National Bureau of Asian Research, 2005), pp. 67-104, p. 78.

¹²⁰ Keith Crane, Roger Cliff, Evan Medeiros, James Mulvenon, and William Overholt, *Modernizing China's Military: Opportunities and Constraints* (Santa Monica: RAND, 2005), p. 133.

¹²¹ The International Institute for Strategic Studies (IISS), *Strategic Survey 2004/05* (London: Routledge, May 2005), p. 307.

¹²² US Department of Defense, *Report on the Military Power of the People's Republic of China* (MPPRC), October 2005.

¹²³ United States Congress, *2004 Report to Congress of the US-China Economic and Security Review Commission*, June 2004. Chapter 8: 'China's Military Modernization and the Cross-Strait Balance'.

Taipei to Beijing.¹²⁴ Chinese leaders have always maintained that they reserve the right to use violence at home to keep China intact – and they stress that Taiwan is part of Chinese national territory. China's National People's Congress passed the anti-secession law in March 2005 reiterating the 'sacred duty' for the PLA to take military action if Taiwan takes a decisive step toward declaring independence.

Taiwan remains a thorny issue in US-China relations and, more recently, also in Japan-China relations. In 2005, Japan identified China as a potential threat for the first time. In February 2005, the US and Japan held top-level security talks at which they agreed to set new common security objectives to deal with what they called 'unpredictability and uncertainty' in East Asia. In the joint *communiqué* the two sides declared that Taiwan is a 'mutual concern' for both the US and Japan. The latter is worried about an escalation in Cross-Strait relations, since should a war between the US and China break out, American troops will come from Okinawa, thus bringing Tokyo in the conflict. For the EU and its member states, Taiwan is not an issue of immediate concern. However, any confrontation between the US and China – with the likely involvement of Japan – over the island will inevitably disrupt regional stability and thus jeopardise Europe's economic interests in the area. In this context, the EU's establishment of a security-strategic linkage with China has contributed to make the Union an additional factor – albeit unconsciously – in East Asia's strategic balance.¹²⁵

* * *

As a consequence of US concerns and the passing of the anti-secession law (clearly aimed at Taiwan) by China's National People's Congress (NPC) in March 2005, the proposal to lift the arms embargo has been shelved. The arms embargo issue has demonstrated, however, the new strategic significance acquired by EU-China relations, as well as the need for security consultation mechanisms. At the 8th EU-China Summit in September 2005, Brussels and Beijing agreed to set up a 'Strategic Dialogue' to discuss both bilateral and global strategic issues. Initiated in December 2005, the EU-China Strategic Dialogue is meant to complement the EU-US and EU-Japan Strategic Dialogues on North-East Asia (initiated, respectively, in May 2005 and in September 2005). These newly established dialogues serve the purpose of moving forward EU-China relations by taking into account American and Japanese perspectives. At the same time, they are an indication of the new challenges facing EU policymakers as they develop – and upgrade – relations with China.

At the 9th EU-China Summit held in Helsinki (Finland) on 9 September 2006, the two sides agreed to launch negotiations on a new Partnership and Cooperation Agreement (PCA) which will encompass the full scope of their bilateral relationship, including enhanced cooperation in political matters. The PCA will update the 1985 EEC-China Trade and Economic Cooperation Agreement and will take into consideration the global objectives and the new strategic significance acquired by EU-China relations.

¹²⁴ Section 2(b)(6), The Taiwan Relations Act, P.L. 96-8, approved April 10, 1979.

¹²⁵ Nicola Casarini, 'The making of the European Union's strategy towards Asia', in Nicola Casarini and Costanza Musu (eds.), *European Foreign Policy in an Evolving International System: The Road Towards Convergence* (Basingstoke: Palgrave/Macmillan, 2007).

Conclusion and recommendations

EU-China relations have acquired a new strategic significance in the past decade. Economic and trade relations between the Union and China have developed considerably due to a new economic ‘securitisation’ discourse which has taken place both in Europe and China (as discussed in Section 2). Moreover, the policy of constructive engagement has been upgraded to include a significant security-strategic dimension (see Section 3). The latter has increasingly become a matter for concern for the United States. According to Washington and other concerned Asian partners of the Union – in particular Japan – China’s participation in the Galileo project (with the related issue of advanced technology transfers) and the proposed lifting of the EU arms embargo on China may contribute to help China’s military modernisation and potentially tilt East Asia’s strategic balance in Beijing’s favour in a situation where there could be future tensions in US-China relations, especially over Taiwan. This means that EU policy-makers are faced with a crucial challenge: how to continue to develop and further upgrade relations with Beijing and, at the same time, seek to avoid serious transatlantic disputes over China? It is suggested here that in order to meet the above challenge, the EU should work towards the creation of a positive triangular EU-China-US relationship. The following recommendations are offered to EU policy-makers in order to: (i) address emerging security implications in EU-China relations; (ii) move forward the relationship after the arms embargo impasse; and (iii) create the conditions for a positive EU-China-US relationship:

► **Upgrade the policy of constructive engagement.** Influence over political developments in China is best acquired by engaging China in a structured dialogue. The political content of such dialogue needs, however,

upgrading. New dimensions should be added to the EU-China strategic partnership, including security and military issues with a view to supporting Beijing towards peaceful integration in the international community.

- **Increase expertise within the Council of the European Union on Chinese security and military issues.** There is a considerable amount of expertise available in the various Directorates of the Commission. It is suggested here that more expertise on China’s defence and military issues is needed. The Council should take the lead in developing the above expertise given its competence on security-related matters. The Council may draw on the existing know-how available across European universities and research centres so as to pool – and increase – European expertise on the above issues with the aim to provide sound background analysis to the further development of security-strategic relations with China.
- **Give serious consideration to the creation of an EU-US structured security consultation mechanism on China.** The EU’s policy of constructive engagement towards China and its evolution to include a security-strategic dimension is advantageous to both Europe and China. However, the establishment of a security-strategic linkage has highlighted the need for more high-level discussions and structured security consultation mechanisms between the EU and China but also between the EU and the US, in particular regarding the security implications of China’s participation in Galileo, European advanced technology transfers to China and the impact of an eventual lifting of the arms embargo on East Asia’s strategic balance. A security consultation

mechanism would provide a forum for discussion between the EU and the US on their specific priorities and interests towards China with the aim of defusing any serious transatlantic dispute that may arise as a result of misperceptions or miscalculations.

- **Strive to increase coordination among EU member states on their security-related policies towards China.** Increased coordination among member states' defence and security policies towards China would allow the Union to acquire more leverage over Beijing. The creation of a China desk/person within the Council could help achieve greater coordination and help shape a more unitary political and strategic vision about the PRC. The office could also become a clear referent for the other EU institutions and the member states for all security-related matters on China.

- **Step up efforts for the development of a clear and comprehensive common strategic vision of the EU's role and interests in China.** The EU-China New Framework Agreement (NFA), approved by the Council on 12 December 2005 as a joint agreement, as well as the launch of negotiations on a new Partnership and Cooperation Agreement in September 2006, should be seen as an opportunity for the Commission and the Council (in liaison with the EU member states) to start working on a common strategic document about China. This strategic document would offer the EU and its member states the opportunity to consider – within a broader framework – the modalities, characteristics, and context of an eventual lifting of the arms embargo with the aim of furthering the EU-China strategic partnership.

Annexes

Abbreviations

CASS	Chinese Academy of Social Sciences
CCP	(i) Chinese Communist Party (ii) Common Commercial Policy
CFSP	Common Foreign and Security Policy
COCOM	Coordinating Committee (for the control of strategic exports to communist countries)
CSP	Country Strategy Paper
CSSC	China State Shipbuilding Corporation
EADS	European Aeronautic Defence and Space Company
EC	(i) European Community (ii) European Commission
EEC	European Economic Community
EP	European Parliament
EPC	European Political Cooperation
ESA	European Space Agency
ESDP	European Security and Defence Policy
ESS	European Security Strategy
EU	European Union
FDI	Foreign Direct Investment
GAERC	General Affairs and External Relations Council
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GJU	Galileo Joint Undertaking
GNP	Gross National Product
GNSS	Global Navigation Satellite System
GPS	Global Positioning System
GSP	Generalised System of Preferences
ICT	Information and Communications Technologies
IPR	International Property Rights

MES	Market Economy Status
MFA	Multi-Fibre Agreement
MFN	Most Favoured Nation
NAS	New Asia Strategy
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
NPC	National People's Congress
PLA	People's Liberation Army
PPP	Purchasing Power Parity
PRC	People's Republic of China
TCA	Trade and Co-operation Agreement
UK	United Kingdom
UN	United Nations
UNCHR	United Nations Commission on Human Rights
US	United States
WEU	Western European Union
WTO	World Trade Organisation

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