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# The Legs of the Triangle - The EU-China Relations

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## Introduction

China's ascendance on the world stage signals a major shift in the global political, economic, and security environment. The ability of the US and EU to deal effectively with the challenges associated with China's rise have far-reaching consequences both for transatlantic relations and for the effective management of China's global emergence and the world order. The Bush administration's China policy appears still contested and the future of Sino-American relations highly uncertain. China has not already become the world's 4th economy and 3rd exporter, but also an increasingly important political power (total external trade now more than three times the combined trade of India and Brazil). In this context, it is not surprising that competition and rivalries within the strategic triangle are growing. While ambivalence has always characterized the complex US-China relations, increasing frictions in a number of political and economic fields is rather a new development within the EU-China relations during the last 12-18 months.

In this respect, EU-China relations are at a crossroads at a time when the EU and its member

states are seeking ways to overcome the rifts of the Iraq conflict with the United States. Partly as a result of the enlargement processes, the EU became the largest trading partner of the PRC in 2004 and China became the second-largest trade partner of the EU, second only to the USA. Since 1978, the bilateral trade volume has increased 30-fold, reaching 148 billion euros in 2003. Germany is by far the largest EU exporter to China, conducting no less than 44 per cent of the EU's total trade with China. But although the expansion of the bilateral trade is a success story in its own right, it simultaneously also undermined the implementation of a more effective CFSP towards China, both in a material and a normative context. The growing economic ties and interdependency have strategic consequences for the political relationship between the EU and China, and also for the transatlantic relationship. They will eventually have to address more potentially divisive transnational and regional issues outside Europe, including the relationship with Asia and China. While China is still vying for a "multi-polar world," the EU and its member states are implementing their CFSP step-by-step, as well as their ESDP. Yet despite the European Security Concept, the main mem-

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ber states of the EU (notably France and Germany) had still defined their policies on China largely by their economic and trade interests until the summer of 2005. Therefore, they have often ignored the EU's long-term security interests in the Asia-Pacific as outlined in numerous EU and national foreign policy documents on China.

Since the promulgation of its guidelines for a Comprehensive Partnership with China on 29 June 1998 and its Asia Strategy paper of September 2001, the EU has struggled for a coherent, comprehensive and balanced China policy based on a long-term strategy that reflects China's growing economic and political weight at the regional and global level, as well as the EU's interest to implement its own CFSP. Since the year 2000, the EU's assistance programmes for China have also included its WTO accession, the fight against illegal immigration and trafficking in human beings, social security reform, the telecommunication/information society, the environment, energy, and human resource development.

In contrast to the European Commission, the European Parliament (EP) has repeatedly criticized the Europe's official and unofficial policies on Taiwan and Tibet. In the 2002 Implementation Report on the EC's China Strategy Paper of 1998, the EP had already criticized the statement: "China reserves the right to use military force in its disputes with Taiwan." The EP has also expressed concern over China's identification of the USA as its principal threat in its defence white paper of October 2000 and over the fact that it "has supported regional groupings which exclude the US, rather than pan-Pa-

cific ones, even setting up its own version of Davos at Bao on Hainan Island, to which no Americans were invited."

Meanwhile, the trade imbalance has also sparked calls for a tougher approach in the EU's China policies. Europe's textiles' industry has particularly urged to crack down on cheap imports of Chinese products by imposing anti-dumping duties on clothes and leather shoes. Furthermore, China's total FDI in 2004 was just € 3 bn (but increasing rapidly) with a strong focus on securing access to natural resources. But Europe only receives a fraction of 2% of this.

In the future, EU-China relations will increasingly be affected by global policy challenges arising outside China and Europe. Hence the EU, as well as China, will have to assume more responsibilities for global political and economic stability, such as an increasing engagement in regional security in the Middle East and Central Asia. However, the national interests of both sides may grow further apart, given China's and the EU's growing energy demands and, subsequently, their increasing economic dependence on these politically highly volatile regions. The strategic interests of both the EU and China concerning their access to energy resources make them more interested in the maintenance of political stability in these regions. Consequently, the growing inter-regional energy interdependencies between Europe and China require common EU-China strategies vis-à-vis this "arc of instability."

Meanwhile, in the process of a newly emerging "strategic triangle" between the USA, the EU and China, Beijing has also tried to deepen the rift

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in the transatlantic relations by demanding that the EU lift its 1989 arms embargo.

### **The Debate over Lifting the EU-Arms Embargo on China and its Implication for the Taiwan Strait conflict**

In October 2003, China published an official strategy paper on EU-China relations for the very first time. This is interesting because Beijing did not publish a similar paper on its relationship with ASEAN, the USA or any other regional grouping or great power. In this paper, Beijing declared that it seeks to lift the EU ban on arms exports to China "at an early date" in order to "remove barriers to greater cooperation on defence industry and technologies." Understandably, China wants to end the arms embargo at a time when both sides see each other increasingly as strategic partners in an era of global uncertainties. Indeed, similar formal embargos by the EU have only been adopted against Sudan, Myanmar and Zimbabwe. China does not want to belong to the same questionable category of "rogue states."

While China has become one of the fastest-growing economies worldwide, it has also developed what is probably the third-largest defence budget (after the US and Russia). During the six years between 1997 and 2003, Chinese defence expenditure increased by more than 140 per cent. In 2004, official defence spending increased 11.6 per cent to \$25 billion (€ 20.8 billion), and in 2005 it increased by another 12.6 per cent to around \$29.5 billion - again outpacing the 2004 GDP increase of 9.5 per cent. However, the Pentagon, the International Institute for Strategic

Studies (IISS, London) and international military experts believe that in real terms the Chinese defence budget is somewhere between \$50-90 billion. Since 2000, China has become the world's largest arms importer, with a heavy dependence on Russian high-tech weaponry exports due to its insufficient national arms industry output and the Western arms embargo. It has signed new arms agreements worth more than \$11 billion since 1999. During the last two years, the transparency of its defence expenditure has also deteriorated, probably as the result of unwanted Western and Asian attention.

To understand Beijing's interest in lifting the EU arms embargo imposed in 1989, one needs to bear in mind that President Vladimir Putin has placed constraints on Russia's weapon exports and technology transfers to China. In contrast to its growing military technology co-operation with India, Moscow is not willing to develop new high-tech weaponry generations together with Beijing or to lease nuclear bombers and deliver supersonic missiles with a range of more than 300-500 km to China. Thus China is looking for alternatives to speed up its military modernization and to diversify its arms imports and technology transfers.

Within the EU, France has clearly taken the lead in pushing for the lifting of the 15-year-old embargo, which it considers to be "outdated." This push reflects Paris' and Beijing's hopes for a "multi-polar world," as well as their intentions to strengthen the French and European arms industry by selling more weapons systems and particularly dual-use technologies to China. Furthermore, French President Jacques Chirac has officially condemned Taiwan's referendum

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of 2004 as "irresponsible" and a threat to Asia, enshrined in a joint declaration signed by him and visiting PRC President Hu Jintao. On 16 March 2004, Paris even held joint naval exercises in the vicinity of Taiwan for the first time, just four days before Taiwan's presidential elections. Beijing called these "the most comprehensive military exercise ever held between China and a foreign country." In February 2005, the French defence minister, Michèle Alliot-Marie, argued in favour of expanding weapons exports to China over the next five years before Beijing is able to produce them itself. According to her arguments, lifting the embargo and expanded weapons sales to China could slow Beijing's own capabilities to produce high-tech weaponry. Hence lifting the embargo is better than maintaining it. In April 2005, French Prime Minister Jean-Pierre Raffarin stated during his visit to China that Beijing's new anti-secession law was "completely compatible with the position of France." Finally, in the same month, China's Air Force Chief of Staff, Lieutenant General Peng Sheng-chu, declared "that his service felt considerable pressure with the PLA planning to purchase 210 advanced Mirage 2000-9CS" fighters and 1,200 Mica air-to-air missiles, worth 12 billion euros.

In recent years, French President Jacques Chirac and German's then Chancellor Gerhard Schröder argued that China had made sufficient progress in reforming its government and economy since 1989 to justify lifting the arms embargo. Moreover, the European arms industry (including the European Aeronautic Defence and Space Company, EADS) has begun to shift its business strategies towards the Asian markets, and particularly the Chinese one. Although the Euro-

pean industry often overestimates the prospects of China's willingness and capacity to buy large amounts of high-tech weaponry, it is indeed very interested in acquiring specific niche technologies and minor weapon systems, such as radar, air-to-air missiles, sonar equipment, torpedoes and other important force multipliers to increase the fighting capabilities of both its old and new weapons systems.

Germany and the EU have denied that the lifting of the arms embargo would lead to a significant rise in the sale of high-tech weaponry to China because arms sales would still be barred under a new, more efficient EU Code of Conduct aimed at preventing sales to repressive states or instable areas. Furthermore, Germany's national regulations on arms exports are considered to be stricter than those of France and the United Kingdom. Yet the German national export controls do not play an important role any more for the weapons technology that China is looking for. Moreover, the EU regulations did not keep it from exporting naval ships and other military equipment to Indonesia during the 1990s when Jakarta occupied East Timor (a former Portuguese colony) with brutal force. During the last few years, other EU member states have also adopted their own interpretations of the Code of Conduct in general and the arms embargo vis-à-vis China in particular. These have resulted in an increase in the number of approved licences to sell military equipment to China. Between 2002 and 2003, military exports to China doubled from 210 to 416 million euros and increased eight times within a two-year period (2001-2003). As is hardly surprising, France was the largest weapons exporter in 2003 with sales to the value of 71 million euros.

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Unlike the embargo, the existing code is not legally binding and its political restraints have become insufficient. Also, the EU member states (including France and Germany) did not address the question of whether the Code of Conduct was really effective enough to prevent the export not only of major weaponry, but also of increasingly important dual-use technologies. These dual-use technologies, which often don't meet the export-blocking criteria of being "lethal," nonetheless significantly augment China's military modernisation and power projection. In contrast to the past, no major high-tech weapons system today exists exclusively as a result of purely military technologies.

Since the beginning of 2004, the US has launched a diplomatic campaign against the EU as well as its main EU and NATO partners, in order to pressure them into not lifting the arms embargo on China. The US is taking this action for four basic reasons, which have found support across the entire US political spectrum:

- (1) If the EU lifted the embargo, it would put the US in a precarious position to maintain its own sanctions imposed in 1989.
- (2) Although the human-rights situation in China has undeniably improved since 1989, China's human-rights record is still questionable by US standards. The Bush Administration, for instance, sponsored a resolution at the UN Commission on Human Rights in Geneva in February 2004, condemning Beijing's human rights record for the first time in three years. In the US view, China made commitments in 2002 which had not been fulfilled, such as granting the International Committee of the Red Cross access to its prisons - a promise

made on the eve of President's Bill Clinton's first meeting with China's President Jiang Zemin over a decade ago.

- (3) It would increase China's military capabilities and consequently destabilise the military balance, which is already eroding in favour of the PLA.
- (4) Any weapons exports and technology transfers may increase the proliferation risks due to China's inefficient export-control system.

On 2 February 2005, the US House of Representatives approved a resolution condemning the EU plan with an overwhelming 411 votes to 3. Furthermore, the US Congress has threatened to vote against any future transatlantic defence co-operation as well as future access to US defence technology for the EU and participation in US defence projects if the embargo is lifted. Although the US House of Representatives rejected legislation that would have given the President the authority to sanction EU companies that sell arms to China on 14 July 2005, it may change its mind if the EU lifts its arms ban in the future.

Originally, China feared that with the new Eastern European members being politically more closely allied with the US, it would be even more difficult to lift the arms embargo. However, the EU did not make a final decision prior to its enlargement on 1 May 2004.

Meanwhile, the EU itself has demanded that China should take more concrete steps towards the improvement of human rights, such as ratifying the International Covenant on Civil and Political Rights, which China signed in 1998. The European Parliament already passed a resolution on 18 December 2003, appealing to the European

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Council and the EU member states not to lift the EU embargo on arms sales to China by an overwhelming majority of 373 to 32 with 29 abstentions. It has also argued that China has not made enough progress in its human rights record. The EP also reiterated its belief that in view of China's military threats against Taiwan and by its unwillingness to dismantle its more than 500 missiles that target the country, it would be a bad idea to lift the arms embargo in the near future. Moreover, on 3 June 2004, the WEU Assembly and the Interparliamentary European Security and Defence Assembly also issued a warning against lifting the EU embargo on arms exports to China until Beijing makes significant progress on arms export controls and human rights. It has criticized the human rights situation in China, saying that it is worsening and that the Chinese space programmes lack transparency in their objectives. It has also demanded that China ratify the UN Covenant on Civil and Political Rights and formally join the Missile Technology Control Regime (MTCR). Beijing, however, made clear that it will not bow to the demands of the EU for any political concessions.

As the result of growing criticism and political opposition, a new, more rigorous EU Code of Conduct on arms sales is expected that will stop any weapons exports that could be used by China for "external aggression or internal repression." For the first time, the revised code will also govern licences and a "tool box" that will oblige all member states to reveal what licences they have approved and denied. However, it remains uncertain whether the new Code of Conduct for European arms exports would be effective enough to close the loopholes for sensitive dual-use technology exports.

On 14 March 2005, China adopted a new "anti-separation law" authorizing the use of military force against Taiwan if the island moves towards formal independence or "should all other means for a peaceful reunification be exhausted." Although this threat is not really a new addition to Beijing's policies towards Taiwan, it is now enshrined in an official national law that limits the political room for manoeuvre that Beijing's political leaders will have in any escalating future crisis with Taiwan even more. It also contradicts Western concepts of crisis stability.

With the present British presidency and the EU's criticism of China's new anti-separatist law, any EU decision (which needs the agreement of all 25 EU member states) concerning the lifting of the 1989 arms embargo seems likely to be shelved for the time being.

In summary, the intra-European and transatlantic discussions on lifting the EU arms embargo on China, the French-German unilateral initiative made without consulting their own foreign ministries or major EU partners in advance, have clearly demonstrated the short-sighted commercial temptations wrapped up in the embargo politics. For any final decision concerning the lifting of the arms embargo, the German government should take into account that it would also be politically responsible for any arms exports of other EU members, notably France, to China. Moreover, opening the door for intended or unintended EU military technology supplies to China might also remove the existing restrictions on high-tech arms exports from Russia, Israel and other nations to China.

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For many critics of lifting the arms embargo it is far from clear that finalising technical preparations to ensure lift would not lead to a qualitative or quantitative increase in arms sales. The EU's official position is still that an improvement of the political atmosphere is a pre-condition for lifting the embargo such as:

- Making progress on China's human rights situation;
- Working to improve cross-straits relations; and
- Improving the transparency of its military transparency.

At present, it seems that there is no perspective for lifting the embargo in the short-term future for the following reasons:

- Is no longer a hot topic being discussed any longer inside the EU;
- Germany's stance which has changed (in the early summer of 2005) already before the new coalition government had been established;
- Chirac as a lame duck until the summer of 2007;
- Due to the overall much more critical atmosphere within the EU towards China.

In the medium term, however, the question as to whether the EU should lift its 1989 embargo no longer seems appropriate; the question is really when will it be done and under what circumstances. In the view of European critics of the relationship with China, a responsible CFSP should establish a direct link, not only between lifting the embargo of 1989 and Chinese concessions in the area of human rights, but also concerning China's authorized right to use military means to "solve" the Taiwan question. This

right contradicts the EU's repeatedly declared strategic interest in a peaceful solution of the Taiwan Strait conflict. Moreover, the EU has become more critical of China's "seduction strategy" of "divide and rule" by playing off the USA against the EU, which can only weaken the EU's CFSP vis-à-vis China and disrupt transatlantic relations in ways that transcend this dispute over the arms ban itself. Furthermore, the EU and Germany have re-balanced their Asia policies in a way which takes the views and interests of the other Asian countries (notably the democracies in the Asia-Pacific such as Japan, South Korea, Australia, New Zealand and India) much more into account and which is no longer so dominated by the China factor as in the past.

### **The EU's new China Strategy Paper**

The EU's new China Strategy Paper, called "EU-China: Closer Partners, Growing Responsibilities") formally adopted on October 24, 2006, is a newly extended partnership and cooperation agreement. The EU's fundamental approach remains one of engagement and cooperative partnership. But the tone of the paper in general, has become much more critical. In the view of the European Commission, with a closer partnership, mutual responsibilities increase too.

### **Trade and Investment - The Economic Dimension of the EU-China Strategy Paper**

The attached trade and investment paper has been called characteristically for the new critical tone „Competition and Partnership" which is reflecting the increasing ambivalent economic re-

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relationship between both sides. No doubt, both sides have benefited from their growing economic trade relationship. But trade imbalance has also increased: Chinese exports in 2005 reached € 158 bn and EU exports to China € 52 bn, resulting in a trade deficit € 106 bn. In the view of the Commission, China has also growing responsibilities to maintain an open global trading system and to trade fairly. The Commission argues that Europe should continue to offer open and fair access to China's exports and to adjust to the competitive challenge, whilst China should strengthening its commitment to economic openness and market reform, improve legal protection for foreign companies and reject anti-competition trading policies and practices. Otherwise tendencies in Europe and US of growing defensiveness and protectionism may rise. The Commission also tries to reassure that the anti-dumping measures are only directed against unfair trade, but not used to deflect fair competition. Meanwhile, the EU's market share in China was 16% in 2005 (similar to that in Japan a ASEAN countries, but lower than in US with 20%, India with 21% or in Brazil with 31%). At the same time, the Commission's paper warns: "China policies on the environment, social standards, currency valuation and natural resource can distort trade".

In this light, the new China Strategy paper adopts a much tougher stance on issues such as are: Government procurement; intellectual property; subsidies; and the country's lax environmental and social standards. It also warns China that its failure to dismantle market barriers and tackle intellectual property violations risks undermining the booming mutual trade. This criticism is also reflecting growing political pressure inside

the EU that its trade relationship with Beijing may not be seen as genuinely reciprocal in the future if current political trends will continue and problems won't be addressed.

### **Political Side**

The Commission's paper seeks a comprehensive reframing approach to its political and economic partnership. For the EU's official standpoint, despite growing global political role and emerging economic superpower status, China remains a developing country for the time being. In the Commission's view, both sides have a mutual interest at a strong partnership and sustained dialogue as well as a shared responsibility in the following fields:

- to address climate change, sustainable development and energy security;
- to work more closely on issues such as development assistance in Africa;
- Europe's interest at supporting internal reform processes in China (i.e. tackle corruption).

However, the paper also raised further criticism at China at the following issues:

- China's Africa-policies undermining EU's developing policies;
- Increasing concern over the lack of transparency in Beijing's defence spending;
- EU should improve its analytical capacity on China's military development;

But it calls for continued cooperation on the Galileo global positioning satellite system, despite the fact that Jacques Barrot, EU transport commissioner, has admitted in September 2006

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that the project could have military uses.

For the EU, China's traditional preference of strict non-interference becomes increasingly untenable and is complicating regional and global crisis management. In this context, it is notable that China takes a more active, but also more assertive international role. Most worrisome for China, however, might be the EU's new clear position on Taiwan. In this regard, the paper argues:

- EU has significant stake in the maintenance of cross-straits peace and stability;
- opposition to any measure which would amount to a unilateral change of the status quo;
- strong opposition to the use of force;
- encouragement for pragmatic solutions and CBMs;
- support for dialogue between all parties; and
- continuing strong economic and trade links with Taiwan.

### **Conclusions and Perspectives**

For the debate on lifting the EU arms embargo it is necessary to understand on the Chinese side that the EU's changing stance is not just the result of US pressure. The former German Chancellor Gerhard Schröder had never a majority in the Bundestag or even in its own party. For the EU, ultimately the debate helped to highlight other aspects than economic factors to get a more comprehensive picture on China's rise and to define EU's strategic interests vis-à-vis China in a more comprehensive way, including in the framework of its CFSP and a more balanced Asian policy. Any lifting of the arms embargo is dependent on pre-conditions which China needs

to fulfill and a change of the overall atmosphere within the EU-China relations. The EU's new China Strategy Paper is not really making China to the scapegoat of the EU's own lack of internal reforms to compete successfully in times of globalization, albeit those Europeans problems of the lack of reforms is certainly influencing the EU-China relations. But there are undoubtedly double standards on the Chinese side in context of its WTO obligations. In general, the new Strategy paper reflects the need for a deepening EU-China dialogue, but as well as of a strategic triangle relationship between the EU-China and the United States. In the future, any EU- China policy will be a mix of four major elements:

- economic factors;
- domestic policies (growing uncertainties and social fears);
- world order considerations; and
- determinants of regional order and security.

However, there is also much more agreement within the EU about general assumptions and strategies of its China-policies. At the same time, there is a need to prevent that the EU-China relationship moves from one extreme to the other one. A more balanced relationship needs to take into account the common interests as well as their different attitudes, policies and underlying values.

In this light, this analysis concludes with the following political recommendations:

- \* initiating a deeper dialogue on controversial issues;
- \* joint discussions on China's energy and natural resource policies and energy foreign poli-

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cies/diplomacies (Africa-policies, Central Asia)  
- including political stability in the energy/natural resource producer states;

- \* climate change/environmental policies;
- \* addressing trade imbalance and dismantle market barriers i.e. (intellectual property rights);
- \* effective multilateralism of ineffective multilateral regimes and organizations (global governance);
- \* transparency of China's military and defence expenditures.

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