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Book

Linkage Power Europe: The EU's Trade Negotiations with China (1975-2019)

Routledge Studies in the Modern World Economy

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Suggested Citation: Xiaotong, Zhang (2023) : Linkage Power Europe: The EU's Trade Negotiations with China (1975-2019), Routledge Studies in the Modern World Economy, ISBN 9781032410333, Routledge, London,
<https://doi.org/10.4324/9781003355915>

This Version is available at:

<https://hdl.handle.net/10419/281341>

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Routledge Studies in the Modern World Economy

LINKAGE POWER EUROPE

THE EU'S TRADE NEGOTIATIONS WITH CHINA
(1975–2019)

Zhang Xiaotong



Linkage Power Europe

This book looks at the history of the EU's trade negotiations with China from 1975 to 2019 from a distinctive perspective – the EU as a linkage power. The author explains how the EU through linkage strategies speaks with one voice, overcomes its weakness in military capabilities and translates its non-military capabilities into advantages and influences in some specific policy areas.

The book systematically traces the European negotiators' tactics in managing the EU's trade relations with China. It's the first time that the history of EU–China trade negotiations is presented to the public by a seasoned trade negotiator. The author, combining the identities of a negotiator and a scholar, gives a panoramic view of EU–China trade relations from 1975, when the European Economic Community established diplomatic relations with China, to 2019 when the Juncker Commission leaves office.

This book will appeal to policymakers, think-tankers, professors and students, as well as anyone who is interested in trade policies and negotiations in the EU and China.

Zhang Xiaotong is Professor at the Institute of Belt and Road Initiative & Global Governance, Fudan University, Shanghai, China.

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ROUTLEDGE

Routledge

Taylor & Francis Group

LONDON AND NEW YORK

First published 2023
by Routledge
4 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
605 Third Avenue, New York, NY 10158

Routledge is an imprint of the Taylor & Francis Group, an informa business

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British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library

ISBN: 9781032410326 (hbk)

ISBN: 9781032410333 (pbk)

ISBN: 9781003355915 (ebk)

DOI: 10.4324/9781003355915

Typeset in Galliard
by Deanta Global Publishing Services, Chennai, India

In Memory of Mario Telò



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Acknowledgements

For me, this book is something personal, reflecting my life and work in Brussels between 2004 and 2010. It tracks the events which I experienced, such as the EU–China Textile Disputes, and also those which had taken place even before I was born, such as the establishment of the EEC–China diplomatic relations. This book sets a large stage for many actors. Their names are somewhere in the contents of the book, for example, EU trade commissioner Peter Mandelson. I was honoured to be a walk-on in the historic play of “EU–China relations”. That is probably why I never felt bored throughout a decade-long period of writing. It was just like watching my own movie, carrying me back to what happened yesterday. Thanks to this book, I can still remember my many interesting meetings with those EU mandarins, observing how they formulated strategies and played tricks at the same time.

This book provides some insights on what kind of power the EU is, how it handles relations with China, in particular trade relations, and in what distinctive ways. I tried hard to resist the temptation to underestimate or overestimate or simplify the EU. It was not easy to find the right concept or analytical framework for my book. Issue-linkage was the starting point. But it took me another couple of months to find the “catchword” – linkage power. In retrospect, my first focus was on the EU’s external linkages. However, the more I studied the EU, the stronger I felt the need to go deeper into the EU’s internal linkages, bargains and trade-offs which were essential for the EU actors to reach consensus and for the whole Union to emerge stronger in external negotiations. My research has proven that linkage was crucial for the EU to exert influence vis-à-vis a third country.

This book presents a panoramic picture of the EU’s trade relationship with China since the European Economic Community established diplomatic relations with the People’s Republic of China in 1975. I have tried to cover all the major EU–China trade events and negotiations, and explain how the two rising powers interacted. It was by no means an easy task, but I was fortunate in having Professor Mario Telò, guiding me throughout the journey. I am grateful for his mentorship.

I should thank my family – my parents, my wife and my two adorable daughters. This book is for them. They always give me their unreserved support.

I should also give my great thanks to Jeffrey Silver and Robert Karthaus, who helped me greatly editing my PhD thesis, upon which this book is written. I must thank my Chinese colleagues in Beijing, Wuhan and Shanghai. They always enlightened me, helped me and encouraged me in many ways. My thanks also go to those people working in Charlemagne and Berlaymont (Commission buildings). They were open and professional.

Here is a further list of people I need to thank: Qu Xing, Frederik Ponjaert, Chen Zhimin, Gustaaf Geeraerts, André Sapir, Patrick Messerlin, Frederik Erixon, Yong Ling Lam, Kendrick Loo and Payal Bharti.

Without them, my PhD project and book project would have been a mission impossible!



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Introduction

Since the end of 1970s, the world has witnessed the re-emergence of two powers – China and the European Union.¹ China built its strength mainly through its rapid economic growth as a result of its 40-year reform and opening-up efforts, while the EU built its strength mainly through its integration and enlargement process, as well as establishing a regional and global governance network and setting an example for the near and far abroad. It is no coincidence that the EU and China developed their multi-faceted relationship since 1975 when the EEC–China diplomatic relations were established, and a comprehensive strategic partnership was built in 2003. This relationship, with its regional and global implications, experienced ups and downs, a honeymoon period and tensions. It is interesting and relevant to ask how these two rising and evolving powers interacted in a fast-changing international context. What kind of negotiation tactics did the EU adopt in handling its relations with China?

As Russia invaded Ukraine all of a sudden in February 2022, and the US–China strategic competition increasingly dominates the stage of international politics, we have to admit that power politics has not yet faded away and we are still living in a Westphalian world where power matters. When great powers live and act upon the rationale of power, could the EU simply retreat from the world or rely solely on its normative power?² Is it possible for the EU to build its own island isolated from a largely realist world? The European Commission, led by President Ursula von der Leyen, gave a clear “No” answer by building a geopolitical European Commission and working towards a strategic autonomy. Into the second decade of the 21st century, two phenomena are increasingly dominating the agenda of the EU’s policy agenda. First, power is still the buzzword and the way of life for many international actors like the United States, China or Russia. Secondly, the pressures from economic globalization and all kinds of transnational and non-traditional threats require the EU to assert itself as a global actor using its continental strength to project European interests and values globally. But the question is *how* the EU is able to achieve those goals. Can the EU find ways to deal with the power rationale for its own strategic interests? How did the EU make other international actors agree to something they originally opposed? To put it simply, how is the EU able to wield its power in international bargaining?

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As Mario Telo wisely observed, the EU is indeed an understated power by default (given the possibility of amassing classical power through a federal state with appropriate military capabilities) and a provocation for the traditional realist understanding of international relations which linked international power to a hierarchy of capabilities wherein military force maintained a clear primacy.³ Kenneth Waltz, a realist American political scientist, simply predicts a European great power is unlikely, arguing that the European Union has all the tools – population, resources, technology and military capabilities – but lacks the organizational ability and the collective will to use them.⁴ A senior European policymaker gave a similar downbeat view. In a controversial paper entitled “Powerless Europe: Why Is the Euro Area Still a Political Dwarf?”, Lorenzo Bini-Smaghi, the European Central Bank board member in charge of external relations, wrote that

Europe has much less influence over international policy issues than would be expected on the basis of its relative economic weight. This is particularly the case in international institutions like the IMF where, as compared to the World Trade Organization (WTO), Europe is much less influential than the United States.⁵

The debate about the EU’s strength has another camp. For example, Pascal Lamy, a former EU trade commissioner, gave a sanguine view of the EU’s ability to play a leading role on the world economic stage:

The lesson to be taken from the experience of the past five years is that, when it chooses to pursue a truly federal policy, the EU can play a decisive role on the world stage. Together, we have a far greater weight than the sum of the member states. We have the ability, not only to resist initiatives that we do not support, but also to set the international agenda.⁶

Mario Telo argues that “the EU in fact acts like a power, looks like a power and is an international power, albeit a very peculiar one”.⁷ Hill and Smith believe, “The EU both has power, and is a power of a certain kind in international relations, even if these claims must be qualified by reference to geography and issue-area”.⁸ For them, the EU is an unusual power. Its exercise of power is situational, geographical or issue-specific.

In this book, *trade* is singled out as an experimental field to test whether and how the EU is truly a power. This is mainly because trade is one of the core EU competences and at the forefront in bearing witness to the EU’s external actorness being tested vis-à-vis other international actors. Bretherton and Vogler, based on their interviews with Brussels-based diplomats, find that third-party representatives generally rated the EU’s trade power highly. “The absence of military capability was not identified as an issue by any of the third party representatives interviewed – all of whom nevertheless considered the EU to be a significant actor”.⁹ “The EU is undoubtedly a coherent actor on trade – almost

a trade superpower”.¹⁰ For them, the EU’s negotiating leverage is not purely a result of its size as a trading block. Rather, the EU is smart in the sense that it is able to profit from its complex institutional dynamics. For example, it is generally recognized that the tight mandate given by Member States to the Commission leads it to adopt a rigid negotiating approach, which, when carefully engineered, can strengthen the Commission’s negotiating leverage.¹¹ Moreover, the pre-cooked deal, through the ‘log-rolling’ and ‘side-payment’ inside the Council of Ministers, disadvantages third parties.

The central aim of this book is to improve understanding of the EU’s power, mainly in trade, where the EU has strong competences. This book is especially interested in what kind of power the EU is and what kind of power resources the EU has at its disposal. The EU’s power is studied at two levels – internally and externally. Internally, EU power refers to the power of the European Commission in overcoming divergences within the Union, in particular, resistance from some Member States so as to arrive at a unified negotiating position to defend the overall EU interests. It could also refer to the Member States’ ability to reach a consensus within the Council, so as to be advantageously placed for external bargaining. Externally, the EU’s power refers to the Union’s ability to make a third party do something that it would not otherwise do. Instead of confining the analysis to a single tool, instrument or policy, the EU’s “power-generation” process is given a close look, in which, the EU’s power resources (such as political and economic capabilities, strategic position, instruments, competences or institutions) are exploited, mobilized and brought to bear on the area where they are most needed, to produce concrete power effects. This process is termed as a ‘*linkage*’. Linkage can be compared to a canal aqueduct designed to transport the EU’s “water of power” from one issue-area to another, and therefore, ensures a more coherent power level for the EU’s external bargaining position. Here, *linkage* is defined as a distinctive leverage strategy with an aim of packaging the relevant power resources, either political, economic or institutional, so as to reinforce a bargaining position, or more generally meet a specific policy objective in line with interests. Linkage is characterized by the flow of power resources across two or more issue-areas (issue linkage) or the transformation of the existing bilateral power pattern by involving a third party (party linkage).

As Andrew Moravcsik says, the linkage of issues and side-payments in package deals is a constant theme in the history of EC negotiations. Indeed, many commentators view linkage as the core of the EC/EU’s success.¹² Apart from internal issue linkages, the EU, as a bloc, exercises external linkages. *Conditionality* is a good example. Enlargement, trade, aid and association policies constitute major examples of the EU’s conditionality. Enlargement of the European Union – or, more accurately, the prospect of enlargement – is the principal means by which the EU endeavours to spread prosperity, democracy and security to the former communist countries of Central, Eastern, and South-eastern Europe. Through the enlargement process, the EU is adept in linking the prospect of joining the Union with the domestic reforms in candidate countries. Moreover, the EU sets the effective implementation of certain human rights conventions as the

precondition for granting a vulnerable developing country the special incentive arrangement for sustainable development and good governance (the GSP+).¹³ In other words, the EU links the human rights issue with the development assistance issue.¹⁴

Linkage power Europe?

Our hypothesis is that *the EU is a distinctive kind of linkage power*. That is to say, the EU is a power with its own characteristics, building up its strength through linkage strategy. Here, *power* has a general meaning, defined in the Cambridge Dictionary as “a person, organization or country that has control over others, often because of wealth, importance or great military strength”. The Concise Oxford English Dictionary defines it as “a country viewed in terms of its international influence and military strength”.¹⁵ Although the European Union is not a state, I would argue that the EU substantially acts like a power. More relevant for this book is a more scientific definition of *power* as the ability to make people (or things) do what they would not otherwise have done. It refers here to a relationship between two actors, *A* and *B*, in which *A* has power over *B* to the extent that he can get *B* to do something that *B* would not otherwise do.¹⁶ A variation on this idea is that actors are powerful to the extent that they affect others more than others affect them.¹⁷ In this book, they serve as key yardsticks for evaluating the EU’s power.

I define a *linkage power* in this context as an actor relying on linkage as a crucial modus operandi for the purpose of acquiring, demonstrating or exercising power, both internally and externally. In the EU case, linkage can convert the EU’s power resources into power effects vis-à-vis other countries (getting others to do something they would not otherwise do, or affecting others more than others affecting them), or internally, reinforce the European Commission’s position vis-à-vis Member States within the European Union, or reinforce some Member States’ positions vis-à-vis the Commission and other Member States.

The concept of ‘linkage power’ differs from the normative and idealistic understandings of ‘civil power’¹⁸ or ‘civilizing power’. The concept of ‘linkage’ highlights the fact that its substance is bargaining and trade-offs in negotiations on particular interests. It in fact runs counter to a normative and idealistic approach to power. I am not concerned with what the EU should be like in a normative sense, but what its power can deliver. Mario Telo’s realistic approach to the concept of “civilian power” is a useful starting point. For him, “*civilian power*” is defined as the collective capacity to exercise effective external influence on the behaviour of public and private actors, using a range of means, mainly acting as a “model” and through persuasion, but also in some spheres of exercise, through applying various forms of pressure depending on the Treaties and the policy fields: from political multi-conditionality, to the use of limited military means by enforcing peace and peace-keeping missions. This complex and unprecedented mix of persuasion and coercion depends upon EU interaction with both the internal two-level polity, on the one hand (including EU and Member States, in particular the

welfare states), and, on the other, a still largely Westphalian world.¹⁹ My concept of “linkage power” has a different emphasis and narrower focus on linkage as the EU’s crucial way of acting in external relations. This clarifies and complements Telo’s ‘civilian power’ concept in the sense that the EU’s power resources and the way to use them can be strategic and more precisely targeted via the concept of ‘linkage’. My approach is more instrumentalist. *Linkage power* is, in substance, an instrumentalist power, focusing on the specific means to pursue interests.

Subject to the above clarifications, the central question in this book is *how, to what extent and in which distinctive and evolving ways is the EU a linkage power?*

Structure of the book

The book is structured in two parts: “Theoretical part” and “Empirical part”. The Theoretical part consists of Chapters 1 and 2. Chapter 1 defines the key concepts of “linkage” and “linkage power”. I propose an extended and encompassing concept of linkage, covering the issue linkage and the party linkage, as well as their variants. Then I put forward a definition of “linkage power”. Chapter 2 builds an analytical framework for the EU as a linkage power.

The Empirical part consists of Chapters 3–8, each covering a specific period of the EU’s trade negotiations with China. Based upon the perspective of a paired global economic and hegemonic cycle as well as the specificities of EU–China relations, I divide the history of EU’s trade negotiations with China into five periods: 1975–1985, 1986–1992, 1993–2004, 2005–2008 and 2009–2019.

The conclusion summarizes and consolidates the findings of the previous chapters and looks into the EU–China economic relationship that occurred after 2022.

Notes

- 1 Firstly, the European Economic Community, then the European Communities and since 1993 the European Union.
- 2 Manners, J., & Lucarelli, S. (2007). *Values and Principles in EU Foreign Policy*. London: Routledge.
- 3 Telo, M. (2009). Introduction: The EU as a Model, a Global Actor and an Unprecedented Power. In Telo, M. (ed.), *The European Union and Global Governance*. Routledge/Garnet series: Europe in the World, p. 28.
- 4 Waltz, K. (2000). Structural Realism after the Cold War. *International Security*, 21(1), Summer, p. 31.
- 5 Bini-Smaghi, L. (2006). Powerless Europe: Why is the Euro Area Still a Political Dwarf? *International Finance*, (9), pp. 1–19.
- 6 Lamy, P. (2004). *Trade Policy in the Prodi Commission, 1999–2004: An Assessment*. Mimeo, November, European Commission, Brussels.
- 7 Telo, M. (2006). *Europe: A Civilian Power?* London: Palgrave Macmillan, pp. 57–58.
- 8 Hill, C., & Smith, M. (2005). *International Relations and the European Union*. Oxford: Oxford University Press, p. 404.
- 9 Bretherton, C., & Vogler, J. (2006). *The European Union as a Global Actor* (2nd edition). London and New York: Routledge, p. 9.

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- 10 Interviews, Brussels Missions, October 2002–January 2003, in Bretherton & Vogler, *The European Union as a Global Actor*, p. 78.
- 11 See Woolcock, S. (2000). European Trade Policy. In Wallace, H., & Wallace, W. (eds.), *Policy-Making in the European Union* (4th edition). Oxford: Oxford University Press, p. 378; Bretherton & Vogler, *The European Union as a Global Actor*, p. 79.
- 12 Moravcsik, A. (1999). *The Choice for Europe: Social Purpose & State Power from Messina to Maastricht*. London: UCL Press, p. 65.
- 13 The EU's Generalised System of Preferences Plus (GSP +) is the special incentive arrangement for sustainable development and good governance, which offers additional tariff reductions to support vulnerable developing countries in their ratification and implementation of international conventions in these areas.
- 14 European Commission (2008). *EU Generalized System of Preferences: Commission Initiates Investigation on the Effective Implementation of Certain Human Rights Conventions in Sri Lanka*. Brussels, October 18, website of the European Commission, http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141139.pdf.
- 15 McLean, I., & McMillan, A. (2003). *Oxford Concise Dictionary of Politics*. Oxford University Press, p. 431.
- 16 Dahl, R.A. (1970). *Modern Political Analysis* (2nd edition). Englewood Cliffs, Hoboken: Prentice Hall.
- 17 Waltz, K. (1979). *Theory of International Politics*. Reading, Boston: Addison-Wesley.
- 18 Schioppa, T.P. (2004). *Europe as a Civil Power*. London: Federal Trust.
Telo, Introduction.
- 19 Ibid., p. 28.

Theoretical part



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1 Linkage power: theoretical construction

Power is not a new concept. Neither is linkage. But to put them together and qualify an international actor as a *linkage power* might be something new and relevant. Linkage power, as the bedrock concept of this book, requires clear definition and construction. However, this is not an easy task, since power and linkage are two concepts that are frequently used, but often loosely defined. This chapter is to define and make operational the concept of “linkage power”. I firstly review the concepts of power and linkage respectively, and then define *linkage power*. In the theoretical construction of the “linkage power” concept, I distinguish three concepts: power resources, linkage strategy and power effects (or impact).

Defining power

From Niccolò Machiavelli and David Hume to E.H. Carr and Hans Morgenthau, power has been an important focus in international political theorizing. According to Harold Lasswell and Abraham Kaplan, political science, as an empirical discipline, is the shaping and sharing of power.¹

As Waltz observes, “Although power is a key concept in realist theory, its proper definition is a matter of controversy²”. Another leading neorealist, Robert Gilpin, describes the “concept of power as one of the most troublesome in the field of international relations³” and suggests that “the number and variety of definitions should be an embarrassment to political scientists”.⁴ That said, we still have to define it since *power* is a core concept in this book.

Power concept in political science and IR theories

No definition of power has been more frequently cited than Max Weber’s:

Power [Macht] is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests.⁵

Weber’s focus on the ability to achieve objectives despite resistance is at the core of the concept of “power”. It implies a causal relationship resulting from the

advantageous power position held by one party in that social relationship. In a similar vein, *power* is often defined in political science as “the ability to get another actor to do what it would not otherwise have done (or not to do what it would have done)”.⁶ Like Weber’s definition, power is treated as a type of causation.

However, as Uphoff argues, power, itself, constitutes only the necessary condition rather than the full condition needed for an actor to “carry out his own will despite resistance”, since Weber defines power only as a “probability”. Weber regarded his concept of power as being “highly comprehensive”. It derives from “all conceivable qualities of a person and all conceivable combinations of circumstances [that] may put him in a position to impose his will in a given situation”.⁷ But how can one deal with “all conceivable” qualities and circumstances? To make the concept more manageable, one needs to determine the *bases* or *means* of power.⁸

The *base* of an actor’s power consists of all the resources, opportunities, acts, objects, etc. that he can exploit in order to affect the behaviour of another. For example, some of the possible bases of a US president’s power over a senator are his patronage, his constitutional veto, the possibility of calling White House conferences, his influence with the national electorate, his charisma, his charm and the like.⁹ In a sense, the base is inert, passive. It must be exploited in some fashion if the behaviour of others is to be altered. Kjell Goldmann also defines A’s *power base* in relation to B as “those characteristics of A, of the relation between A and B, and of the system in which A and B are components, which lead to A’s possessing power over B”.¹⁰ Therefore, Goldmann goes one step further than others by seeking power base not only from A itself, but also from A’s relation with B, as well as the system. Keohane and Nye, however, argue that asymmetry of interdependence can provide power resources (or potentials) to one actor, but that there is rarely a one-to-one relationship between power measured by any type of resources and power measured by effects on outcomes. The way to fill in the gap between power effects and power resources is often political bargaining, a means of translating potential into effects.

The means is a mediating activity by *Actor A* between his base and *Actor B*’s response. In a similar vein, Charles P. Kindleberger highlights the role of “strategy” (another way of saying *means*) in a power relationship by defining power as “strength capable of being used efficiently”, that is, “strength *plus* the capacity to use it effectively”¹¹ in support of some objective. Thus, Kindleberger emphasizes that how capabilities are organized to achieve a specific objective is the essence of strategy.¹²

By differentiating power base and means (or strategy), I am able to explain the so-called “paradox of unrealized power”. David Baldwin raises a question about how we should explain that “weak powers” influence the “strong”, “great powers in the world” could suffer defeat at the hands of a “band of night-riders in black pyjamas” and the “cruel and ridiculous paradox” of the “big influence of small allies”. Baldwin considers two alternative explanations of this so-called paradox: first, failure to translate alleged “potential power” (or power “resources” or “base”) into actual power may be explained in terms of malfunctioning conversion

processes. Bad luck, incompetence and pusillanimity are the most common elements in such explanations. "He had the cards but played them poorly" is the theme.¹³

A second explanation for the failure of power predictions focuses on the power base in different issue-areas. As Harold and Margaret Sprout have reminded us many times, the capabilities (or potential power) of an actor must be set in the context of a "policy-contingency framework" specifying who is trying (or might try) to get whom to do what. The so-called "paradox of unrealized power" results from the mistaken belief that power resources useful in one policy-contingency framework will be equally useful in a different one. So-called "weak powers" influence so-called "strong powers" because of the power analyst's failure to account for the possibility that a country may be weak in one situation but strong in another. The theme of such explanations is not "He had the cards but played them poorly", but rather "he had a great bridge hand but happened to be a playing poker".¹⁴

"The paradox of unrealized power" enlightens us in two aspects. On the one hand, power may not be realized without a proper process of converting power resources into power effects. This conversion process is qualified as a *means* or *strategy*. On the other, whether power can be realized depends on the specific situation or issue in which a power relationship takes place. This is echoed by Kjell Goldmann, who refines the definition of power by making distinctions in terms of issue-areas and situational conditions: *A* may have power over *B* with regard to some issues but not others, and under some circumstances but not others.¹⁵

For the students of interdependence theory, it is generally agreed that *power is situationally specific*. The need exists for students of international politics to examine the multiple distributional patterns of power in a large number of issue-areas.¹⁶ They generally believe that the fragmentation of world politics into many different spheres has made power resources less fungible. According to Joseph Nye, the fragmentation of world politics into many different spheres has made power resources less fungible, that is, less transferable from sphere to sphere.¹⁷ He elaborates that, although bipolarity and multipolarity are useful terms, today different spheres of world politics have different distributions of power – that is, different power structures. Military power, particularly nuclear, remains largely bipolar in its distribution. But in trade, power is multipolar. Ocean resources, money, space, shipping and airlines each have somewhat different distributions of power.¹⁸ In 2002, Nye said,

Power today is distributed among countries in a pattern that resembles a complex three-dimensional chess game. On the top chessboard, military power is largely unipolar. The United States is the only country with both intercontinental nuclear weapons and large, state-of-the-art, naval, and ground forces capable of global deployment. But on the middle chessboard, economic power is multipolar, with the US, Europe, and Japan representing two-thirds of world product, and with China's dramatic growth likely to

make it a major player early in the century. The bottom chessboard is the realm of transnational relations that cross borders outside of government control.¹⁹

Constructivism also made its contribution by adding a dimension of ideas into the concept of power. The power effects must go through a filter consisting of ideas, norms and values. For constructivists, the meaning of power and the content of interests are largely a function of ideas. Therefore, the different cultures give different meanings to power and interests. For example, 50 pieces of nuclear weapons owned respectively by North Korea and Great Britain mean different things to the United States. In other words, the same amount of military weaponry could have completely different effects due to the different understandings behind their material capabilities. Here I argue that if ideas are changed, the meaning of power can be changed. Therefore, when analyzing power relationships, we need to analyze the ideas behind the material side of power.

In this book, I basically adopted the traditional concept of power, which sees the power relationship as a causal one. *Power* can be thought of as the ability of an actor to get others to do something they otherwise would not do (and at an acceptable cost to the actor).²⁰ I further draw distinction between power resources, strategy and power effects. Power effects vary according to different power resources and strategies, as well as in reference to different issue-areas (or policy-contingency frameworks). The following two sub-sections are to elaborate upon power resources and linkage – a special kind of strategy.

Power resources

In this book, I adopted an enriched concept of power resources, which is basically equal to Dahl's definition of a power base – all the resources, opportunities, acts, objects, etc. that an actor can exploit in order to affect the behaviour of another. The reason that I prefer using power resources to base is that the former is grammatically more familiar to ordinary readers. I further define power resources to be composed of resources (narrowly defined), capabilities, positions and prestige.

In a narrow sense, Goldstein defines power *resources* as elements that an actor can draw on over the *long* term. Total GDP, population, territory, geography and natural resources are all in this category. These attributes change only slowly. Less tangible long-term power resources include political culture, patriotism, education of the population and strength of the scientific and technological base. The credibility of its commitments (reputation for keeping its word) is also a power resource that a state can nurture over time. So is the ability of one state's culture and values to consistently shape the thinking of other states (the power of ideas). Asymmetrical interdependence can also be a source of power. A less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partners.²¹ Power resources shape an actor's potential power.²²

Given the limited resources that any actor commands, there are always trade-offs among possible resources. Building up military forces diverts resources that might be put into foreign aid, for instance. Or buying a population's loyalty with consumer goods reduces resources available for building up military capabilities. To the extent that one element of power can be converted into another, it is *fungible*.²³

Generally, realists and neorealists believe that power is fungible,²⁴ whilst students of international interdependence believe that the fungibility of power is quite limited. The former argues that the overall power structure makes international politics a seamless web. The military power advantages can make up for the disadvantages in other issue-areas. Waltz maintains,

The economic, military, and other capabilities of nations cannot be sectorized and separately weighed. States are not placed in the top rank because they excel in one way or another. Their rank depends on how they score on all of the following items: size of population and territory, resource endowment, economic capability, military strength, political stability and competence.²⁵

Waltz argues,

Obviously, power is not as fungible as money. Not much is. But power is much more fungible than Keohane allows. As ever, the distinction between strong and weak states is important. The stronger the state, the greater the variety of its capabilities. Power may be only slightly fungible for weak states, but it is highly so for strong states.²⁶

Interdependence theorists do not accept realists' idea of complete fungibility of power. Baldwin, Keohane and others inherit the contextual analysis of power, developed by Lasswell and Kaplan, Dahl, the Sprouts and others.

Keohane criticizes Waltz's ambiguity on the point of power fungibility. He argues that the desire for parsimonious theory impels realists towards a unitary notion of power as homogeneous and usable for a variety of purposes, but close examination of the complexities of world politics induces caution about such an approach. According to Keohane, any given international system is likely to have *several* structures, differing by issue-areas and according to the resources that can be used to affect outcomes. Different sets of capabilities will qualify as "power resources" under different conditions. This leads to a much less parsimonious theory and a much more highly differentiated view of the world, in which what Keohane and Nye called "issue-structure" theories play a major role, and in which military force, although still important, is no longer assumed to be at the top of a hierarchy of power resources.²⁷

It is important to recognize that no political power resource begins to approach the degree of fungibility of money.²⁸ Keohane and Nye see the world as highly differentiated with so much variation across issues. They do not agree with the view held by realists that power, like water, will find a common level:

discrepancies between which states are dominant on one issue and which predominate on others will be eliminated in important cases by linkages drawn by powerful states through the use or threat of force. Insofar as an issue is relevant to military security the most powerful states, in the aggregate, will be able to control it.²⁹ As a group, political power resources are relatively low in fungibility; that is precisely why specification of scope and domain is so essential in analyzing political power.³⁰

Bargaining, leverage and strategy

The above elaboration provides us with a sophisticated conceptual framework of power: power is not simply a thing or a property, but also a political bargaining process, which consists of power resources and the means (bargaining, leverage and strategy) with which to produce impacts and influence. In this book, I adopted the following definitions of bargaining, leverage and strategy:

Bargaining may be defined as tacit or direct communication in an attempt to reach an agreement on an exchange of value – that is, of tangible or intangible items that one or both parties value. Bargaining need not be explicit. Sometimes the content is communicated through actions rather than an exchange of words.³¹

Participants bring different means of *leverage* to the bargaining process.³² *Leverage* derives from power capabilities that allow one actor to influence the other to reach agreements more favourable to the first actor's interests. Leverage may operate on any of three dimensions of power: the *promise* of positive sanctions (rewards) if the other actor gives one what one wants; the *threat* of negative sanctions (damage to valued items) if not; or an *appeal* to the other's feeling of love, friendship, sympathy or respect for oneself.³³ Bringing a bargaining leverage into play generally opens up a new dimension in the bargaining space, allowing outcomes along this new dimension to be traded off against those on the original dimension (the main issue at stake). Leverage thus helps to get deals done – albeit not always fair ones. One-sided agreements typically result when one side has a preponderance of leverage relative to the other.³⁴

Strategies are plans actors use to develop and deploy power capabilities to achieve goals. A key aspect of strategy is choosing the kinds of capabilities to develop, given limited resources, in order to maximize international influence. Strategies also include choices about how capabilities are used in situations – sequences of actions designed for maximum effect; the creation of alliances; the use of contingency plans; and so forth. Depending on the situation, most power strategies mix economic instruments (trade, aid, loans, investment, boycotts) with military ones. In the short term, within a given situation such plans are called *tactics*.³⁵

In the context of bargaining, actors use various strategies to employ leverage in an effort to move the final agreement point closer to their own positions. One common bargaining strategy is to start with extreme demands and then gradually compromise them in an effort to end up close to one's true (but

concealed) position. Another strategy is to “drive a hard bargain” by sticking closely to one’s original position in the belief that the other participant will eventually accept it.³⁶

Another common bargaining strategy is *fractionation* – splitting up a complex issue into a number of small components so that progress may be sought on solvable pieces. For instance, the Arab–Israeli negotiations that began in 1991 had many sets of talks concurrently working on various pieces of the problem. The opposite approach, which some bargainers prefer, is to lump together diverse issues – called *linkage* – so that compromises on one can be traded off against another in a grand deal. This was the case, for instance, with the Yalta negotiations of 1945 among the United States, Britain and the Soviet Union. On the table simultaneously were such matters as the terms of occupation of Germany, the Soviet presence in Eastern Europe, the strategy for defeating Japan and the creation of the United Nations.³⁷

Defining linkage

Issue linkage is a key concept, which is indispensable in this book to answer the central research question – *how, to what extent and by which distinctive and evolving way is the EU a linkage power?* However, it happens that linkage is one of the most puzzling concepts in political science, since different scholars have given different definitions in different contexts for different purposes (e.g. party linkage or party addition). Or, as our understanding of international politics and bargaining theories advances, scholars enriched the concept of issue linkage by adding new names (such as domestic–international linkage, synergistic linkage, institutionalized linkage or cognitive linkage). In summary, those scholars have extended the classical definition of issue linkage in four directions: (1) extending issue linkage to party linkage or party addition; (2) extending one-level issue linkage to two-level; (3) extending the linkage between two specific issues to the linkage between an overall context and a specific issue; and (4) focusing on explaining why and how two separate issues are bundled together either from a cognitive perspective or from an institutionalist perspective.

This section seeks to clarify these definitions and lay out a comprehensive one for linkage, so as to accommodate the diverse strategies and tactics that the European Union exercised for power purposes. I define *linkage* as a distinctive leveraging strategy with an aim of packaging the relevant power resources, either political, economic or institutional, so as to reinforce a bargaining position or, more generally, meet a specific policy objective in line with interests. The defining feature of *linkage* is that it leads to a possible change in a relative power relationship by linking something or somebody. By linking something, it is an issue linkage. By linking somebody, it is a party linkage. For the rest of linkage variants, they can be classified either as issue linkage or party linkage. In this section, I start with defining issue linkage and then defining its variants. The clarification of different linkages here is made to prepare for illustrating the EU’s linkage strategies in the following chapter.

Defining issue linkage

Issue linkage is a typical and principal linkage strategy. As defined above, *issue linkage* is to lump together diverse issues so that compromises on one can be traded off against another in a grand deal.³⁸ In essence, *linkage* is a way of packaging relevant power resources, either political, security, economic or institutional, so as to reinforce a bargaining position or, more generally, meet a specific policy objective in line with interests.

In the IR theories, realists and the students of interdependence have divergences on issue linkage. Realists usually view international politics as a seamless web. Military and economically strong states will dominate a variety of organizations and a variety of issues, by linking their own policies on some issues to other states' policies on other issues. By using their overall dominance to prevail on their weak issues, the strongest states will, in the traditional model, ensure a congruence between the overall structure of military and economic power and the pattern of outcomes on any one issue-area.³⁹ Arthur Stein sees linkage as a key strategy for the US to counter its decline. He posits that when a country (the US) suffers such unbalanced or asymmetric decline – the loss of strength in one or more but not all issue-areas – an obvious response is for it to use its continued superiority in some areas in order to make up for its relative inferiority in others.⁴⁰ Generally speaking, realists' issue linkage is top-down. The US initiates top-down linkage in order to prevail since it remains superior to any other powers in terms of political-military strength (high politics).

The students of interdependence theory generally believe that the fragmentation of world politics into many different spheres has made power resources less fungible. According to Joseph Nye, the fragmentation of world politics into many different spheres has made power resources less fungible, that is, less transferable from sphere to sphere.⁴¹ That said, interdependence theory does not exclude linkages. As Keohane and Nye admit, "linkage is a phenomenon of realist international politics as much as of complex interdependence", and the only difference is "under conditions of complex interdependence, linkages might become less effective than under realism".⁴² The differentiation among issue-areas in complex interdependence means that linkages among issues will become more problematic and will tend to reduce rather than reinforce international hierarchy. Linkage strategies, and defence against them, will pose critical strategic choices for states. Should issues be considered separately or as a package? If linkages are to be drawn, which issues should be linked, and on which of the linked issues should concessions be made? How far can one push a linkage before it becomes counterproductive? For instance, should one seek formal agreements or informal, but less politically sensitive, understandings? The fact that world politics under complex interdependence is not a seamless web leads us to expect that efforts to stitch seams together advantageously, as reflected in linkage strategies, will very often determine the shape of the fabric.⁴³

To summarize, although interdependence theorists have doubts of issue linkage, they do not reject it outright. Instead, as they observe the incidences of

issue linkages in international politics, they have, accordingly, developed a more sophisticated approach to linkage.

Variants of issue linkages

Apart from issue linkage, scholars of political science have found and defined several variants of issue linkage, which differ from one another on such questions as *Why make linkages? What issues are linked? How to link issues?*

Issue addition and party addition

This is a variant of issue linkage. James Sebenius' central purpose is to investigate the proposition that in an explicit negotiation one should not regard the issues and parties as fixed for analysis but instead should look upon them as variables.⁴⁴ His first contention is that the parties and issues initially taken to comprise a negotiation are themselves typically subject to strategic manipulation. He argues that, adding issues can yield one-sided gains to the exercise of power. Such power can derive from an unrelated area or it can come from successful commitment tactics within the negotiation. This "linkage through leverage" is a traditional theme in the study of international relations. The same sort of power may be used to keep an item off the negotiating agenda. In a more positive vein, issue addition can yield joint gains that enhance or create a zone of possible agreement. Sebenius explored three ways in which this might happen: adding differentially valued, unrelated issues; bringing in items as side payments to overcome distributional obstacles; and putting together issues with positive interdependence (such as complementarities, interactions or risk-reduction characteristics). The mechanisms underlying these features of issue addition explain some of the attractions of package deals and single negotiating texts. Analysis of issue addition also suggests that bottom lines for negotiations should be drawn with all the issues in mind and helps to explain why sequential resolution of items in negotiation can preclude some beneficial settlements.⁴⁵

Sebenius extends issue addition to party addition. He argues that parties are commonly added that have influence on or interest in the substance of the negotiation, that may strengthen a coalition directly or by leverage from other areas, that can enable commitments to be made, or that may lend legitimacy to a bargain or aid in its implementation. The zone of possible agreement may be altered by outside entities that value or dislike a settlement or eliminate risk, exploit economies, or lower the cost of a collective good. All these actions may facilitate advantageous agreement. Party subtraction has symmetrical functions. The indirect addition of outside parties can significantly affect the original negotiations. If agreement with a third party suddenly becomes the alternative to agreement with the original bargaining partner, one's position in the first negotiation may improve. Since settlements in one group depend on potential agreements in other (potential) groups, it is not surprising to see cultivation of these other groups in

order to give the alternative the appearance of greater likelihood. Finally, if one side expects possible future negotiations with the other side, it may try to involve other parties indirectly. The added parties may serve to raise the costs of subsequent action by opponents and position the first side more advantageously.⁴⁶

Domestic–international linkage

Rosenau's *domestic–international linkage* provides an analytical framework for understanding the relationship between the unit and the external environment. The essence of his idea is to explore the interactions between national political systems and aspects of the international political system. He uses a linkage as the basic unit of analysis, defining it as any recurrent sequence of behaviour that originates in one system and is reacted to in another.⁴⁷ However, Rosenau's domestic–international linkage is neutral in the sense that it has not developed any relationship between domestic–international linkages and power. This linkage–power neutrality has later been replaced by linkage–power causation developed by other scholars.

Axelrod and Keohane quote the Hanse's intervention in British politics. The Hanse was thus able to triumph despite military weakness (*vis-à-vis* Britain).⁴⁸ Robert Putnam has suggested that nested games can help us understand the link between domestic and international politics. He begins with a simple metaphor: decision-makers are involved in two interlinked sets of negotiations or games, one domestic and one international. In the domestic game, decision-makers build ruling coalitions by bargaining with domestic groups, which in turn seek to protect and enhance their interests. In the international game, decision-makers negotiate international agreements that "satisfy domestic pressures, while minimizing the adverse consequences of foreign developments".⁴⁹

One kind of issue linkage is absolutely crucial to understanding how domestic and international politics can become resolved. Suppose that a majority of constituents at Level II (domestic level)⁵⁰ oppose a given policy (say, oil price decontrol), but that some members of that majority would be willing to switch their vote on that issue in return for more jobs (say, in export industries). If bargaining is limited to Level II, that trade-off is not technically feasible, but if the chief negotiator can broker an international deal (Level I) that delivers more jobs (say, via faster growth abroad), he can, in effect, overturn the initial outcome at the domestic table.

Note that this strategy works not by changing the preferences of any domestic constituents, but rather by creating a policy option (such as faster export growth) that was previously beyond domestic control. Hence, Putnam refers to this type of issue linkage at Level I that alters the feasible outcomes at Level II as *synergistic linkage*. For example, "In the Tokyo Round, [...] nations used negotiation to achieve internal reform in situations where constituency pressures would otherwise prevent action without the pressure (and trade-off benefits) that an external partner could provide". Economic interdependence multiplies the opportunities for altering domestic coalitions (and thus policy outcomes) by expanding the

set of feasible alternatives in this way – in effect, creating political entanglements across national boundaries. Thus, we should expect synergistic linkage (which is, by definition, explicable only in terms of two-level analysis) to become more frequent as interdependence grows.⁵¹

Institutionalized linkage

Christina Davis asks the question of “why some international economic negotiations bring major policy changes while others end in deadlock”, and argues that power and interests alone fail to account for the variation across negotiations. She suggests, to explain negotiation outcomes, that one must look closer at how the agenda, rules and procedures of a negotiation influence state choices and concludes that *institutions bolster the credibility of a linkage and make it more effective*. She examined the US’ negotiations in agricultural trade liberalization with Japan and the EU from 1970 and 1999, and finds that an institutionalized linkage between agricultural and industrial issues encourages agricultural liberalization in both Japan and Europe.⁵² Davis concludes that, when narrow interests defend the status quo, broadening the scope of actors and interests can provide the impetus for change. A cross-sector issue linkage that is institutionalized as a package deal combines issues with a credible linkage to make it politically possible for leaders to choose liberalization over the protests of influential lobbies. This highlights the possibility for the structure of an international negotiation to compensate for the political market for protection in the domestic arena.⁵³

Davis also illustrates several institutional factors which facilitate the acceptance of issue linkage even when there is strong opposition to agricultural liberalization. First, governments realize that a broad agenda encourages wider participation and greater potential gains from liberalization. Indeed, negotiations over the agendas that launched past trade rounds have consistently added more issues in order to gain the consent of all members. Second, protectionist interests face higher costs to mobilize early in the negotiation. Although farm lobbies and agriculture ministries in Japan and Europe are likely to resist the inclusion of agriculture on the agenda, they will find it difficult to veto agenda items because the foreign policy decisions at this stage of the negotiation lie outside of their jurisdiction. Moreover, the decisions that shape the structure of the negotiation occur amidst uncertainty about the timing and shape of the future agreement. This is particularly true for trade rounds, which bring together many countries and often last five to eight years. The longer time frame as well as the broader context avoids placing the spotlight on a single product, which makes it easier for protectionist interests and diplomats to reluctantly agree to talk about the issue.⁵⁴

Contextual linkage

Axelrod and Keohane pointed out the existence of what could be called “contextual” issue linkage. In such a situation, a given bargain is placed within the context of a more important long-term relationship in such a way that the long-term

relationship affects the outcome of the particular bargaining process. Oye notes that, in 1936, the United States, Britain and France were able to reach an agreement on international monetary reform because of the common security concern over a rising Nazi Germany. And, as George Downs and his colleagues point out, by far the most important cause of cooperation in arms races that ended peacefully has been the activity of a third power. For example, the Anglo-French naval arms race of 1852–1853 was resolved when the two states formed an alliance in order to fight the Russians in the Crimean War.⁵⁵ Contextual linkage must build upon the existence of what I would call “strategic power resources”, resulting from an actor’s position in the distribution of capabilities in the international system. Usually, only superpower or great powers have the privileges in using strategic power resources and make the so-called contextual linkage.

The underlying logic of contextual linkage is reciprocity. It could be specific reciprocity – the simultaneous balancing of specific *quid pro quos* by each party with every other party at all times. But more often, the contextual linkage is premised upon what we would call “diffuse reciprocity”. The “diffuse reciprocity” means that the arrangement is expected by its members to yield a rough equivalence of benefits in the aggregate and over time.⁵⁶ The Concert of Europe is a good example of diffuse reciprocity. According to Jervis, what was crucial to the success of the Concert of Europe

is that “self-interest” was broader than usual and also longer-run than usual [...] For this system to work, each state had to believe that its current sacrifices would in fact yield a long-run return, that others would not renege on their implicit commitments when they found themselves in tempting position.⁵⁷

In a contextual linkage based on diffuse reciprocity, the actors think in a long-term perspective and consider trade-offs between imminent interests and potential interests.

Cognitive linkage

If the above-mentioned types of linkages focus more on explaining what issues are linked, this concept focuses more on explaining how and why two separate issues are knitted together. Ernst Haas has adopted a cognitive approach towards issue-areas and issue linkages. He is concerned with how issue-areas emerge from a multitude of separate issues and how negotiators link issues into packages in deference to some intellectual strategy or evolving awareness of causal understanding. According to Ernst Haas, issues are separate items that appear on the agenda of negotiators.⁵⁸ Previously separate issues can be converted by the actors themselves into an *issue-area*, a recognized cluster of concerns involving interdependence not only among the parties but among the issues themselves. But why link issues? Haas argues that substantive knowledge *alone* cannot legitimate a holistic package of issues. The legitimization depends on the acceptance of a new

understanding on the part of key political actors. Haas argues that the substantive issue linkage depends on learning that the national interest can be redefined or broadened, and that international collaboration is *required* for the realization of national goals.⁵⁹

Ernest B. Haas defines three ways of issue linkage: (1) one can link issues by introducing into the agenda of multilateral negotiations items that are not connected by any intellectual coherence at all; Haas calls it "tactical linkage". The objective is simply to obtain additional bargaining leverage, to extract a quid pro quo not obtainable if the discussion remains confined to a single issue. (2) Issue linkage may also be attempted, however, to maintain the cohesion of one's coalition. The coalition is held together by a commitment to some overriding social goal, even though the partners disagree with respect to the knowledge necessary to attain it. They also disagree on the extent to which the issues in the package are interdependent in terms of the anticipated effects. Uncertainty about outcomes is part of the glue that holds the coalition together. Elements of consensual knowledge are unevenly distributed among the coalition partners; but doubts about connections between ends and means, cause and effect, are suspended in the interest of maintaining collective bargaining strength. Haas calls this behaviour pattern "fragmented linkage". (3) Issue linkage may also proceed on the basis of cognitive developments based on consensual knowledge linked to an agreed social goal. This is the pattern of greatest interest to the construction of regimes; Haas calls it "substantive linkage".⁶⁰ Substantive linkage is of great interest here. I am especially interested in explaining how negotiators link issues into packages in deference to some intellectual strategy or evolving awareness of causal understanding. How do issue-areas emerge from a multitude of separate issues in response to challenges additional to the logic of coalitions? Latin American engineers, scientists, economists and civil servants have come to think of "technology transfer" as an issue-area instead of worrying about such matters as foreign capital inflows, obtaining patents for specific products, finding markets for their products or building a certain type of factory. These things *are* issues; they remain in people's minds even when issues are combined and abstracted into a more holistic construct. But instead of being ends in themselves, they become a means towards a more complicated end. Instead of being effects, they are reconceived as causes leading to new effects: wealth, prestige, status and autonomy.⁶¹

Ernst Haas also stresses that power is present as a mediating agent in all three models. The credibility of a tactical linkage depends on the "linkee's" perception of the linker's ability and willingness to withhold collaboration if the linkage is refused. In fragmented linkage situations, the potential defectors from the coalition must be held in line by means of side payments or promises, and the opposing coalition must be effectively threatened. Even in situations of substantive linkage, knowledge is rarely so consensual as to eliminate the role of threat and rewards as a way of persuading the weaker negotiating partners. But the use of power is always limited by the perception of complex interdependence that motivates the parties to negotiate in the first place.⁶²

To deepen our understanding of linkages and prepare for the following chapters, I would ask three questions about linkage: (1) why issues are linked? (2) what issues are linked? and (3) what determines an effective linkage? These questions are exactly what Keohane and Nye are concerned with: should issues be considered separately or as a package? If linkages are to be drawn, which issues should be linked, and on which of the linked issues should concessions be made? How far can one push a linkage before it becomes counterproductive? For instance, should one seek formal agreements or informal, but less politically sensitive, understandings?⁶³ We believe that these answers to the above three questions would help us track the patterns of the EU's linkages, and therefore deepen our understanding of the EU's power.

On the question of "why link issues?", rationalists usually argue that it can be attributed to *an uneven distribution of power in different issue-areas*. Kenneth Oye argues that the rationale for the United States administration to implement issue linkage strategy was the uneven distribution of US power in different issue-areas, and the increase of the US' interests. Power contraction and interest expansion have strained the edifice of American foreign policy. But not all parts of the building are subject to equal stress. As inhabitants, we have an obvious interest in assessing how weakness in one area can affect the integrity of the whole, and how bricks and beams can be moved from areas of strength to shore up areas of weakness.⁶⁴

Robert D. Tollison and Thomas D. Willett emphasize the rationale for linkage that relies upon *mutual interest*. Drawing on the economic theory of exchange, they consider the use of issue linkages to facilitate the completion of a greater number of mutually beneficial agreements among nations.⁶⁵ They stressed that explicit side payments are usually very difficult to make in international political decision-making. Therefore, a considerable likelihood that directs side payments to reach agreements that would benefit both countries would not be feasible. In such a situation the best alternative may be to attempt to find another area of negotiations which has highly skewed benefits. Then, by linking the two negotiations so that high benefits go to A in one area and high benefits go to B in the other, there may be a possibility to secure agreement in both negotiations in a way that brings benefits to both countries and brings the outcome much closer to the aggregate efficiency or potential welfare frontier.⁶⁶ In a similar logic, Sebenius mentions bringing in items as side payments to overcome distributional obstacles.

According to Andrew Moravcsik, linkages occur, simple bargaining theory suggests, when governments have varying preference intensities across different issues, with marginal gains in some issue-areas more important to some than to others. Political exchanges of this kind increase the benefits of cooperation by helping to overcome one of the major disadvantages of bargaining on the basis of unilateral and coalitional alternatives: namely, governments tend to have the least bargaining power on precisely those issues which are most important to them. Where states have identical preferences, linkage has no effect on outcomes.⁶⁷

Ernst Haas gives his explanation from a functionalist and cognitive perspective. He argues that, when we assume a dynamic situation of rapidly changing

knowledge, inter-issue negotiations offer a greater hope of efficient solutions and greater certainty.

On the question of “what issues are linked?”, Sebenius illustrates the following: adding differentially valued, unrelated issues; bringing in items as side payments to overcome distributional obstacles; and putting together issues with positive interdependence (such as complementarities, interactions or risk-reduction characteristics). The mechanisms underlying these features of issue addition explain some of the attractions of package deals and single negotiating texts. Analysis of issue addition also suggests that bottom lines for negotiations should be drawn with all the issues in mind and helps to explain why sequential resolution of items in negotiation can preclude some beneficial settlements.

On the question of “what determines an effective linkage?”, it is, to some extent, still an uncharted territory. The starting point could be that an actor must have necessary power resources and capabilities, without which effective linkage is difficult. Apart from that, Andrew Moravcsik has made some efforts by arguing that the major constraint on linkage strategies lies in their domestic distributional implications. Moravcsik argues that linked concessions often create domestic losers as they create net benefits. Since concentrated losers with intense preferences tend to generate more political pressure than winners do, linkage is likely to be domestically viable only where adjustment costs are moderate. On this logic, the potential for linkage is far more limited than the potential for concessions within issue-areas.⁶⁸ Thus Moravcsik distinguishes linkages in three circumstances: within issue-areas where gains and losses are internalized to the same groups; where benefits are concentrated and costs are imposed only on relatively diffuse, unorganized or unrepresented groups, such as taxpayers, consumers and third-country suppliers; and where decisions on the precise details of implementation of a policy are postponed, rendering uncertain the domestic distribution of costs.⁶⁹

Christina Davis argues that *institutions* bolster the credibility of a linkage and make it more effective. Ernst Haas suggests that successful negotiations for institutionalizing international collaboration depend on the congruence of interests as much as on changes in consensual knowledge.⁷⁰ Here, knowledge is defined as

the sum of technical information and theories about that information which commands sufficient consensus at a given time among interested actors to serve as a guide to public policy designed to achieve some social goal. Knowledge incorporates scientific notions relating to the social goal.⁷¹

Defining *linkage power*

I now move to define the concept of “linkage power”, which is built upon two separate concepts: “power” and “linkage”. Like the concept of *power*, *linkage power* also has a double meaning. Firstly, it refers to a relationship between two actors, *A* and *B*, in which, *A* has power over *B* to the extent that he can get *B* to do something that *B* would not otherwise do.⁷² *Linkage power* refers to the power

that *A* acquires vis-à-vis *B* through linkages. With the first meaning, any international actor could have linkage power as long as it exercises linkage strategies and produces power effects. Secondly, *linkage power* refers to an international actor that has military or economic resources and is considered to have political influence over other actors. I define that, when an actor takes linkage as a crucial strategy in its external relations, and produces concrete power impacts, it can be qualified as a linkage power.

To make this concept manageable, it is necessary to clarify the interrelationships among power resources, linkage strategy and power effects. As defined in the Introduction, *strategies* are plans actors use to develop and deploy power capabilities to achieve goals.⁷³ I therefore clarify the relationships between power and linkage as such:

- Power resources underlie linkage strategies and precondition their effectiveness. Power resource is the foundation of linkages. First of all, whether power resources are transferable determines whether a linkage can be effectively established. In other words, power fungibility preconditions the establishment of a linkage. Secondly, power resources confine the scope of linkage types. That is to say, certain types of power resources underlie certain types of linkage. For example, an *institutionalized linkage* has to build upon a certain institutionalized context, while a *contextual linkage* has to rely on an advantageous political position, often in the form of asymmetrical political interdependence. Thirdly, power resources precondition linkage effectiveness. It is hard to imagine that a linkage would be effective without a proper power base. In other words, as the power resources wax and wane, the effectiveness of linkages varies accordingly.
- Linkage connects power resources and increases power impacts. In this book, linkage is a tool that builds a bridge between different types of power resources. With a certain level of fungibility, linkage brings together all the relevant power resources to produce concrete power effects. One of the major motivations for a linkage is to make up for the insufficiency of power resources in a specific issue-area. Since the EU is often seen as an economic giant and political dwarf, we assume that the EU must often resort to linkages tying an economic issue with a political one, so as to “transport” its economic advantages to political areas.

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2 The EU as a linkage power – Building an analytical framework

Over the past 30 years, there has been an almost continuous debate about the nature of the European Union as an international actor. Some of the scholars spoke of the power of the European Union. As Hill and Smith claim,

the EU both has power, and is a power of a certain kind in international relations, even if these claims must be qualified by reference to geography and issue-area. More generally, it has most external impact either in the purely trade and regulatory areas, or at the interface of economics and politics, where it has a distinct advantage.¹

Christopher Hill and Michael Smith, however, argue that the EU is better thought of as having powers, than as being a ‘power’. Its forms of presence vary, its impacts are not necessarily cumulative and its power is not therefore always fungible.² I would argue that the EU is a power, at least in trade policy area, and a special kind – a linkage power.

This chapter is intended to apply the concept of “linkage power” to the European Union and develop an analytical framework to analyze “Linkage Power Europe”. This analytical framework builds upon and operationalizes two concepts – “power” and “linkage” in the context of the EU’s bilateral relations. First, I study the EU’s power resources, and classify them into three categories: political-strategic, economic and institutional power resources, which are to be defined separately and then applied to the EU’s internal and external relations. Secondly, I study different types of the EU’s linkages, which is to be defined individually and applied to the EU’s internal and external relations. I also explore the EU’s motivations for linkage. Thirdly, I evaluate the EU’s linkage power, building upon Ginsberg’s model.³

This analytical framework can be summarized through the following five questions: (1) what are the EU’s power resources for linkages? (2) What type of linkage is made by the EU? (3) Why does the EU make a linkage? (4) Is that linkage effective? (5) What determines an (in)effective linkage? These questions are logically organized in order to probe into and reflect the EU’s power through linkage.

In addition, in order to better understand the EU’s domestic and external bargaining process, in which linkage is made, Putnam’s two-level game model is

Table 2.1 EU bilateral negotiations: the adapted two-level game

Level I: International bargaining	Level II: the EU or interstate-level bargaining
European Commission vs. Third Country	Commission vs. Member States Member State vs. Member State

applied. According to this model, the European Commission serves as the chief trade negotiator. Table 2.1 shows that the negotiations take place at two levels: Level 1 – international level, and Level 2 – EU level. Level 1 refers to the negotiations between the European Commission and the third party at the international level. Level 2 refers to the intra-EU negotiations between the Commission and Member State or between the Commission and the EU-level interest groups. Levels 1 and 2 are linked by the Commission, which acts as the EU’s chief negotiator in international trade negotiations.

The EU’s power resources

For the convenience of presentation, I classify the EU’s power resources into three broad groups: political-strategic, economic and institutional. Since this book takes trade as the case-study, I have selected those specific power resources which I believe are the most relevant and sufficiently inclusive to cover the EU’s power resources at both systemic and unit level, both visible and invisible.

Specifically, the EU’s political-strategic power resources consist of four kinds of resources: political interdependence, the asymmetry of political interdependence, the EU’s credibility vis-à-vis a third country and its internal solidarity. The economic power resources, deriving from the EU’s economic and trade relations with the third country, mainly refer to the EU’s asymmetrical interdependence relationship with a third country in trade, investment, technology transfer, development assistance and humanitarian aid areas. The institutional power resources refer to the EU’s internal and external institutional factors, including its competences, instruments and the degree of bilateral institutionalization with a third country. These power resources all have potentials to be converted into power impacts.

Political-strategic power resources

As the 2003 European Security Strategy stated, “As a union of 25 states with over 450 million people producing a quarter of the world’s Gross National Product (GNP), and with a wide range of instruments at its disposal, the European Union is inevitably a global player”.⁴ Now, the EU has become a union of 27 states with potential enlargements in the future. However, the EU’s political-strategic strength should not be measured and understood only by its size, but also by how

the other powers perceive the EU. One of the key political strengths that the EU has had is its potential to become a great power and others' similar expectations. According to Buzan, what distinguishes great powers from merely regional ones is that they are responded to by others on the basis of system-level calculations, as well as regional ones, about the present and near future distribution of power. China, the EU and Japan all qualify (being a great power) on the basis of being regularly talked about and treated either as potential challengers to the US and/or as potential superpowers. Assessment of the EU's status often hangs on its degree of stateness without it being clear how much state-like quality it has to achieve in order to count as a superpower.⁵

The EU cannot only derive power resources from its status as a great power itself, but also from the rivalry between great powers or between the superpower and a single or a combination of great powers. According to Buzan, the primary concerns of great powers will be with the superpower, and that the interdependence of (de)securitization among great powers will vary with distance. Therefore, the EU is concerned primarily with the US, secondarily with Russia, much less with China and Japan and hardly at all with India. Russia is concerned primarily with the US, secondarily with the EU and China, and rather less with Japan and India. China is concerned primarily with the US, secondarily with Russia, Japan and India, and rather less with the EU. Japan is concerned primarily with the US, secondarily with China and Russia, and rather less with the EU and India.⁶ Therefore, the EU, Russia, China and Japan are all primarily concerned with the US. The EU can either rely on its strategic partnership with any other great power(s) to counter the US's power or, simply wait for another great power to request for alliance. All these place the EU in an advantageous position.

Political interdependence is an important component of the political-strategic power resources. Partnership reflects political interdependence. An increased political interdependence does not necessarily increase the EU's power towards that third country. But, it does increase mutual sensitivity and possibly mutual vulnerability. This type of political power resource may be indispensable when the EU exercises a contextual linkage, which places a specific trade issue in the broader context of bilateral relationship. In this case, political interdependence may serve as an important power source for effective contextual linkage.

The EU's political interdependence relationship with a third country can also be strengthened in response to a predominant power like the US. As David Shambaugh argues, many Europeans are disquieted by the extent and use of US global power, particularly military power and the doctrine of pre-emption. Most Western Europeans believe that multipolarity is more conducive to global stability than unipolarity and that it can better advance Europe's own security and economic interests.⁷ Therefore, the EU tends to develop political interdependence relationship with the third country who shares the similar systemic worldviews. This also increased the EU's political-strategic power resources vis-à-vis any third

country that would ally with the EU to resist the US unipolar and unilateral trend.

Keohane and Nye claim that *asymmetrical interdependence* can be a source of power. A less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which the actor may be able to initiate or threaten) will be less costly to that actor than to its partners.⁸ Here, I make a distinction between asymmetry of political interdependence and that of economic interdependence. The former relies on an unbalanced political relationship, whilst the latter relies on an unbalanced economic relationship.

Credibility is another important component of the EU's political-strategic power resources. It refers to one's reputation for keeping its word. The more credible the EU is, the more power resources the EU has. It is closely related to "perception", which refers to the EU's image and profile in the eye of a third country. It is the essence of the EU's soft power.

Finally, the EU's internal *solidarity* refers to the degree that the EU is able to speak with one voice and act in unison. It requires a high level of convergences of interests, values and even cultures among Member States, as well as a skilful Commission who is able to build a unified European consensus. It is generally acknowledged that the more divided the Member States are, the weaker the EU is vis-à-vis a third country. It is also true that the United States, China, Russia and other powers often play the tactic of "divide and conquer". Solidarity is an important political source of power for the EU. In addition, the European integration is indispensable for the EU's internal solidarity, since it institutionalizes the EU's solidarity and therefore strengthens its overall political-strategic power base.

Economic power resources

Although the EU's diplomatic capability has expanded considerably since the creation of the European Political Cooperation (EPC), its real strength lies in the economic tools found primarily in the first pillar: the EC. Through the development of this policy domain, and its formal links to other EU pillars, the EU has managed to evolve from a relatively inward-focused regional economic organization to a more outward-focused global political actor.⁹

"Trade and development policies can be powerful tools for promoting reform", the European Security Strategy reads. "Contributing to better governance through assistance programmes, conditionality and targeted trade measures remains an important feature in our policy that we intend to further reinforce".¹⁰

The economic power resources refer to the asymmetrical interdependence between the EU and a third country. Specifically, the asymmetry involves such areas as trade, investment, technology transfer and development assistance and humanitarian aid.

The sheer size of the single European market and its rich experiences of negotiating international trade agreements have made the EU the most powerful

trading bloc in the world. Indeed, the trade power of the EU comes above all from the strength of its internal market and the efficiency of its institutions in negotiating lucrative commercial deals.¹¹ Meunier and Nicolaidis term the EU's sheer economic strength and its Single Market its structural power. With the 2004 and 2007 enlargements, the EU-27 became the biggest trading bloc in the world. Although the sheer size of the EU's economic weight matters, its asymmetrical interdependence in *trade* with a third party makes the real difference. In other words, this third party relies on the EU in trade more than the other way round. That gives the EU economic power resources.

Investment brings about capital, infrastructure, technologies and management expertise. It's assumed that the more investment goes to a third country, this third country pays more attention to maintaining a good relationship with the EU. The EU, as one of the world's major investors, has invested heavily in many third countries.

Bilateral scientific and technological cooperation has become the driving engine for trade and economic relations between the EU and third parties, especially those developing countries. The attraction of technologies is a condition *sine qua non* if China wants to accomplish its development programme. For instance, in 2005 Vice Premier Zeng Peiyan stated that with a view to sustaining growth, his country has to adhere to a technological and scientific go-out policy and "integrate advanced technology through absorption, digestion and innovation".¹² In 2001 the Chinese Ministry of Technology and Science prescribed that the government should "take the responsibilities of coordination, management and making all-embracing arrangements" in order to plug into foreign technology markets:

China must face and utilize both the domestic and foreign resources and markets. Under the international circumstance of globalization and new economy, we must more actively implement the "outward going" strategy, positively join the international community and take part in major international S&T cooperation, so as to achieve the leap forward in economic construction and S&T development, and gain an advantageous position in international competition.¹³

The EU's first and perhaps most prominent economic carrot for foreign policy involves its devotion to *development aid*, particularly in former colonies of EU Member States. In 2020, EUR66.8 billion spending by the EU (including the Community budget and the EU Member States) represents 46% of all official development assistance (ODA) from the EU and other DAC countries, as measured by the OECD (see Table 2.2).¹⁴ Individually, 4 of the 27 EU Member States even manage to meet or exceed the UN target of providing 0.7% of their GNI in development assistance: Sweden (1.14%), Luxembourg (1.02%), Denmark (0.73%) and Germany (0.73%). In terms of aid recipients, Community ODA is spread across a number of regions.

The EU is also a leading actor in international humanitarian aid. In response to unprecedented humanitarian needs, the EU's final humanitarian aid budget for 2020

Table 2.2 Official development assistance: OECD Development Assistance Committee (DAC) members (current USD equivalent)

	<i>\$ millions</i>	<i>As % of GNI</i>
Australia	2,563	0.19
Canada	5,031	0.31
Japan	16,266	0.31
New Zealand	531	0.27
Norway	4,198	1.11
Sweden	6,348	1.14
United States	35,475	0.17
29 DAC members	161,172	0.32
EU institutions	19,378	
DAC–EU countries	72,677	0.50
G7	122,062	0.31

Source: OECD figures for DAC countries, 2020.¹⁵

stands at EUR2,138 million.¹⁶ The EU provides general humanitarian aid primarily through the Directorate-General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) within the Commission. ECHO is especially concerned with handling ‘forgotten crises’ neglected by other donors, as well as unstable post-crisis situations where other donors may be reluctant to get involved.¹⁷

The Treaty of Lisbon introduces for the first time a specific legal basis for humanitarian aid. This provision stresses the specificity of the policy and the application of the principles of international humanitarian law, in particular impartiality and non-discrimination. The Treaty of Lisbon clearly states that the reduction and the eradication of poverty is the primary objective of the Union’s development cooperation policy. This goal must be respected when the Union implements policies likely to affect developing countries. This implies also that development policy is a policy in its own right, and not an accessory to the Common Foreign and Security Policy. In case of urgent financial aid, the Council will act by qualified majority upon a proposal from the Commission. This should mean quicker financial aid in the future. The Treaty of Lisbon will classify development cooperation and humanitarian aid as “shared parallel competences”: this means that the Union conducts an autonomous policy, which neither prevents the Member States from exercising their competences nor makes the Union’s policy merely “complementary” to those of the Member States. The Treaty of Lisbon also envisages the creation of a European Voluntary Humanitarian Aid Corps.¹⁸

The institutional power resources

The institutional power resources build upon institutions, competences and instruments. Compared with the political and economic power resources which are essential for initiating a linkage, the institutional power resources provide an institutional environment and guarantee for a linkage. In the EU’s case, they

include the EU's instruments, competences and degree of bilateral institutionalization with a third country.

Here, an institutionalist approach is applied to the analysis of the EU's power resources, so as to find out what contributions institutions can make to the EU's power. Central to any institutionalist analysis is the question: *how do institutions affect the behaviour of individuals*. After all, it is through the actions of individuals that institutions have an effect on political outcomes. In broad terms, new institutionalists provide two kinds of responses to this question, which might be termed the "calculus approach" and the "cultural approach", respectively.¹⁹

With regard to the calculus approach, institutions serve as the external environment, where power relations take place. Under the conditions of complex interdependence, multiple issues are linked and coalitions are formed transnationally and transgovernmentally. The potential role of international institutions in political bargaining is greatly increased. In particular, they help set the international agenda, and act as catalysts for coalition-formation and as arenas for political initiatives and linkage by weak states.²⁰ International organizations are frequently congenial institutions for weak states. The one-state-one-vote norm of the United Nations system favours coalitions of the small and powerless. International organizations also allow small and weak states to pursue linkage strategies. In the discussions on a New International Economic Order (NIEO), Third World states insisted on linking oil price and availability to other questions on which they had traditionally been unable to achieve their objectives. Small and weak states have also followed a strategy of linkage in the series of Law of the Sea conferences sponsored by the United Nations. Therefore, international organizations provide an external environment, in which, small and weak states' power is, *de facto*, increased, while that of big powers is restricted. By extension, institution serves as an intervening variable in power relationship.

Contrast to a 'calculus approach' is the 'cultural approach'. The latter stresses the degree to which behaviour is not fully strategic but bounded by an individual's worldview. That is to say, without denying that human behaviour is rational or purposive, it emphasizes the extent to which individuals turn to established routines or familiar patterns of behaviour to attain their purposes. It tends to see individuals as satisfiers, rather than utility maximizers, and to emphasize the degree to which the choice of a course of action depends on the interpretation of a situation rather than on purely instrumental calculation. From this perspective, institutions provide moral or cognitive templates for interpretation and action. The individual is seen as an entity deeply embedded in a world of institutions, composed of symbols, scripts and routines, which provide the filters for interpretation, of both the situation and oneself, out of which a course of action is constructed. Not only do institutions provide strategically-useful information, they also affect the very identities, self-images and preferences of the actors.²¹ Therefore, the cultural approach is a constructivist approach. In the 'cultural approach', the power relationship is constituted by ideas. This is a typical feature of constructivism. Ideas determine the meaning and content of power, the strategies by which states pursue their interests, and interests themselves.

For the convenience of presentation, I sub-divide institutional power resources to three categories: competences, instruments and bilateral institutionalization.

Competences

Since the case studies in this book are focused on trade, the EU's common commercial policy (CCP) would be the major area of my study. Trade is the core competence of the European Union. The Commission initiates and drafts proposals on the basis of consultations with sectoral interests, NGOs and the European Parliament. The Council then decides on the mandate and adopts the final agreement negotiated by the Commission.²² After the Lisbon Treaty came into effect, the European Parliament has acquired the co-decision power in ratifying international trade agreements. This has dramatically changed the dynamic of the EU's trade negotiations. Before the Lisbon Treaty, the key players were the Commission and national trade officials. The central dynamic of EU trade policy lay in the interaction between the Commission and the Council/Article 133 Committee. This was probably best captured by the principal-agent approach to the delegation of authority. The Council consists of a group of principals who delegate to the Commission, their agent, the task of taking forward a collective trade policy. The Council does not really behave like a legislature, authorizing the executive Commission to negotiate, since the member governments do not only set the objectives and ratify the results, but also want to have a say in every nuance of the package that emerges from trade negotiations.²³ When the EP acquired co-decision power, the MEPs and relevant committees within the EP have increasingly involved themselves into the EU's trade decision-making process.

In addition, the EU has constantly been acquiring new competences in the trade area, which correspondingly strengthened its institutional power base.

Instruments

Here, instruments refer to the policy tools that the EU is able to use in its external relations. I focus on the EU's common commercial policy instruments, including the Common Customs Tariff, the Common import arrangements, the Instruments of commercial defence and the Common export arrangements.

THE COMMON CUSTOMS TARIFF (CCT)

The CCT is the key to the Community's commercial policy. The blueprinting and evolution of the CCT have taken place against the backdrop of the GATT. CCT tariffs were low from the outset, responding to the central objective of liberalization of international trade. They have been cut further in the framework of successive GATT negotiations.

Instead of becoming a "Fortress Europe" when the Single Market was completed in 1992, as feared by some of its trade partners, the Community made important concessions in order to allow the conclusion of the GATT Uruguay

Round in 1993. However, one of the central principles of GATT and WTO is that of balance of mutual advantages (global reciprocity). This means, for the European Union, that it can tie access for third country economic operators to the benefits of the Single Market with the existence of similar opportunities for European undertakings (businesses, companies) in the country in question, or at the least to the absence of any discrimination. This implies a case-by-case approach for third countries, but a common approach by the Member States. The Single Market obliges the latter to show a united face to third countries. At the same time, the globalization of the economy is creating a state of interdependence and a growing realization that trade problems need to be solved wherever possible in a multilateral framework.²⁴

COMMON IMPORT ARRANGEMENTS

The new common rules for imports were established by Council Regulation of 22 December 1994. They apply to imports of products originating in third countries. The Regulation establishes a Community information and consultation procedure. When trends in imports appear to call for surveillance or protective measures, the Commission must be informed of this fact by the Member States.²⁵ When the trend in imports of a product originating in a third country threatens to cause injury to Community producers, import of that product may be subject, as appropriate, to prior or retrospective Community surveillance. Products under prior Community surveillance may be put into free circulation only on production of an import document endorsed by the competent authority designated by Member States and valid throughout the EU, regardless of the Member State of issue.

Where a product is imported into the Community in such increased quantities and/or on such terms as to cause, or threaten to cause, serious injury to Community products, the Commission, may acting at the request of a Member State or on its own initiative take safeguard measures, i.e., limit the period of validity of import document required in compliance with surveillance measures; alter the import rules for the product in question by making its release for free circulation conditional on production of an import authorization granted under certain provisions and in certain limits laid down by the Commission.²⁶

INSTRUMENTS OF COMMERCIAL DEFENCE

The use of instruments of commercial defence is the third pillar of EU trade policy. These are the measures that are used on a day-to-day basis to protect EU industries from 'unfair' trade practices or to ensure that the EU's trading partners comply with WTO obligations.

Countervailing duties are tariffs that can be applied under GATT rules when foreign suppliers of goods to the EU market benefit from public subsidies in their country of origin; and anti-dumping duties can be imposed when exporters 'dump' products on the EU market, for example, at prices below the cost of

production. When EU exporters face 'unfair' barriers to market access in other markets, they have recourse to the Trade Barriers Regulation (TBR) (Council Regulation (EC) No.3286/94), which in 1995 replaced the earlier New Commercial Policy Instrument (NCI).

The EU is also a major user of WTO dispute settlement mechanism. The EU has won several important WTO cases, such as on US safeguard actions on steel, and the US Foreign Sales Corporation Tax (FSC), but it also lost some, such as the beef hormones case. Decisions on whether to bring a case in the WTO are generally taken by the Commission, but with the backing of the Article 133 Committee. Challenging another WTO member under the Dispute Settlement Understanding (DSU) can be seen as an aggressive step, especially when losing the case carries major costs or requires changes in policy or legislation.²⁷

COMMON EXPORT ARRANGEMENTS

By virtue of a Council Regulation of 20 December 1969, Community exports to third countries are free or, in other words, are not subject to quantitative restrictions, with the exception of a few products for certain Member States and of petroleum oil and gases for all the Member States.²⁸ Secondly, there is Article 11 of the Regulation (Council Regulation 2603/69), which is a copy of Article 30 EC. It has been invoked in the context of so-called strategic export controls.

It is one of the hallmarks of the European Union's external relations that trade policy and foreign policy are constitutionally separated, the first always having been at the very core of supranational integration and the second forming the subject of evolving, but still on the whole intergovernmental, cooperation. Yet it is obvious that exports may be sensitive from a foreign and security policy perspective. As certain parts of the world are rather unstable and as certain countries' regimes are considered a threat to international peace and security, exports need to be monitored and controlled.²⁹ Such controls do not of course cover just armaments, which are to some extent outside EC competence,³⁰ but also so-called *dual-use goods* which can be used for both civil and military purposes. Such goods are normally traded, and as such fully covered by the common commercial policy, but because they are sensitive their exportation is controlled under specific legal instruments which are based on foreign and security policy considerations. Next to such export controls, there is another obvious instance of a foreign policy instrument which directly affects trade, both imports and exports: embargo measures, or, to use the common EU law term, *economic sanctions*, which are adopted to force a state or regime to modify its behaviour. It is in those areas of export controls and economic sanctions that the artificiality of the dichotomy between trade policy and foreign and security policy is most apparent.³¹

It took until the 1980s before a pattern of EC involvement in the adoption of economic sanctions developed. Before that the Member States defended their powers to proclaim sanctions under the so-called Rhodesia doctrine, which was based on (current) Article 297 EC. The doctrine provided that Member States

were deemed free to implement economic sanctions serving political aims against a third country under national rules justified on the basis of Article 297 EC.³²

Article 297 EC provides:

Member States shall consult each other with a view to taking together the steps needed to prevent the functioning of the common market being affected by measures which a Member State may be called upon to take in the event of serious internal disturbances affecting the maintenance of law and order, in the event of war, serious international tension constituting a threat of war, or in order to carry out obligations it has accepted for the purpose of maintaining peace and international security.

The prevailing view was that economic sanctions were beyond the scope of the common commercial policy.³³ In the early 1980s European Political Cooperation, the predecessor to the CFSP, developed. This provided the basic institutional preconditions for a culture of consultation, within which it became possible to adopt sanctions regulations on the basis of (current) Article 133 EC. The first such sanctions were directed against the Soviet Union, following the declaration of martial law in Poland.³⁴ In the same year the Council adopted sanctions against Argentina, for the first time expressly mentioning discussions in the context of EPC in the preamble.³⁵ That became the established practice: sanctions were based on Article 133 EC, and referred to preceding discussions in the framework of ECP as the political source for their adoption. Commentators agree that this movement towards Community involvement was mainly the result of a concern to ensure the effective and uniform imposition of sanctions, rather than constituting a principled recognition of Community competence.³⁶ Regulation can be adopted relatively smoothly on the basis of Article 133 EC, as a Commission proposal and a qualified majority in the Council are sufficient. They are directly applicable in all Member States and automatically override all inconsistent national law.

In practice economic sanctions include trade embargoes, prohibiting imports and exports; financial sanctions, banning transfers of funds, lending, or investment; and sanctions regarding means of transport or transport services.³⁷

Degree of bilateral institutionalization

This refers to the level of institutionalization of a bilateral relationship. Institutionalizing a bilateral relationship includes negotiating an agreement, establishing a partnership, or a dialogue mechanism. This is essential in the diplomacy of engagement and partnership. In fact, the EU's diplomacy is characterized by intensive institutional structures and networks established bilaterally, through which, the EU is able to exert its influence.

The linkage strategies of the European Union

Built upon the above discussion of the EU's power resources, I now turn to the EU's linkage strategies. In retrospect, many academic works have touched upon

the concept of linkage. Realists placed linkage and power together, while the students of interdependence theory, generally, questioned the importance and effectiveness of linkage³⁸ or mainly saw it as a tactic to gain negotiating leverage (tactical issue-linkage). This book, however, argues that linkage assumes both strategic and tactical importance for the EU and serves as a major means to bridge the gap between the EU's power resources and power effects. Moreover, linkage is essential for the EU's internal bargaining to form a consensus.

What merits careful research is that the EU is a *sui generis* actor in international relations. Even though we have already identified issue linkage and several of its variants, we still have to think about the unique nature of the European Union and its power, as well as its complex institutional dynamics.

This section explores the patterns of the EU's linkages, taking into account the uniqueness of the EU's power, its institutional dynamics and its relations with China. It is necessary for us to regroup the types of linkages identified in Chapter 1 into seven types: political-economic issue linkage, economic-economic issue linkage, conditionality, synergistic linkage, contextual linkage, the linkage with the US, and cognitive linkage. Of course, this is far from an exhaustive list. But with a good understanding of these types, we are able to draw a broad picture of how the EU exercised its linkage power.

Linking political and economic issues (political-economic issue linkage)

As regards issue linkage, I distinguish between the linkage within one single issue-area and across issue-areas. In the EU's case, two broad types of issue linkages are singled out: one is the linkage between a political and an economic issue, and the other between two economic issues within the same issue-area. Here, we focus on the political-economic issue linkage.

According to Keohane and Nye, the fragmentation of world politics into many different spheres has made power resources less fungible, that is, less transferable from sphere to sphere.³⁹ Under this logic, the political-economic issue linkage would be difficult since it involves the transfer of power resources between political and economic areas. Moreover, the EU's pillar structure and the divergent interests among Member States and the Commission make this type of linkage even more difficult.

However, there was clear evidence to show that political-economic issue linkages occur in the EU's diplomacy towards China over years. A typical example was the EU's arms embargo against China, which was tied to the human rights issue. In other words, the issue of trade in arms and dual-use products is tied to human rights. A more recent case is the European Parliament's boycotting of the ratification of the EU-China Investment Treaty as a result of the mutual sanctions between Beijing and Brussels on Xinjiang human rights issue. Trade and investment issues are being used for political and security purposes. In the empirical studies, I would assess whether and to what extent the EU applies the

political-economic linkage strategy, what kind of power resources it requires and whether this type of linkage is effective, and if not, why.

Linking two separate economic issues (economic-economic issue linkage)

This type of issue linkage takes place between two economic issues within a single issue-area. Plenty of evidences show that the EU applied this type of linkage in its trade relations with China. According to Andrew Moravcsik, the potential for linkage (across issue-areas) is far more limited than the potential for concessions within issue-areas.⁴⁰ Through the case studies in the following chapters, I will compare the political-economic and economic-economic issue linkage in terms of frequency and effectiveness, and verify whether Moravcsik's proposition is true.

Using conditionality as a means to power (Conditionality)

As a variant of issue linkage, conditionality wrings concessions by setting a threshold or preconditions for the third party to fulfil. Enlargement, trade, aid and association policies constitute major examples of the EU's conditionality.

- **Enlargement.** Enlargement of the European Union – or, more accurately, the prospect of becoming an EU Member State – is the principal means by which the EU has tried to spread prosperity, democracy and security to the former communist countries of Central, Eastern, and South-eastern Europe. The EU has thus contributed significantly to shaping the post-Cold War European order. It has been actively setting the 'rules of the game', the norms of domestic and international behaviour that should guide European states, as well as shaping the institutional structure in which those states are increasingly embedded. Incorporation within the EU is seen as a way to stabilize the new democracies and foster economic growth, but the EU has also used the promise of enlargement, if certain conditions are fulfilled, to influence the domestic and foreign policies of membership aspirants and encourage political and economic reforms, which are seen as necessary to ensure security in Europe. To an impressive extent, the EU's enlargement policy has been its most successful foreign policy. The EU has been able to exercise such influence because it has exploited its enormous "power of attraction": the post-communist governments have repeatedly declared that they want to "return to Europe", which they consider to entail membership of the EU (and NATO). The EU has made extensive use of both carrots and sticks in its relations with other European states, turning its soft power of attraction into quite coercive – though still civilian – power. As a result, the EU has become an ever more significant power with considerable impact on Europe.⁴¹
- **Aid.** The EU (that is the Community together with the Member States) is the world's largest donor of both development and humanitarian assistance, accounting for 50% of the global total. The EU's development assistance

mainly cover the following three areas: its long-standing, highly structured relationship with African, Caribbean and Pacific (ACP) states; its relatively new and more traditional relations with Asian and Latin American (ALA) states; and the role of the European Communities Humanitarian Office (ECHO).

Continually expanding political conditionalities, and penalties for failure to meet EU prescriptions, have become a significant aspect of development cooperation. The attempt to impose upon the ACP the Union's agenda on regionalization, and the priorities identified in its Security Strategy, are the most recent examples of this trend.⁴² Bretherton and Vogler argue that the above three examples reflect the Union's value-based identity, which features prominently among the political objectives of the Union as elaborated in the Treaty Establishing the EU (TEU) – that is, promotion of the Union's core values of democracy and the rule of law, and respect for human rights and fundamental freedoms. The EU's development policy demonstrates that these principles have indeed guided practice.⁴³ In other words, the EU links development with political issues including security, human rights, rule of law and other EU's normative interests.

- **Trade.** The EU is above all a major economic power, and trade provides the foundations of its actorness. Underlying this is the presence of the Single Market. The utilization of various degrees of preferential access to the Single Market positions the Union at the centre of a web of bilateral links. For those outsiders at the periphery of this system the EU can appear as a very potent, sometimes inscrutable, and on occasion domineering, single actor.⁴⁴

The first goal of EU trade power is self-evident: the EU is using its power to secure concessions from others about market access. In doing so, it works as a shaper of economic globalization. More originally, the EU is also using its trade power to achieve non-trade objectives, from the export-specific rules flanking market integration (social, environment, safety standards) to more political or strategic linkages.⁴⁵ Over the past decade, the EU has been able to exert power *bilaterally* through trade conditionality – sanctions in its extreme form – or less frequently through “unilateral tariff disarmament”.⁴⁶

The interruption of trade and the political use of aid continue to be the essential instruments available to the Union. For many years, trade and aid provided the only hard instruments available to the CFSP and they are still preeminent. Trade inducements and penalties are available through the manipulation of agreements, quotas and preferential arrangements, and sanctions are deployable under Article 301 of the TEC. Sanctions, mandated by the UN Security Council, have been imposed in respect of imports from the Former Republic of Yugoslavia (terminated in 2000), Saddam Hussein's Iraq and Liberia (under Security Council Resolution 1343 which prohibits trade in conflict diamonds). In less coercive contexts the granting or withholding of trade relations (alongside aid and other benefits) continues to provide the backbone of the Union's relations

with most third parties. There are also instances where trade measures have had very specific political objectives. For instance, in the immediate aftermath of the terrorist attacks of 11 September 2001, trade instruments, in the form of a Third Generation Cooperation Agreement including enhanced access for Pakistani textile exports, were deployed to encourage the Pakistani government in its alignment with the US and its allies. The Union has also attempted to manipulate its extensive trading relationship with Israel for political ends.⁴⁷ In November 2001 the Commission used rules of origin to threaten the ending of preferential treatment of goods imported from the occupied territories but labelled 'made in Israel' in order to register displeasure at policy of the Sharon government.

One of the EU's trade initiatives – "Everything but Arms (EBA)" – is another attempt in linking trade with development, which has significantly increased the EU's role in the North-South relationship and in global efforts in response to globalization. As the former EU Trade Commissioner Pascal Lamy defended the EBA proposal in the Council of Ministers, "It (the EBA) is of strong political importance and places Europe at the forefront of global partners in favor of the integration of developing countries into the global economy".⁴⁸ In other words, the EU uses the EBA to achieve something beyond trade itself – an increase in its soft and normative power.

One example in the EU's trade relations with China is granting China full Market Economy Status. The EU developed a set of criteria, consisting of five distinctive criteria, ranging from accounting standards to state intervention. Although it was argued that the five criteria were closely related to the evaluation of the dumping margin in an anti-dumping investigation, it could also be argued that the EU links a trivial technical matter, only limited to the anti-dumping area, with the whole of China's economic system reform.

Introducing a new policy option/incentive into domestic bargaining arena or vice versa (synergistic linkage)

Synergistic linkage is a variant of issue linkage. This concept is coined by Robert Putnam in his two-level bargaining model. As defined in the Introduction, the essence of this linkage type involves introducing an incentive negotiated in the external negotiations into a domestic bargaining area. The EU is experienced in exercises linkage power at two levels, international and internal (the EU level).

As Andrew Moravcsik says, the linkage of issues and side-payments in package deals is a constant theme in the history of EC negotiations. Indeed, many commentators view linkage as the core of the EC's success.⁴⁹ Linkage serves as a strategic interface between the EU's internal and international arena, connecting the EU with other international actors, such as the United States, Russia, China, or other regional and international organizations, like the Mercosur and the African Union.

Synergistic linkage is prevalent and institutionalized in the European Council of Ministers. Although this linkage takes place internally, it is a matter of great significance regarding the collective bargaining power of the EU in its external

bargaining. The internal issue linkages, when established, can either enhance or weaken the EU's power vis-à-vis the third party.

Specifically, I argue that there exist at least two types of synergistic linkages. The first is the classical synergistic linkage defined by Putnam, featuring introducing an incentive negotiated in the external negotiations into a domestic bargaining area. The second type of synergistic linkage features introducing an incentive negotiated in the domestic bargaining area to another domestic bargaining area. For this type, the EU's trade negotiator has to strike a deal in the first place with its internal negotiating interlocutors (the Member States or the other European Institutions such as the European Parliament), which involves specific trade concessions on the part of the Commission. Or the deal can be struck among the Member States themselves within the Council of Ministers.

Throughout the case studies, I intend to verify whether the EU applied this type of linkage in its relations with China and how effective it was; and if not, what the major difficulties were.

Putting a sectoral issue in an overall perspective (contextual linkage)

Axelrod and Keohane pointed out the existence of what could be called "*contextual*" linkage. In such a situation, a given bargain is placed within the context of a more important long-term relationship in such a way that the long-term relationship affects the outcome of the particular bargaining process. The substance of this type of linkage is linking a limited amount of interest in a specific issue-area with the overall interest of a long-term and comprehensive relationship.

The underlying logic of contextual linkage is reciprocity, in particular, diffuse reciprocity. The European Union possesses significant strategic power resources, resulting from its position in the international political and economic system. The third country with a strategic vision in international politics tend to view the EU's role from a strategic perspective. China is such a country, who believes that a long-term strategic partnership with the EU could yield a rough equivalence of benefits in the aggregate and over time.

Contextual linkage is highly visible in the EU's diplomacy towards China. For most of the period since the establishment of their diplomatic relations, China expected that the EU could serve as a strategic counterbalancing power, first against the Soviet Union and then against the United States. As China's EU Policy Paper states, "The European Union (EU) is a major force in the world. To strengthen and enhance China-EU relations is an important component of China's foreign policy. China is committed to a long-term, stable and full partnership with the EU".⁵⁰ In this context, there emerged an unbalanced political interdependence in favour of the European Union. Based on this political power resource, the EU was able to exercise a contextual linkage, which linked the overall EU-China relationship with a specific trade issue. It is argued that the Chinese side would usually make concessions for the sake of bigger picture of bilateral relationship.

I also label the linkages relying on strategic power resources, such as political interdependence and its asymmetry, as "strategic linkages".

Allying and competing with a third party (Party linkage and addition)

The linkage with a third party is what Sebenius called “party linkage or party addition”, which I have elaborated upon in Chapter 1. Sebenius extends issue addition to party addition. He argues that parties are commonly added that have influence on, or interest in the substance of the negotiation who may directly strengthen a coalition.⁵¹ In substance, linkage with a third party might change the balance of power. For example, the EU’s linkage with the United States may easily tip the balance between the EU and any other major power, be it Russia, China, India or Japan. Or the EU’s linkage with any other major power other than the US may also upset the United States in the transatlantic relationship. This reflects the ambivalence of the US’s role to the EU – as a key partner and leader but also as a potential rival in world politics and global economy. The linkage with the US is essential to the concept of “linkage power” and the key for us to understand the EU as a strategic power, drawing upon its power resources at the systemic level. In its trade negotiations with China, the most popular party linkage that the EU has adopted is the linkage with the US.

Linking issues into packages in deference to some cognitive consensus (cognitive linkage)

Ernst Haas’ substantive linkage is of great relevance in the EU’s external relations. I am interested in understanding how negotiators, by way of substantive linkage, are able to link issues into packages in deference to some intellectual strategy or evolving awareness of causal understanding. I would argue that the EU is a master of linking issues into packages in accordance with the “artificial” knowledge, which the EU structures, reorganizes, creates or even manipulates to its own interest. The key question is how the EU persuades the other party to change its original course of action through a social learning process.

According to Alexander Wendt,⁵² there are two logics of social learning: one is causal and the other constructive. When they incorporate learning, rationalists generally emphasize its behavioural effects, treating identities and interests as constant and focusing on how the acquisition of new information about the environment enables actors to realize their interest more effectively. Learning sometimes goes no deeper than these behavioural effects (“simple” learning), but constructivist approaches highlight the possibility that learning may also have construction effects on identities and interests (“complex” learning).⁵³ In this book, I examine both logics. Some evidence has been found, showing that the EU selects separate issues and link them into one single issue-area on the basis of some intellectual strategy or evolving awareness of causal understanding, which the EU adopts to either cause or constitute the change in the course of action by the other party. The EU often takes a proactive stance in involving the other parties in a social learning process.

One typical example is the “Trade and X” issue-area, which ranges from trade and investment, trade and competitiveness, trade and environment, trade and

climate change, trade and security, etc. With regard to trade and investment, while being one of the world's biggest investors, the EU considers Foreign Direct Investment (FDI) as a key means to promote development and economic and social growth. The interdependence and complementarity between trade and FDI is widely recognized. With regard to trade and climate change, the European Commission takes the lead by proposing the idea of "Green Trade", which calls for the elimination of tariffs and duties on environmental goods and services through both the multilateral trade negotiations and the EU's bilateral agreements with its partners. For a "trade and X" issue-area, the key for the EU to push through the idea, depends on whether the EU is able to convince its partners of the internal logic and benefit of linking trade and X. If its partners accept the idea that trade is an indispensable means to deal with climate change, that implies that the EU has achieved an advantageous power position vis-à-vis the partner. The EU's soft power will then play a role. However, whether the partner finally agrees with the EU's idea and signs the multilateral or bilateral agreement depends, to a large extent, upon the domestic dynamics of both the EU and the partner. Therefore, further efforts need to be made in looking into the principal determinants of an effective linkage, which is the theme of the following section.

Another example is the EU's management of economic globalization. The EU is credited with recognizing that globalization raises fundamental questions of governance since together with its undeniable wealth-creating effects, globalization often brings with it greater inequalities, social disruption, and environmental damage, the kinds of negative externalities that those benefiting from globalization prefer to ignore.⁵⁴ Pascal Lamy, during the hearing to the European Parliament in 1999, stated that the main objective of his tenure as Trade Commissioner of the European Union would be to ensure that globalization is '*maîtrisée*' – a term alternatively translated as managed, controlled, tamed or harnessed.⁵⁵ "Managed globalization" became the central, guiding doctrine of EU trade policy over the next five years. It was a broad and encompassing doctrine that subordinated trade policy to a variety of trade and non-trade objectives, such as multilateralism, social justice and sustainable development.⁵⁶ As a result, in Lamy's trade politics with third countries, globalization and Issue 'X', such as public health (relaxing the criteria for launching generic drugs in least developed countries), development (like 'Everything but Arms') figured prominently. However, to justify such linkages and convince its partners, the EU has, once again, to resort to involving its partners in a social learning process. In other words, the EU's power, in these cases, results from social learning, which is characterized by persuasion, legitimation, mutual interest and reciprocity, rather than coercion or any form of traditional power politics.

Characterizing the EU – a sui generis linkage power?

Many scholars qualify the European Union as a sui generis entity, who has obtained certain characteristics of a sovereignty state, but still far away from being one. The EU's unique characters may have implications on its linkage power,

both in terms of power resources, linkage patterns and power effects. For example, the EU might have more pressing needs for using linkage strategies than any other power like the US or China. Or, the EU's linkage may be less effective than other powers due to the inconveniently complex institutional dynamics.

For the convenience of presentation, I firstly apply realist analysis to the EU, since bringing together the EU and Realism will inevitably create doubts or opposition among EU scholars and practitioners. By so doing, I am able to animate a debate among IR theories, and through such a debate, better illuminate the nature of the EU's power.

Realism, be it classical realism or neorealism, holds the following basic assumptions, which contradicts the nature of the European Union: (1) states as coherent units are the dominant actors in world politics. This is a double assumption: states are predominant; and they act as coherent units. (2) Force is a usable and effective instrument of policy. Other instruments may also be employed, but use or threat of force is the most effective means of wielding power. (3) There exists a hierarchy of issues in world politics, headed by questions of military security: the "high politics" of military security dominate the "low politics" of economic and social affairs.⁵⁷

Accordingly, the above three realist assumptions can be transformed into four questions, which serve as the basis for further discussions of the EU's linkage power: (1) whether the EU can be treated as a unitary actor capable of exercising linkage power to achieve its objectives? (2) What are the implications of the EU's non-military character upon its linkage power? (3) Whether the EU's power resources are fungible so as to enable the EU to exercise power across issue-areas? Considering the EU's unique institutional structure, we would add the fourth question: (4) what are the implications of the EU's evolving institutions on the EU as a linkage power?

Whether the EU can be treated as a unitary actor capable of exercising linkage power to achieve its objectives?

For realists, the EU is not a unitary state (nor about to become one). Kenneth Waltz argues that the European Union has all the tools – population, resources, technology, and military capabilities – but lacks the organizational ability and the collective will to use them.⁵⁸ Nye sits at a middle ground by looking into different issue-areas. He pointed out,

Europe is united on trade, monetary policy, and agriculture, and increasingly on human rights and criminal laws [...] but when there is disagreement, foreign and defence policies will remain effectively with national governments. Money and guns, the traditional high cards of hard state power, remain primarily under the control of the Member States.⁵⁹

The Maastricht Treaty laid out the fundamental three-pillar system comprised of the supranational Community pillar⁶⁰ and the two intergovernmental pillars,

one concerned with the common foreign and security policy (CFSP) and the other with justice and home affairs (JHA).⁶¹ According to Dony, under the Maastricht Treaty, the external action of the EU could be viewed as the outcome of the interactions between the EC (acting within the context of the first pillar), the EU (acting on the basis of the second and third pillars) and the Member States (acting within their own competences).⁶² Article 3 of the EU Treaty stated that

the Union shall in particular ensure the consistency of its external activities as a whole in the context of its external relations, security, economic and development policies. The Council and the Commission shall be responsible for ensuring such consistency. They shall ensure the implementation of these policies, each in accordance with its respective powers.

Article 13 reiterates that the Council is responsible for ensuring the “unity, consistency and effectiveness of action by the Union”. However, it was widely admitted that the coexistence of the EU and the Communities, with their diverging competences, decision-making powers and instruments, created an ambiguity with regard to their respective competences and would consequently result in confusion on the part of the Union’s partners. These ambiguities would also undermine the Union’s capacity to affirm its specific identity at the international level, and hamper its ability to efficiently manage the negotiation of international treaties and the representation of the Union in international organizations.⁶³

Specifically, there are three aspects of difficulties hampering the EU’s coherence: firstly, the overlap between the Union’s constituent pillars had often been stressed as the main obstacle hampering the promotion of improved coherence. Up until the entry into force of the Lisbon Treaty, provisions for external action were scattered throughout the European treaties. The CFSP was the subject of Title V in the EU Treaty, whereas the EC Treaty generally covered trade policy, development aid and economic, financial and technical cooperation with third countries. Secondly, the Union’s economic and political relations with third countries/regions and its action within international organizations were governed by different rules and decision-making procedures. Such a composite system made it difficult to guarantee that the multiple instruments were used harmoniously and in pursuit of common strategic objectives.⁶⁴ Thirdly, there exists a significant level of preference heterogeneity among Member States. The EU is the only political entity where interests need to be aggregated not once but twice – at the level of Member States and then at EU level and where each level of aggregation in itself constitutes a potential veto point.⁶⁵ The Council is a battlefield where fighting for interests is a constant theme either between the Commission and the Member State or among Member States. Plenty of evidence shows that the Council, representing the Member States, is anything but a unified actor. Different Member States have different preferences in international negotiations, influenced by both societal actors – interest groups and non-governmental organizations – and ideas.⁶⁶ Also, coalitions in the Council tend to change from issue to issue.⁶⁷

Sophie Meunier and Kalypso Nicolaidis argue, when talking about the EU as a “trade power”, that the EU is conflicted within itself, as different Member State governments, influenced by a host of domestic actors, hold very different views on how to wield such power through trade. The EU is also conflicted between its own guiding principles, which often appear to contradict one another – such as championing multilateralism while blanketing the planet with bilateral trade agreements, or promoting the cause of economic development while protecting European agriculture. Only through appropriate strategies to reconcile such tensions can the EU find the path to “legitimize” its power on the world scene.⁶⁸

Despite the above-mentioned institutional and competence-related obstacles, the EU is far from paralyzed. On the contrary, many examples proved that the EU worked like a normal power, in particular in trade policy area. Some Brussels-based diplomats from third countries argued that “The EU is undoubtedly a coherent actor on trade – almost a trade superpower”.⁶⁹ I tend to think that the EU might be able to work like a unitary actor on some occasions, or on a case-by-case basis. Here, *linkage* plays a key role in synchronizing the EU machinery in foreign policy actions. For example, when the EU seeks specific concessions in opening up the third country market, it probably has to pay back with political concessions. This requires the EU to act in unison politically. With this logic, the EU might be urged to act in a united way when exercising its linkage strategy towards a third country. Here, the essence of linkage is to build a bridge between two issue-areas such as a political issue-area and an economic one. Moreover, the EU’s institutional problems and preferences heterogeneity may serve as a catalyst: the EU is motivated, more than other powers, to resort to linkages since linkage may be able to lead to EU-level collective action. But this assumption should be subjected to the empirical studies.

What are the implications of the EU’s non-military character upon its linkage strategy?

Traditional realists emphasize the importance of political-military power. They either view the EU as an impotent power or a weaker power. Interdependence theories, however, argue that the agenda of interstate relationships consists of multiple issues that are not arranged in a clear or consistent hierarchy, and that military force is not used by governments towards other governments within the region, or on the issues, when complex interdependence prevails. In addition, interdependence theories pay much more attention than realists to soft and civilian power resources.

Joseph Nye posited the concept of “*soft power*”, which relied on co-optation, multilateral cooperation, institution-building, integration and the power of attraction.⁷⁰ Nye argues,

A country may obtain the outcomes it wants in world politics because other countries – admiring its values, emulating its example, aspiring to its level of prosperity and openness – want to follow it. This is soft power – getting

others to want the outcome that you want – co-opts people rather than coerces them.⁷¹

Nye recognized,

Currently, the closest competitor to the United States in soft power resources is Europe ... The European Union as a symbol of a uniting Europe itself carries a good deal of soft power ... The idea that war is now unthinkable among countries that fought bitterly for centuries, and that Europe has become an island of peace and prosperity creates a positive image in much of the world.⁷²

Another concept, which is similar to soft power, is “civilian power”. It is a concept coined by Duchêne, who argued that, in circumstances of increasing economic interdependence, when “lacking military power was not the handicap it once was”, the EC as a “civilian power [...] could play a very important and potentially constructive role [...] a new role for a new world”.⁷³ Kevin Twitchett defined civilian power as an actor that has no military dimension but is able to influence other international actors through diplomatic, economic and legal means.⁷⁴ Hanns W. Maull suggests that a civilian power accepts the necessity of cooperation with others in pursuit of international objectives; concentrates on non-military, primarily economic, means to secure national goals, with military power left as a residue instrument to safeguard other means of international interaction; and develops supranational structures to address issues of international management.⁷⁵ Mario Telo argues that the EU can realistically be defined as an at least incipient, collective civilian power.⁷⁶

In this context, I would argue that the EU’s non-military character could have significant implications on its linkage power, including power resources, linkage patterns and power effects. Lack of military capabilities means that the EU has to rely more on other types of power resources for a possible linkage, such as political-strategic, economic and institutional power resources. It could also mean that the EU has greater pressure than other powers to use soft or civilian power resources, such as negotiating partnership and cooperation agreements. As a civilian power, the EU mainly relies on economic power resources to exercise its linkage power. After all, the EU is seen by many international observers as an economic superpower, but political dwarf. But is this true? We need to verify it through empirical studies.

Whether the EU’s power resources are fungible so as to enable the EU to exercise power across issue-areas?

Realists believe that power is fungible. The overall power structure makes the international politics a seamless web. It is generally agreed among the realists that the military power advantages can make up for the disadvantages in other issue-areas. However, realists usually believe that the direction of fungibility is

from high politics to low politics. Therefore, realists do not pay attention to the fungibility of EU's powers since the EU is not a political-military power.

Keohane and Nye see the world as highly differentiated with so much variation across issues. For the students of interdependence theory, it is generally agreed that power is situationally specific. The need exists, it is suggested, for students of international politics to examine the multiple distributional patterns of power in a large number of issue-areas.⁷⁷ They generally believe that the fragmentation of world politics into many different spheres has made power resources less fungible, that is, less transferable from sphere to sphere.⁷⁸

Some evidence shows that, in fact, the EU had, on many occasions, made linkages across issue-areas in its dealings with the third country. In the agreement negotiations, the EU adopted the approach of "mixed agreement", attaching a human rights clause and an environmental clause, which is a typical example of political-economic linkage. Lightfoot and Burchell reveal that Europe is clearly trying to transform the overall question of sustainable development into an instrument of international influence, even through the leverage of its trade policy. In 1996, Europe raised the question of the link between trade and the environment, relying on the Rio Declaration of 1992 on sustainable development.⁷⁹ The EU also sanctioned Belarus for their non-respect of basic social clauses through refusing to grant Belarus GSP (generalized system of preference) treatment. The EU threatened Russia against Russia's recognition of South Ossetia and Abkhazia by voting to postpone the next round of strategic partnership talks with Russia.⁸⁰ Other evidence shows that the Europeans have been able to seek changes in Third World regimes through the political conditionality attaching to their development policy, and to use their leverage on those states in their orbit which wish for accession or special relationships.⁸¹

Therefore, the EU's power resources could be fungible across issue-areas and linkages could be made across issue-areas. However, whether the linkage is successful or not depends on many other factors, such as the EU's domestic politics, institutional dynamics and the interlocutor's response. I examined the following questions through the case studies:

- In which direction the linkage is made across issue-areas? In other words, is the linkage always made from a high politics issue-area to a low politics issue-area (top-down linkage)?
- Which is more difficult, the linkage made within an issue-area or across issue-areas? And why?

What are the implications of the EU's evolving institutions on the EU as a linkage power?

Basically, the whole bargaining process must take place in a specific institutional environment, be it domestic political system, regional, or international organization. We need to know what intervening role the institutions play in a given bargaining process, whether the institutional dynamics constrain or reinforce the effectiveness of issue linkage.

Although the EU's competences were divided, the EU has acquired constantly new competences over these years. Take *trade* as an example, in 1997, the Amsterdam Treaty allowed the Council acting unanimously to extend the application of provisions on CCP (Common Commercial Policy) to services and intellectual property. In 2001, the Nice Treaty further codified the EU's competences in trade in services and the commercial aspects of the intellectual property rights.

Based on the above preliminary analysis about the EU's peculiarities, I presuppose that the EU is a *sui generis* linkage power. I will move to the case studies in the following chapters to verify whether and how the EU's *sui generis* features would mould its linkage power.

Evaluation of the effectiveness of the EU's linkage strategies

This evaluation is essential in judging to what extent the EU can be qualified as an effective linkage power. Here, I adopt an adapted Ginsberg's model to evaluate the effects of the EU's linkages.⁸²

In Ginsberg's model, the effects of European foreign policy (EFP) activities on non-members – or external political impact – refer to (1) where non-members modify or change the direction or substance of a domestic or foreign policy that would not likely have occurred in the absence of the EU stimulus or EU stimulus accompanied by stimuli from other international actors;⁸³ (2) where non-members' interests are beneficially or adversely affected by a EFP action; and/or (3) where non-members' interests are beneficially or adversely affected by EFP inaction.⁸⁴

Ginsberg categorizes external political impact in levels of intensity from nil to marginal political impact and from considerable to significant political impact.

- With **nil** political impact, the EU has no influence over non-members and their interests.
- The EU has **marginal** political impact when it – acting alone or as one of several actors – generally or indirectly influences the domestic, foreign and/or security policy, interests or behaviour of a non-member. Even when the EU chooses not to act when it could have under treaty law or the remit of CFSP, the EU may still have marginal political impact as the result of not acting. With marginal political impact, EU action or inaction may have beneficial or adverse political impact on non-member interests, but the EU does not effect a change or modification in the behaviour or domestic, foreign, or security policy of a non-member.
- The EU has **considerable** political impact when it – acting alone or as one of several actors – tangibly influences the domestic, foreign and/or security policy, interests or behaviour of a non-member. Even when the EU chooses not to act when it could have under treaty law or the remit of CFSP, the EU may still have considerable political impact as the result of not acting. With considerable political impact, EU action or inaction may have major

beneficial or adverse political impact on non-member interests and may effect a change or modification in the behaviour or domestic, foreign or security policy of a non-member that would not likely have occurred in the absence of the EU stimulus or EU stimulus accompanied by stimuli from other international actors.

- The EU has **significant** political impact when it – acting alone or as one of several actors – is primarily and directly responsible for a change or modification in the behaviour or domestic, foreign and/or security policy, interests, or behaviour of a non-member that would not likely have occurred in the absence of the EU stimulus. Even when the EU chooses not to act when it could have under treaty law or the remit of CFSP, the EU may still have significant political impact as the result of not acting. With significant political impact, EU action has beneficial or adverse political impact on the vital interests of the non-member.⁸⁵

An adapted and simplified Ginsberg's model on the effects of the EU's linkages in its international bargaining can be summarized as the following: (1) non-members modify or change the direction or substance of a domestic or foreign policy that would likely not have occurred in the absence of the EU stimulus or EU stimulus accompanied by stimuli from other international actors; (2) whether or not there exists a causality between the EU's linkage strategy and point (1).

This adapted model is also applicable to the EU-level linkages. At the EU level, both the European Commission and Member States are able to apply linkages. I would verify whether they change the direction or substance of their policy as a result of linkage.

I adopt the above-mentioned grading system to assess the power impact of the EU's linkage. This assessment system also consists of four grades: "nil", "marginal", "considerable" and "significant".

- With **nil** grade, the EU has no influence and impact over the non-member's course of action.
- The EU has **marginal** influence and impact over the non-member's course of action, when the non-member makes insignificant moves in accommodating the EU's concerns, often in the form of paying lip services. The direction and substance of the non-member's domestic and foreign policy remains basically unchanged.
- The EU has **considerable** influence and impact over the non-member's course of action, when the EU relies on more than one type of linkage strategies. In other words, two or more than two types of linkages are responsible for the change of the non-member's course of action.
- The EU has **significant** influence and impact over the non-member's course of action, when the EU relies on only one specific linkage strategy. In other words, that type of linkages is primarily and directly responsible for the change of the non-member's course of action.

In the Empirical Part, I rate each grade with different points. *Nil* is graded 0 points. *Marginal* is 1 point. *Considerable* is 3 and *Significant* is 5 points.

Periodizing the EU's trade negotiations with China

This book periodizes the history of EU–China trade negotiations based on four main considerations: the long cycle of the world economy (the Kondratieff Long Wave), the historical process of EU integration, China's development and changes, and milestones in EU–China relations. My analysis begins with the Kondratieff Long Wave, where the boom and bust of the world economy led to the rise and fall of great powers. Within the framework of the compound cycle of the rise and fall of the world economy and hegemony, the EU's policy towards China has evolved accordingly.

Let me first explain what a Kondratieff long economic cycle is. The Kondratieff long economic cycle is a 48- to 60-year economic cycle proposed by Soviet economist Nikolai D. Kondratieff (1892–1938). In his article, “The Long Waves in Economic Life” published in 1935, Kondratieff empirically studied long waves of economic development using time-series statistics on prices, interest rates, imports, exports, coal and pig iron productions in major capitalist countries such as the United Kingdom, France, the United States and Germany. Through his research, Kondratieff concluded that there are long-wave fluctuations in the process of capitalist economic development, ranging from 48 to 60 years and with an average duration of 50 years. He divided the capitalist economic movements in the 140 years (1780–1920) he studied into two-and-a-half long waves. The first long wave rose in the late 1880s or early 1890s to 1810–1817 and fell from 1810–1817 to 1844–1851. The second long wave rose from 1844–1851 to 1870–1875 and fell from 1870–1875 to 1890–1896. The third long cycle rose from 1890–1896 to 1914–1920.⁸⁶ Kondratieff found that during long wave recessions, many important discoveries and inventions in production and transportation were completed, but these were usually only applied at scale at the beginning of the rise of the next long wave. When the rise of the next long wave begins, gold production usually increases, and the world (commodity) market generally expands thanks to the participation of new countries, especially colonial countries. During the rise of a long wave (i.e., in the tense period of the expansion of economic power), catastrophic and widespread war and revolution are prone to occur.⁸⁷

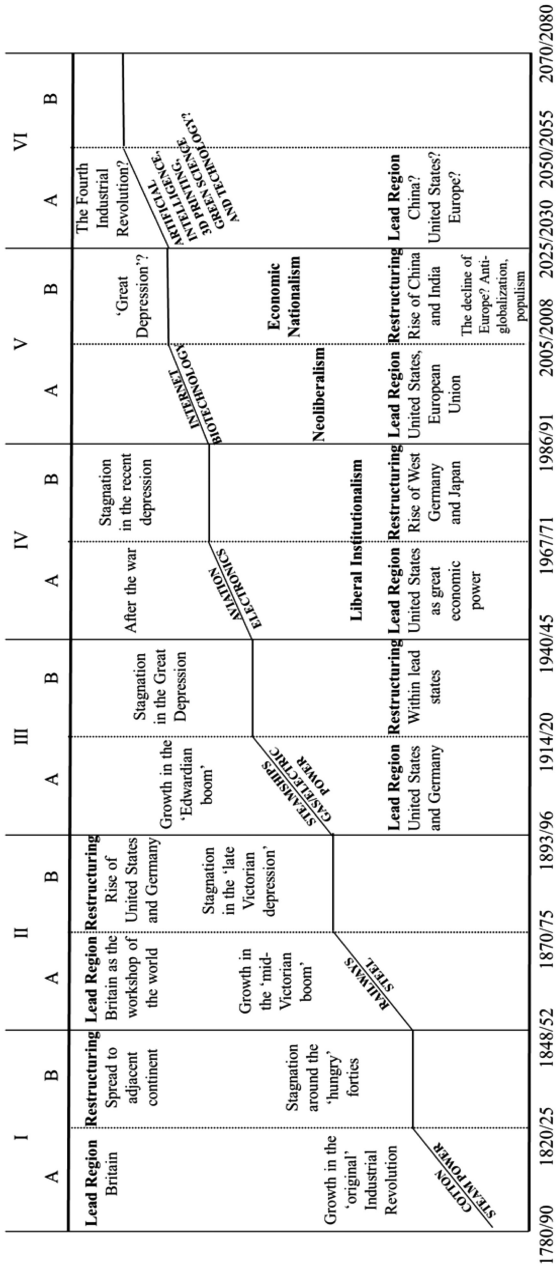
After Kondratieff, many economists followed the long-cycle analytical framework he pioneered, and they summarized the cycles of world economic development from the first industrial revolution in the late 18th century until after World War II. Now, the vast majority of researchers are of the view that the world economy has gone through four long cycles (see Graph 2.1). The first long cycle began in 1780–1790 during the French Revolution and ended in 1845–1848, with Great Britain as the main actor. The invention and widespread use of steam power gave rise to a series of novel inventions such as the steam engine, machine weaving, new smelting processes and ships, etc. Such significant technological

advances fuelled rapid economic growth in this cycle. The new entrepreneurial class that emerged at that time was the social force that drove the rapid growth of the economy. The turning point of the cycle was the Napoleonic Wars of 1815, which led to the first economic crisis of capitalism with financial volatility, price collapse, and the “Hungry Forties”. It was against this backdrop that the then-young Marx and Engels wrote their famous *Communist Manifesto* and other works.

The second long cycle began in 1845–1848 and lasted until the mid-1890s. The technological changes that drove the economic boom during this cycle included the steel industry, railroads and the widespread use of coal as an energy source. While Britain still enjoyed industrial development and maritime supremacy, the gravity of economic expansion gradually shifted to continental Europe, where the German economy began to take off in the early 1870s. By the end of the 19th century, a rising Germany, backed by its steel and chemical industries, gradually began to play a leading role. The United States quickly caught up as well. The turning point of this cycle was the Vienna Stock Exchange crash of 1873, which triggered a decade-long recession, accompanied by fierce competition, growing protectionism and a pervasive pessimistic sentiment.

The rise of the third long economic cycle lasted roughly from Bell’s groundbreaking invention in 1895 until World War I. The major technological advances that contributed to rapid economic growth during this period included the discovery and widespread use of electricity; the rapid development of the chemical industry, trams, telephones, radio and electric lights; and the first wave of motorization in the United States. Germany and then the US, replaced the UK as the “growth poles”. Large monopolies (in the form of a *konzern* or cartel) and mass production gradually expanded throughout the world. The turning point of this cycle was the crashing of the stock market from 1929 to 1931, which led to a severe depression and mass unemployment; the crashes also resulted in widespread adoption of nationalism, isolationism and protectionism during the 1930s. This crippled international trade. The cycle ended roughly at the end of World War II.

The fourth long cycle first began in the US at the end of World War II. The post-war recovery and reconstruction of European and Asian countries, free trade and the market opening enabled by a generation of dynamic entrepreneurs led to a surge in investment and consumption never before seen in history. The turning point of the fourth cycle was the oil shock of 1973. In fact, by the end of the 1960s, signs that the economic boom was coming to an end had become increasingly evident: runaway inflation, difficulties in restructuring industrial sectors with prohibitive labour costs, declining profit margins, declining willingness to innovate and so on. In the aftermath of the oil crisis, the world economy was mired in serious problems. Most countries in the Third World were overwhelmed by an overhang of internal and external debts. The economic performance of the industrialized nations also came under distress.⁸⁸ However, there is no consensus in Western academia as to when the fourth long cycle will end, or when the fifth



Graph 2.1 The Kondratieff long economic cycles and hegemonic cycles. Source: the author has prepared this chart based on an adaptation of the chart from Colin Flint and Peter Taylor, *Political Geography: World-Economy, Nation-State and Locality*, 7th Edition, Routledge, 4 May 2018.

long cycle will begin and end. In fact, this question has been a matter of great interest to the Western economic community.⁸⁹

In Chinese academia, the views on this issue are also inconclusive. A significant number of scholars tend to consider the global financial crisis of 2008 as the turning point of the fifth cycle, from rise to fall, when the world economy shifted from the pre-crisis moderate-to-high growth of nearly 6% to recession, depression and tortuous recovery (see Table 2.3). Yao Shumei and her colleagues at the Institute of Foreign Economic Relations, a think tank affiliated with China's National Development and Reform Commission, believe that the world economy is now at the Phase B of the fifth Kondratieff cycle, with Phase A starting in 1990 and ending in 2008 (Yao et al., 2016), as Table 2.3 illustrates.⁹⁰

This book favours the view of these Chinese scholars, that the fifth long cycle began in the late 1980s and that its upswing phase lasted until the global financial crisis of 2008. The downward phase will likely last until 2025/2030 (see Graph 2.1). The historical segmentation of the EU's foreign policy and the history of trade negotiations with China in this book is based on this figure.

Based on the Kondratieff long cycles and the critical junctures in the EU integration process, the book broadly divides the history of EU integration and its foreign policy into four stages (see Table 2.4).

Then, combining the critical junctures that occurred in EU–China relations, this book divides the history of EU–China trade negotiations into five phases (see Table 2.5), three of which are major phases and two are minor phases.

Phase I (1975–1985) was a major phase and occurred during Kondratieff Long Wave IV-B. This phase began in 1967/1971 and was marked by the “Nixon shock” that forced the dollar to be unpegged from gold, the oil crisis that began

Table 2.3 Long cycles of the world economy since the first industrial revolution

	<i>Rise</i>	<i>Fall</i>	<i>Emblematic technologies and industries</i>	<i>Lead countries/regions where groundbreaking innovations were made</i>
First Cycle	1795–1825	1825–1850	Steam engine, textiles	Britain
Second Cycle	1850–1873	1873–1890	Steel, coal and railways	Britain; rise of the US and Germany
Third Cycle	1890–1913	1913–1945	Electricity, automobiles and chemicals	The US and Germany
Fourth Cycle	1945–1971	1971–1990	PCs, automobiles, biotech	The US; rise of Western Europe and Japan
Fifth Cycle	1990–2008	2008–	Information technology, productive services	The US, the EU and China

Table 2.4 Stages of EU integration and its foreign policy

<i>Years</i>	<i>Stages of EU integration</i>	<i>The EU's power and foreign policy model</i>
1945–1965 Kondratieff Long Wave IV-A	Initiation stage: the Schuman Declaration of 1950; establishment of the European Coal and Steel Community; Treaty of Rome entered into force on 1 January 1958	International actor, but not yet emerged as a significant force
1965–1985 Kondratieff Long Wave IV-B	Holdoff stage: “Empty chair crisis”; economic stagnation in the 1970s; EEC enlargement (UK, Ireland, Denmark and Greece)	Civilian Power Europe
1985–2007 Kondratieff Long Wave V-A	Relaunch stage: Single European Act of 1986; Delors’ Plan; EU enlargement (Spain and Portugal); upheaval of the Soviet Union and Eastern Europe; end of the Cold War; entry into force of the Maastricht Treaty of 1992; birth of the European Union; launch of the euro in 1999; EU enlargement (Austria, Finland and Sweden)	Normative Power Europe
2008– 2025/2035? Kondratieff Long Wave V-B	Crisis stage: global financial crisis of 2008; euro debt crisis; refugee crisis; geopolitical crisis; the rise of the far-right; Brexit	Linkage Power Europe

in 1973, and the stagnation of Western economies. Kondratieff Long Wave IV-B saw an economic depression and development stagnation, as well as a rise and fall of major powers. In terms of big power dynamics, the relative decline of the US and the relative rise of Japan and Western Europe tilted the balance of power and led to intensified competition between the US, Japan and Europe. The European Community aspired to play a greater role in the international arena as a non-military “civilian power”. The most significant events in EU–China relations during this period were the establishment of diplomatic relations between China and the European Economic Community in 1975, the signing of the EEC–China Trade Agreement in 1978, and the EU–China Textile Agreement in 1979. During this period, the EU’s trade practices with China can be summarized as active engagement, icebreaking, starting up, and laying the foundation.

Phase II (1986–1992) was a minor and transitional phase that fell between Kondratieff Long Wave IV and Kondratieff Long Wave V. Each transition between Kondratieff Long Waves comes with crises in the form of revolution, civil war or fierce geopolitical conflict. This transitional phase of 1986–1992 saw

Table 2.5 Stages of EU–China trade negotiations (1975–2019)

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>
1965–1985 Kondratieff Long Wave IV-B/major phase	Holdoff stage: “Empty chair crisis”; economic stagnation in the 1970s; EEC enlargement (UK, Ireland, Denmark and Greece)	“Civilian Power Europe”: active engagement, icebreaking, starting out and laying the groundwork	Establishment of diplomatic relations in 1975; EEC–China Trade Agreement in 1978 and the EU–China Textile Agreement in 1979; European Commission President Roy Jenkins visits China in 1979
1986–1992 Transition of Kondratieff Long Wave IV-B to Kondratieff Long Wave V-A/minor phase	Relaunch stage: Single European Act of 1986; Delors’ Plan; EU enlargement (Spain and Portugal); upheaval of the Soviet Union and Eastern Europe; end of the Cold War; entry into force of the Maastricht Treaty of 1992; birth of the European Union; launch of the euro in 1999; EU enlargement (Austria, Finland and Sweden)	Normative Power Europe 1.0: peaceful evolution and linking human rights with trade issues	June 4 Incident
1993–2004 Kondratieff Long Wave V-A /major phase	High-speed development stage: launch of the euro; EU enlargement (Austria, Finland and Sweden)	Normative Power Europe 2.0: promote change through commerce, drive political momentum through economic growth, reciprocal opening up	EU–China comprehensive strategic partnership; China’s WTO accession negotiations; Project GALILEO cooperation

(Continued)

Table 2.5 Continued

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>
2005–2009 Transition of Kondratieff Long Wave V-A to Kondratieff Long Wave V-B/minor phase	Stagnation stage: global financial crisis, euro debt crisis, setbacks of EU integration	Linkage Power Europe 1.0: grand bargain and start of reciprocity demands	EU–China textile trade dispute and the EU’s trade deficit
2010–2025/ 2035? Kondratieff Long Wave V-B /major phase	Stagnation stage: multiple crises such as refugees, populism, and geopolitics; Brexit	Linkage Power Europe 2.0: reciprocity as a core objective of trade policy agenda with China	Seeking market access; solar panel and steel trade disputes; formation of the “big triangle” of China, the US and the EU

upheaval of the Soviet Union and Eastern Europe, as well as the end of the Cold War. The process of EU integration was relaunched: the Single European Act was passed in 1986; the Single Market began to implement the qualified majority voting rules; the Delors’ Plan was adopted in 1989; the Economic and Monetary Union was proposed; the EU was enlarged (adding Spain and Portugal); and the Maastricht Treaty came into force in 1992. The European Union officially came into being. At the same time, EU–China relations deteriorated due to the June 4 Incident. Human rights issues were linked with trade, and China–EU relations plunged to a freezing point. During this period, the EU mainly appeared as a “normative force” when implementing its trade policies towards China, typically by coupling human rights and trade issues and exerting pressure on China.

Phase III (1993–2004) was a major phase during Kondratieff Long Wave V-A. The world economy from the 1990s through the global financial crisis of 2008 is referred to in the economic circle as the Great Moderation. During this period, there was a belief that macroeconomic instability had been eradicated and that low and stable inflation and “sustainable” global economic growth were considered likely to coexist in the long term.⁹¹ The Washington Consensus and neoliberal policies prevailed. From the standpoint of power shift, the US restored its power. After the end of the Cold War, the US liberal-democratic worldview stood apart. During this period, EU integration was in the fast lane. The euro was launched, and the EU achieved the biggest enlargement in its history, with a total of 25 Member States. China’s foreign trade policy objectives during this period

were mainly the restoration of China's contracting party status in the GATT and later its accession to the World Trade Organization. During this period, EU–China relations achieved a “triple jump” and gradually entered a “honeymoon period”, with the official announcement of a comprehensive strategic partnership in 2004. With the enlargement of the EU to the east, the EU became China's largest trading partner. During this period, the EU still appeared mainly as a “normative force”, but it had become more pragmatic. On the one hand, its core political strategy was to “promote change through commerce and drive political momentum through economic growth”, but on the other hand, its core business strategy was to have mutual market access and reciprocal opening.

Phase IV (2005–2008) was a major phase that coincided with the transition from Kondratieff Long Wave V-A to V-B, i.e., from rise to decline, until the global financial crisis in 2008 and the European debt crisis in 2009. In the face of the rising tide of globalization, the EU put forward a new EU Global Strategy and a new strategy paper on EU–China diplomatic and trade relations. In 2005, the EU launched investigations into Chinese-made textiles, followed by widening disagreements over market access, trade deficits, and trade frictions. Peter Mandelson, the then-EU Trade Commissioner, hoped to achieve a “grand bargain” with China in the economic and trade field and to forge a new consensus – to avail. Calls for protectionism at the EU level grew. In this phase, the EU was mainly acting as a “bargaining power”, hoping to trade interests with China via *quid pro quo* and reciprocity.

Phase V (2009–2025/2035?) is in Kondratieff Long Wave V-B and is a major phase. Since we are still in the midst of Kondratieff Long Wave V, there is no telling when this long wave will end. According to Kondratieff's 50–60-year periodicity, this long wave will continue until at least 2025/2035 (from 1986/1992). It is impossible to tell the exact year, but it should be somewhere in the decade of 2025–2035, which is also the transition from Kondratieff Long Wave V-B to Kondratieff Long Wave VI-A. Carmen Reinhardt, a senior research fellow at the Peterson Institute for International Economics, and Kenneth Rogoff, a professor at Harvard University, have described the effects of the crisis as the Second Great Contraction, following the Great Depression of the 1930s. In terms of power shifts, the West is in relative decline. Populism is on the rise. In the US, populist President Trump was elected. The UK left the EU. The EU has experienced multiple crises, including the refugee crisis and geopolitical crises (the two Ukrainian crises in 2014 and 2022), and slow economic recovery. China, by comparison, emerged assertively in this period, proposing the Belt and Road Initiative in 2013. However, it is worth noting that China's economy has also been showing signs of slowdown since 2010 under the “new normal”. China started implementing “supply-side structural reform” in 2016. During this period, EU–China trade relations have been generally stable, but fraught with many challenges and constant friction. The EU overall is likely to become “Fortress Europe” with mounting pressures of protectionism and populism. Against this background, the EU, as a “linkage force”, now pursues reciprocity as the core of its trade policy agenda with China.

Between the end of Kondratieff Long Wave V and the beginning of Kondratieff Long Wave VI, there may be a transitional phase, likely around 2025. From previous times, we can expect this transitional phase will be a period of intense conflicts. It is likely that at the end of Kondratieff Long Wave V, the EU will be unable to resist internal protectionist and populist pressures, and its trade policy will regress from liberalism to mercantilism or economic nationalism. At the beginning of Kondratieff Long Wave VI, a rather long period after 2030/2035, as the economy recovers and enters a period of rapid growth, a phase of “European empire” will begin, seeking to acquire great power status and export its values on a global scale. The EU will expand further east, establishing a hierarchy within the union (with Germany and France as the leaders) and with Central, Eastern and Southern Europe in a peripheral and subordinate position.

The empirical study in this book spans Chapter 3 to Chapter 7. Each chapter corresponds to a stage in the history of EU–China trade negotiations, namely, “Civilian Power Europe” (Chapter 2), “Normative Power Europe 1.0” (Chapter 3), “Normative Power Europe 2.0” (Chapter 4), “Linkage Power Europe 1.0” (Chapter 5), and “Linkage Power Europe 2.0” (Chapter 6). Each chapter of the empirical study corresponds to the analytical framework in Chapter 1, starting with an analysis of the various types of power resources available to the EC/EU, followed by an examination of the EU’s linkage strategies in these stages and an assessment of their power implications.

Notes

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Empirical part

Rarely has a pair of economic and trade relationship developed so dramatically as the EU–China one. Within three decades, China has climbed from a negligible position to a prominent one in the rank of the EU’s trading partners. From the very beginning, the EU–China trade relationship has assumed strategic importance, both in a political and economic sense. Both sides view and handle this relationship by means of strategic considerations and calculated tactics. The EU–China trade relationship has been developing in a context where China has been rapidly rising and the EU has been making tremendous progress in its integration process. With common and diverging interests, values and drastically changing international environment, the EU–China trade relationship has not been free of ups and downs, disputes and even confrontations.

Unsurprisingly, it is attracting an increasing amount of scholarly attention. Some analyzed the evolution of the EU–China relationship in general. They mapped out the stages in the development of the relations,¹ or looked at the EU–China relations in the future from a normative perspective.² Some studied the EU–China relationship from a global systemic viewpoint.³ Some studied the EU–China relationship from the Member States’ perspective.⁴ Others viewed the relationship incorporating the American factor.⁵ Apart from viewing the overall relationship, some focused on the EU–China economic and trade relations.⁶ Others focused on one specific aspect of the EU–China economic and trade relationship, such as China’s WTO accession⁷ or the EU–China Textile Dispute.⁸ Although having different focuses, these authors were usually interested in the following core questions:

- (1) What are the status quo and prospects of the EU–China (economic and trade) relationship?
- (2) What is behind the evolution of the EU–China trade relationship?
- (3) What should the EU do in response to China’s rise, in particular to that of its growing economic and trade strength?

In terms of analytical prisms, some authors adopted an institutionalist view in analyzing the EU’s responses to China.⁹ The general conclusion is that the EU is divided and has difficulties to form a unified coalition, even in trade matters,

which is a traditional EU competence. Some authors viewed the EU as a civilian and soft power, relying more on persuasion, dialogue and cooperation, rather than hard power to achieve its goals. One exception is Zimmerman, who adopted a realist view when analyzing the EU's trade relations with China.¹⁰ He argued, "Geostrategic and mercantilist interests, pushed particularly by the Commission, figure prominently in EU trade negotiations".¹¹

The "Empirical part" section of this book, consisting of Chapters 3 to 8, will apply an in-depth and serious analysis to the EC/EU's bargaining power vis-à-vis China, with much attention given to the EC/EU's sui generis institutional structure. Its analysis is based on the analytical framework "linkage power" established in the "Theoretical part" section, and focuses on the EU's power resources, linkage strategies and power effects. I would try to understand how, to what extent and by which distinctive way the EU is a linkage power.

Notes

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3 The EU's trade relations with China (1975–1988)

The European Economic Community (EEC) established diplomatic relations with China in 1975. In the 1970s, the EEC's external relations usually referred to its economic and trade relations with third countries or international organizations, which mainly consisted of the common commercial policy, the association policy and the development policy. We have to bear in mind that between 1975 and 1988, there was no single EU policy towards China. As Hervé Dejean de la Batie wrote,

The emergence of a European policy worthy of the name is recent: it can be traced back to 1995 with the first communication from the Commission on China. The Communities, later the Union, had not waited so long to concern themselves with this country. But the European approach was initially predominantly commercial – which was logical, since commercial policy had become a Community competence before the appearance of the common foreign and security policy.¹

What merits our attention during this period is the establishment of the EEC–China diplomatic relations, the negotiations about the 1975 EEC–China Trade Agreement and the 1979 Textile Agreement. But first, let us look into the EEC's power resources vis-à-vis China.

The EC's power resources

At the two ends of Eurasia, the European Communities and China had developed respectively without many substantial political, economic and other exchanges before 1975. But as the international context evolved, the two actors felt the urge to talk and took their own initiatives to approach each other. How did they interact, and in particular, what kind of means did the EC have in order to win a favourable bargaining position vis-à-vis China? I analyze the EC's power resources respectively in the political, economic and institutional aspects.

The political-strategic power resources: a strategic power expected to counterbalance the Soviet Union and contribute to a multipolar world

During the late 1960s and early 1970s, China started to attach strategic importance to the EEC. Mao Zedong put forward the *Intermediate Zone Theory* as a result of the increased threat from the Soviet Union.² Europe was perceived as having developed sufficient common interests and purpose to be characterized as the ‘second intermediate zone’ (the first one being the developing world) trying its ‘best to free itself’ from the US control. For the first time, the Chinese Communist Party (CCP) expressed interest in the establishment of some degree of cooperation between Western Europe, “the socialist countries and the people of the various countries”.³ For one thing, the European Economic Community was considered to be becoming ‘increasingly independent’ from Uncle Sam, economically as well as politically; for another it was perceived as developing into a major opponent of US interests in Europe.⁴ When the US–China relationship came into détente in early 1970s, the Soviet Union represented the central threat both to Europe and to China. In a meeting between Deng Xiaoping and the president of the Commission, Roy Jenkins, during his visit in China at the end of February 1979, Deng suggested in tackling the common threat from the Soviet Union, “You hold the bear by its forepaws where he bites, and we hold him by the hind paws where he kicks”.⁵

Between 1979 and 1988, the PRC had gone through three important policy shifts. As early as 1978, Deng Xiaoping had reaffirmed the primacy of the new economic imperative over all other policies. Four years later, China started hinting at an “independent” stance vis-à-vis both superpowers, a line that was subsequently approved by the 12th CCP Congress in September 1982. In 1985, Deng officially abolished the Maoist thesis of the inevitability of a nuclear world war and became more supportive of disarmament and détente as a matter of principle. In all three aspects, Europe as a whole was to be given special consideration. According to Deng himself,

In analyzing the international situation, we pay particular attention to Europe, for Europe plays a key role in determining if there will be peace or war. For many years our relations with Eastern Europe were abnormal. Now, basing ourselves on an objective judgement, we are of the opinion that both Western and Eastern Europe need to develop, and the more they develop the stronger a force for peace they become.⁶

From the mid-1980s onwards, it was Western Europe’s potential role as a new pole in a future multipolar world rather than as a bulwark against “Soviet hegemonism” that attracted Beijing’s attention. This was not only due to China’s own strategic about turn, but also to a growing realization that European integration would, in the medium-term, fall short of overcoming the nation state. At the same time, however, the PRC leadership seemed to understand that the EU – as different from NATO – would have a major role to play in the gradual

political emancipation of Eastern Europe from Moscow. It was with this expectation in mind that Beijing, during the 1980s, tried to strengthen relations with the different institutions of the EC.⁷ Also, China's relationship with the USSR had started to improve after 1985. In Deng Xiaoping's meeting with the Dutch Prime Minister, he said,

When we analyze international situations, we pay special attention to Europe, since it's a key area in deciding peace and war ... we hope to see an united, strong and developed Europe. As long as Europe, including Eastern and Western Europe, is not bound into the machinery of war, there would be no war ... therefore, our policy is to develop friendly and cooperative relationship with Europe, including Eastern and Western Europe.⁸

China's foreign policy towards the EEC was consistent in the sense that China has always believed in the importance of political relations and in the vital necessity of seeking entente with new emerging forces outside the superpower framework. Even in the post-Mao era when economic considerations were more important, the political dimension has not been assigned a secondary role. It was these deeply rooted political ingredients that would make China maintain the momentum of Sino-EEC economic relations even if Japan and the United States were more attractive economic partners than the EEC.⁹ As an European Parliament report explained,

In its relations with the People's Republic of China the Community possesses distinct advantages over its competitors: for political and military reasons China wholeheartedly supports the regrouping of European nations while mistrusting American power and not wishing to develop its relations with Japan any further. China has on several occasions expressed an interest in the achievements of European technology and has clearly indicated that, quality and price being equal, its preference would go to European products.¹⁰

On the EC side, the relations with China would be major breakthrough for the European Communities insofar as it would be in marked contrast to the very negative attitude adopted by the Soviet Union.¹¹ On the economic front, the Community's economy, restricted by the continuing recession, needed an economic outlet. The Chinese economy – at least in the 1970s – was thought to offer major prospects of a vast market, which, if not cornered in time, might be lost to the Japanese, who were already active in China, and to the Americans who were actively involved in developing relations with China. The Chinese market was considered to be so important that reports were published regarding the vast size of China, the richness of her raw materials, the impressive level of growth and the potential capacity of that nation to effectively absorb goods from other countries.¹²

The preponderance of political consideration in China's diplomacy towards the European Communities placed the Community at an advantageous position.

This was mainly a result of China's antagonism towards the Soviet Union between 1960s and 1970s. Although sharing common interest in containing the Soviet Union, China and Western Europe were in different situations vis-à-vis their common enemy. In the 1970s, the Soviet leader Brezhnev seized the opportunity when the US loosened its control over Western Europe to launch a so-called 'peace offensive'. He launched the policy of *détente*, in order to remain at a political advantage and obtain economic gains. As a result, in early 1970s, the Soviet Union not only recognized the existing frontiers with Western Europe, but also established formal diplomatic relations with the Federal Republic of Germany, as well as called for the opening of the Conference on Security and Co-operation in Europe in 1975.¹³ Its relations with Western Europe moved towards *détente*.

Accordingly, the European Communities had implemented a policy of 'defence and *détente*' towards the Soviet Union since 1967. It adopted a *détente* policy and tried to avoid stimulating or isolating the Soviet Union as the precondition of balance between the NATO and the Warsaw Pact Organization. Therefore, throughout the 1970s, the European Communities, on the one hand, was strengthening its own integration and defence building, on the other, conducting engagement and contacts with the Soviet Union in many areas.¹⁴ In other words, the European Communities wanted to transform the Soviet Union peacefully through *détente* and engagement.

Moreover, China and the EC differed in their handling of the relationship with the Soviet Union. The Chinese side preferred a tough approach whilst the European countries preferred reconciliation with an aim of peaceful transformation of the USSR. This difference had significantly restrained the strategic approximation between China and the EC from being updated to strategic coordination.¹⁵

As a result, the Soviet Union element brought about an asymmetrical interdependence relationship between China and Western Europe. China, unilaterally, hoped for a more combative Western Europe vis-à-vis the Soviet Union. The European Communities, however, did not want to overreact. So, on the question of the Soviet Union, China expected much more from Western Europe than what Western Europe expected from China. In other words, China needed the European Communities more than the Community needed China in this case. That is the source of what we term a political asymmetrical interdependence.

However, such an asymmetrical political interdependence diminished as the Sino-USSR relationship improved from the mid-1980s. Since then, China and the EU have started to develop a more balanced political interdependence, aiming to establishing an equilibrium world order. As two rising forces in the international system, China and Western Europe gradually learned to help each other and started what some Chinese scholars called 'strategic proximity'.¹⁶

During this period, the EC's solidarity and credibility was increased as a result of its integration. This contributed to the reinforcement of the EC's power resources. Back in the 1970s, the European Economic Community was assuming an increased international role as a "civilian power". As Duchêne argued in circumstances of increasing economic interdependence, when "lacking military

power was not the handicap it once was”, the EC as a “civilian power [...] could play a very important and potentially constructive role [...] a new role for a new world”.¹⁷ This period witnessed the EC’s increased role as an international economic and political actor. The European Political Cooperation had started in 1970 and made significant progress.

There also emerged a clear convergence of Member States’ interests in China. An unprecedented solidarity vis-à-vis China emerged. Apart from political considerations, the EC’s trade preference in this phase, which had persisted ever since, was a continuous opening-up of China’s vast market. Economic factors were also favourable. The Community’s economy, restricted by the continuing recession, needed an economic outlet. The Chinese economy – at least in the 1970s – was thought to offer major prospects of a vast market, which, if not cornered in time, might be lost to the Japanese, who were already active in China, and to the Americans who were actively involved in developing relations with China. The Chinese market was considered to be so important that reports were published regarding the vast size of China, the richness of her raw materials, the impressive level of growth, and the potential capacity of that nation to effectively absorb goods from other countries.^{18,19}

At the same time, the development of European integration process, in particular, its political cooperation, reassured the Chinese side of the EU’s potential to become a pole in the international system. It significantly reinforced the EC’s credibility in the eyes of the Chinese authorities. As Kapur wrote,

China believed or hoped that the formation of the European Communities would be strong enough to counterbalance the superpowers, particularly the Soviet Union. This normative political goal has formed the basis for China’s diplomatic behaviour and nothing has really been able to erase it – not even the highly pragmatic and economically oriented Dengist phase. In contrast, the Community’s behavioural pattern towards China was different. It was principally influenced by economic factors, dictated by the very nature of its functions and its goal, which are – at least for the moment – essentially economic.²⁰

Economic power resources: economic asymmetrical interdependence in trade, investment, technology transfer and development assistance

Economically, in China’s new gigantic economic effort planned in the 1970s, the European Communities become a major element in the new Chinese developmental strategy (see Table 3.1). The European Communities was the second most important economic partner, after Japan. It was China’s objective to encourage the EEC to become as important as Japan. It was economically important but politically vital, since China did not consider it expedient or in her interest for her economic relationship to be oriented too much in the direction of Japan.²¹

The EC enlarged twice to become a community of 12 Member States during this period (1975–1988), with Greece joining in 1981 and Portugal and Spain in

Table 3.1 The growth of EC's economic power

	<i>Year</i>	<i>GDP</i> (100 m euro)	<i>Export</i> (100 m euro)	<i>Import</i> (100 m euro)	<i>FDI</i> (100 m euro)
EC6	1958	2,050	158	193	
EC9	1973	8,980	807	845	
EC10	1981	23,090	2,705	3,043	
EC12	1986	35,990	3,456	3,363	219

Source: European Commission, 50 years of figures on Europe: data 1952–2001
(Luxembourg: Office for Official Publications of the European Communities, 2003).

Table 3.2 China's position in the EEC's external trade relations

	<i>Trade value (mil ecu)</i>		<i>Growth %</i>		<i>Percentage (%)</i>	
Year	1975	1989	1975	1989	1975	1989
Export	696	9,149	100	1,315	0.52	2.05
Import	1,173	6,369	100	543	0.99	1.54

Source: EUROSTAT 1993.

Table 3.3 The EEC's position in China's external trade relationship

	<i>Trade value (mil ecus)</i>		<i>Growth %</i>		<i>Percentage (%)</i>	
Year	1975	1989	1975	1989	1975	1989
Export	1,596	9,128	100	572	24.24	15.43
Import	770	4,880	100	634	13.28	9.22

Source: EUROSTAT 1993.

1986. The statistics in the following charts show growing economic interdependence between China and Europe. Between 1975 and 1989, the EEC's exports to China increased by 1,315% while its imports from China rose by 543% (see Table 3.2).

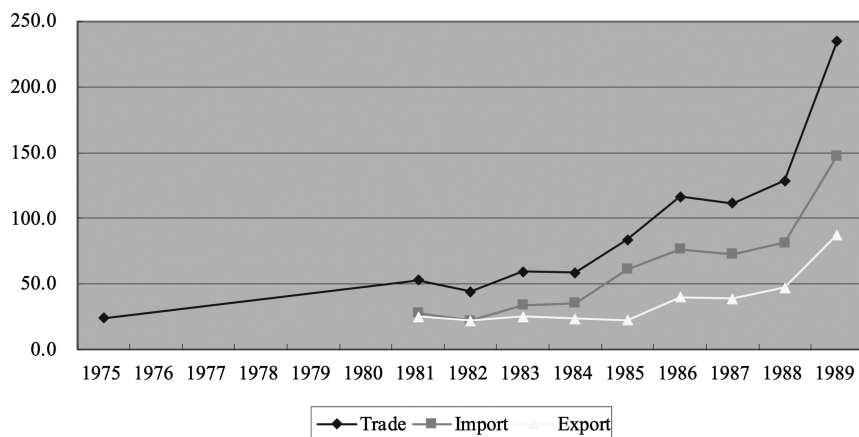
However, the EEC–China *trade* relationship was significantly asymmetrical (see Table 3.3). The EEC's exports to China accounted for only a small percentage of the EEC's total exports, which was around 0.52% in 1975 and 2.05% in 1989. Although there was an increase, it was not significant. In contrast, the EEC held a prominent position in China's external trade relations. It absorbed 13.28% of China's total exports in 1975 and 9.22% in 1989. In addition, 24.24% of China's total imports came from the EEC in 1975 and 15.43% in 1989, which was essential for China's campaign of industrialization and modernization. Despite the EEC's prominence in China's foreign trade chessboard, the statistics clearly showed a downward spiral of the EEC's position for China between 1975

and 1989, which was partially due to the diversification of China's trading partners and increased competition from the US, Japan and other trading countries.

On the question of trade balance, it was not an issue during this period since it was generally balanced (see Graph 3.1). The European statistics 1978-1983 show that the EEC had a modest surplus in 1978, 1979 and 1983 while having a deficit in 1980, 1981 and 1982.

The economic asymmetry was also reflected in *investment*, which was mainly one-way street from Europe to China. Between 1979 and 1983, the European Communities provided China with a total amount of investment and loans valued at USD1.6 billion, accounting for 7.4% of China's total utilization of foreign investment. Although the EEC investment lagged behind that of its main competitors in terms of number of joint ventures and capital invested, the average size of European projects tended to be larger than that of its competitors and some of them were the undisputed leaders in key sectors of China's industry like automobiles, telecommunications and pharmaceuticals. European investment was usually associated with the technology transfer which was highly prized by the Chinese. In 1986, 51% of Chinese imports of advanced technology and equipment goods came from Europe. Most investments were made in open economic zones and companies were quoted on the stock exchange. According to the Chinese government's statistics, among the top ten joint ventures in China, in terms of sales value in 1992, were Volkswagen AG, Germany ranking first, PSA Peugeot-Citroen, France, ranking fourth, followed by Alcatel Bell Telephone Manufacturing Co. with Belgium eighth.²²

On *development assistance*, the EC started to grant China development aid and the Generalized System Preferences (GSP) treatment, which was to provide China with further tariff reduction on the basis of most-favoured-nation treatment. The



Graph 3.1 China's trade with the EC (1975-1989). Unit: hundred million (US\$).
Data source: Chinese Customs Yearbook.

EC also acted in contrast to the US by granting China the GSP. The US, though recognizing that China was a developing country, did not do that.²³

The Commission decided to include China in the preferential system with effect from 1 January 1980. This system, which is accorded unilaterally by industrialized countries, involved full exemption from customs duty for all industrial goods and partial exemption for certain processed agricultural products exported to developed countries. By making China a beneficiary of the scheme, it was therefore now possible for her to enjoy the same preferential treatment that the Community granted to the Group of 77.²⁴ Due to the GSP, Beijing was able to boost her sales substantially to the EEC. Almost 25% of total Chinese exports to the EEC benefited from the GSP in 1981 and were mostly from the industrial sector.²⁵ The Chinese side also welcomed the EC's GSP treatment, which "played a positive role in improving the competitiveness of Chinese products and increased their exports".²⁶

Apart from the GSP treatment, the EC gave China economic assistance, for example, in agriculture and energy sectors. By the end of 1983, the value of EC's economic assistance had reached at 16 million European currency units. In 1984, the European Commission decided to grant China 3.3 million ECU. Also, the EC provided China with human resources training, ranging from science and technology, agriculture, energy and other sectors.²⁷

China was also in need of the advanced European technology, which was essential to open up new prospects for accelerated modernization. European industry, particularly in the aerospace and communications sectors, might strengthen not only Chinese defence capability, but also help in the spreading of the fruits of new economic development to the country as a whole.²⁸ The European companies mainly invested in energy, raw materials, petro-chemical, auto, telecoms, pharmaceutical, food and textile industries, where China was lacking in capital and technology. The inputs of European matured, and often very advanced technologies, and sufficient capital, helped the sustainable development of Chinese companies.²⁹ When he met with the UK Prime Minister Heath, Deng Xiaoping said,

In our external trade, Europe should account for its due share ... on technology transfer, Europe is relatively open [...] you help us in technology. When our economy develops, external trade will follow [...] over the past three years, we have been thinking of strengthening our economic relations with Europe, and this has been taken into consideration as a policy.³⁰

The EEC's institutional power resources in trade policy area – a growing civilian power

This period witnessed an increased institutionalization of European foreign policy cooperation. As the other side of the coin, the European Communities also started to negotiate trade agreements with third countries. These two processes, one internal and the other external, both contributed to the increase in the EC's power.

Competences

The European Communities acquired competences on trade progressively. When the Treaty of Rome was drafted, trade policy was basically a question of cross-border tariffs. As the trade agenda expanded the EC was called on to negotiate an ever wider range of policy issues. The subsequent Tokyo Round of the GATT (1973–1979) included negotiations on technical barriers to trade (TBTs), subsidies and countervailing duties, and public procurement, which were partly EU and partly national competence.³¹ The EC trade policy in the 1970s was also shaped by the US initiative to launch the Tokyo Round (1973–1979), with the aim of ‘updating the trading system’. For the US this also meant disciplining what was perceived as ‘unfair competition’ from Europe and Japan, by pressuring for GATT rules on agriculture, TBTs, procurement and subsidies. At the time many European governments were still pursuing national champion strategies that made considerable use of these policy instruments. Thus, the EC was on the defensive, given the desire of its member governments to retain scope for such discretionary intervention.³²

In May 1974, in a debate on the relationship between the European Communities and the state trading countries, the EC underlined that it would be the EC which would take the leadership in the future for such negotiations and the separate negotiations between the EC Member State and China should be avoided. The first European Council comprised of heads of states was convened in 1974, which had its first favourable discussion on China.³³ As Anderson, president of the Council, declared in a speech,

Since their 1973 Copenhagen meeting, the nine heads of State and Government have expressed their wish to intensify their relations with the Chinese Government. Similar wish has been expressed by the Chinese authorities who have followed with sympathetic interest in the development of political cooperation in the Community. The nine follow this policy with the conviction that the European society of tomorrow must respond to the profound aspirations of their people, and with the hope that the Community will be a factor of equilibrium and will represent a pole of attraction for all nations irrespective of their dimension, their culture and their socio-economic systems. We are, therefore, particularly happy with the development of more close and friendly relations with the People’s Republic of China and the interest each one of us showing in the respective roads we have chosen to orient our future.³⁴

Since the trade agreements between the EC and the state trading countries were to expire by the end of 1974, the Council decided that the EC was ready to sign new trade agreements with these countries.³⁵ Since 1 January 1975, the European Commission had acquired a new mandate to negotiate commercial treaties on behalf of all Member States, with state trading countries and with other countries a year earlier. This new role was clearly a qualitative leap in the development of the Commission’s international character. In this

connection, the establishment of relations with China contributed to the further enhancement of the Commission's role in the ongoing process of becoming an international participant.³⁶ In addition, as Kapur argued, relations with China would be a major breakthrough for the European Communities insofar as it would be marked in contrast to the very negative attitude adopted by the Soviet Union.³⁷

Instruments

When China and the European Economic Community established diplomatic relations in 1975, the EC was still a customs union comprising nine Member States. Within the Customs Union, the EC had been equipped with many trade instruments which could restrict China's exports, including anti-dumping measures and quantitative restrictions. The European Communities treated China as a state trading country. It imposed quota and quantitative restrictions.

Degree of bilateral institutionalization

At the same time, increased economic and technological cooperation inspired a broadening of relations into other areas. The 1978 EEC–China Trade Agreement had provided for the creation of a Joint Committee in the framework of which annual meetings were held at the directorate level. Whereas these discussions were mostly confined to technical problems related to the implementation of the two agreements, high-level consultations at the ministerial/commissarial level were launched in 1983 to address a wider range of issues. Furthermore, biannual meetings were initiated between the political affairs director of the country holding the EC presidency and the Chinese ambassador to the country concerned.³⁸

Through the establishment of the 1985 EC–China Trade and Economic Cooperation Agreement, the EC extended its trade relations with China to economic and technological cooperation. According to Algerie, in the 1980s the growing importance of European–Chinese economic relations made it necessary to adapt the regulating framework. The agreement of 1978 focused on trade matters and seemed no longer adequate for the complexity of the relationship. With the conclusion of the 1985 agreement, a new and still valid framework was established. It offered an extension from the trade dimension to economic cooperation, particularly in areas of industry and mining, agriculture, science and technology, energy, transport and communication, environmental protection and cooperation with third countries. The role of the Joint Committee was accordingly adapted.³⁹ More importantly, it provided the European Communities, in particular, the European Commission, with more power resources, in a wide range of policy areas such as industry and mining, agriculture, science and technology, energy, transport and communication, environmental protection and cooperation with third countries.

The establishment of EEC–China diplomatic relations – “let politics serve economics”

As Harrish Kapur, a China expert, understood,

China’s interest in the European Communities was primarily political. This normative political goal has formed the basis of China’s diplomatic behaviour and nothing has really been able to erase it – not even the highly pragmatic and economically oriented Dengist phase. In contrast, the Community’s behavioural pattern towards China was different. It was principally influenced by economic factors, dictated by the very nature of its functions and its goal, which are – at least for the moment- essentially economic.⁴⁰

As far as we can see, there emerged a “market” for exchanging political and economic interests between the European Economic Community and China during this period (1975–1988). In other words, the EC–China relationship was characterized by a trade-off between politics and economics. Specifically, the European Communities traded political benefits for economic gains in its dealings with China, whilst China traded economic benefits for political gains. This bargain was particularly visible on the eve of establishing the EEC–China diplomatic relations.

In autumn of 1973, the Chinese side invited Christopher Soames, the Commission’s vice-president in charge of its foreign affairs, to visit China. The Commission did not ignore this political signal. In response, it took two initiatives to approach China. As Kapur recalls,

The Chinese signals could hardly be ignored as the establishment of relations with them could only contribute to the further enhancement of the Commission’s role in the ongoing process of becoming an international participant. In this connection, it is perhaps important to mention the fact that Soames – not too long after his arrival in Brussels – discreetly sought out the Chinese in close coordination with the Commission’s President, Ortolí. In fact, he had already established contact with the Chinese Ambassador in London.⁴¹

The Commission also took the initiative to accelerate the developments of Sino-EEC normalization, which was to propose the establishment of a trade agreement with China. While maintaining unofficial and informal contact with the Chinese embassy in Belgium, the Commission forwarded a memorandum to China in November 1974 – as it did to other state trading countries. This was accompanied by an outline agreement, laying down broad provisions for the conclusion of a possible trade agreement between the two parties. The manner in which the agreement was transmitted showed an EEC bias towards China. Whereas the outline agreement was transmitted to the Soviet Union and to the East European countries through normal diplomatic channels, Soames made it a point to receive the Chinese Ambassador to Belgium personally in order to hand him the outline

agreement, and to explain at length the intention and content of the invitation to China to conclude an agreement with the EC. The decision to discriminate in favour of the Chinese by using a more personal and more direct channel was clearly intended as a gesture to place China in a privileged position in relation to other socialist countries.⁴²

Christopher Soames' visit in China was finally realized in May 1975, which turned out to be a decisive move for the establishment of diplomatic relations between the EEC and the People's Republic.

After his return in Brussels, Christopher Soames made a testimony in the European Parliament, in which, he explained in detail to the members of the Parliament about his China trip. The EP had a very good understanding of China's political motivation. As Mr. Kirk, a member of the European Parliament representing the European Conservative Group, said,

We are, I think, realists enough in Parliament to appreciate that, flattered as we undoubtedly are by the decision of the People's Republic of China to recognize the Community and accredit an ambassador, it did not do so solely because it fell in love with Sir Christopher and his bright blue eyes or because it fell in love with the Community and its particular structure and wanted to support it in every way it could. I am sure that it did so because it realized that economically it was to its advantage as it was to ours, but equally I am sure it did so for political reasons as well – not unconnected, perhaps, with its relations with the Union of Soviet Socialist Republics.⁴³

Mr. Jahn, on behalf of the Christian-Democratic Group, said at the same debate,

China's main problem remains its relations with the Soviet Union [...] In its relations with the Soviet Union it can only be of advantage to China to have a strong Europe as a counterweight. China supports our efforts towards unification, therefore, not only for their own sake but also, and principally, because they fit in with China's own plans.⁴⁴

In contrast, the EC's motivation to approach China was more of an economic and trade nature. For the European Communities, China was such a huge potential market for European exports and investment destinations. European businesses were desperate to secure a foothold in China. The EEC therefore was under pressure to react quickly. It so happened that the trade agreements between China and each of the EEC Member State expired on 31 December 1974, and as from 1 January 1975, the Community took over responsibility for commercial policy in relations with China. The Commission wanted to negotiate an appropriate Community trade agreement to take the place of these expired agreements between China and various Member States. As a matter of fact, Christopher Soames, at the end of 1974, had already conveyed this readiness to the Chinese authorities, together with a copy of the outline trade agreement which had been approved in the Council of Ministers. The Chinese side responded positively to

the EEC's proposal to negotiate a new trade agreement. As Soames said at the European Parliament debate,

The Chinese Minister told me that they had decided to give positive consideration to this proposal. They made it clear that they see it as a logical consequence of their decision to establish official relations with the Community that those relations should also be extended to trade. They said, "Once we recognize the political existence of the Community, and we applaud it, it is natural that we should follow its rules and be prepared to trade with it in the way it expects us to trade with it".⁴⁵

Such an exchange of political and economic interests can be qualified as a political-economic issue linkage. As a matter of fact, over years, the Community leadership had become increasingly familiar with the pattern of Chinese thinking and Chinese strategy; and had increasingly begun to accept the politicization of relations through the institutionalization of political cooperation with the Council, and through regular high-level consultations with the Commission. Presumably the hope was that all these political interactions would finally generate economic results beneficial to the European Economic Community.⁴⁶

This type of linkage tying a political issue with an economic one could also be observed on the handling of the Taiwan question on the eve of the EEC's establishment of diplomatic relations with China. The crucial issue about which the Chinese wished to reassure themselves, before commencing any substantive exchanges (on the establishment of diplomatic relations) or before making any major commitment, was the Community's attitude on Taiwan. During the official visit by Christopher Soames, the vice-president of the European Commission in Beijing in May 1975, which was just on the eve of the establishment of EEC-China diplomatic relations, the Chinese, sensitive as they were on Taiwan, and despite the informal assurances given by the EEC delegation regarding Taiwan, insisted that Soames must formally and publicly declare that Taiwan was geographically an integral part of China. The EEC delegation was reluctant to make such a declaration on the ground that it had no legal mandate to make any declaration that involved territories. Finally the impasse was broken with a compromise that Soames would publicly state that the EEC had no relations with Taiwan. This he did at a press conference on 7 May 1975:⁴⁷

I confirmed to the Minister that the Community [...] does not entertain any official relations or enter any agreements with Taiwan. I explained that matters such as recognition of states did not come into the responsibility of the Community. But I pointed out to the Minister that all the Member States of the Community recognized the Government of the People's Republic of China as the sole legal government of China and have taken positions with regard to Taiwan question acceptable to the People's Republic.⁴⁸

Clearly Soames' visit was a milestone in the Sino-EEC relations. For one thing, it created the appropriate basis for the start of a dialogue; for another, it cleared the way for the Chinese government to use the forthcoming Deng Xiaoping visit in France – also in May 1975 – to dramatically confirm in Europe the beginning of this change in China's relations with the Community. The pace of Sino-EEC interaction accelerated after this. The Chinese Ambassador to the Community, Li Lianpi, presented his credentials to the president of the Council and the Commission on 15 September 1975; and soon after (January 1976) talks opened between the officials of the Commission and the Chinese Mission with a view to conclude a trade agreement.⁴⁹

However, we have to recognize that it was not easy for the European Communities to link the trade agreement issue with the Taiwan question. As we know, the European Economic Community, as mainly an economic regional bloc, did not have a legal mandate to make any declaration that involved territories. Mr. Soames made a bold step by making that declaration on the question of Taiwan, which played a decisive role in removing the major political obstacle to establishing the Sino-EEC diplomatic relations. There was clearly an institutional obstacle for the European Economic Community to link politics and economics.

As regards the effectiveness of the EEC's political-economic issue linkage, I find that Chinese perceptions of the European Communities also played a major role. As long as China held the expectations that the EEC remained a counter-balancing power against the Soviet Union and called for the establishment of a multipolar world, the EEC's negotiating leverage remained solid. The EEC stood a good chance of being in a position to make effective use of linkage.

Negotiating on the 1978 EEC–China Trade Agreement

During the visit by Christopher Soames in Beijing, the Chinese leaders agreed to send a permanent ambassador to the European Communities and negotiate a trade agreement to replace all its bilateral trade agreements with the EC Member States. Signing a trade agreement was crucial for the establishment and development of the official relationship between Brussels and Beijing. Generally speaking, this agreement was mutually beneficial and expected to be signed very quickly. But when it came to the nitty-gritty, the talks turned to be stuck. The Commission had to apply linkage tactics to acquire an advantageous bargaining position, specifically two types of linkages – contextual linkage and an issue linkage. The former relied on the excellent EEC–China overall relationship to win an advantageous position in the specific trade negotiations, whilst the latter refers to trade-offs between specific trade interests.

While China and the Community agreed, according to the Agreement, “to promote and intensify trade between them” (Article I) and respectively undertook to “give favourable consideration” or “introduce measures” to liberalize imports from each other (Article I), the EEC was nevertheless successful in obtaining the inclusion of restrictive clauses regarding imports from China. First of all – notwithstanding Chinese resistance – a safeguard clause was included under which

the Common Market was entitled to unilaterally “take measures” to re-impose and tighten quotas in the event of a sudden influx of Chinese imports.⁵⁰ The provision (Article 5), however, was partially diluted – at the Chinese insistence – by the inclusion of conditions stating that EEC action would be taken “in an exceptional case” and that “as far as possible” it would hold “friendly consultations before doing so”.⁵¹

The most-favoured-nation treatment clause included in the text (Article 2) was highly restrictive in that China was not given the same treatment as the GATT countries, and in that it even excluded all the advantages the EEC had accorded “to neighbouring countries for the purpose of facilitating border trade”.

The third restrictive clause (Article 7) dealt with the prices of Chinese imports. It was stipulated that trade between the two countries “shall be affected at market related prices and rates.” This provision was clearly a protective measure against Chinese sales at low prices.⁵²

China, however, was successful in obtaining a trade balance clause (Article 3), that would “foster the harmonious expansion of their reciprocal trade” and that would help to attain “a balance in such trade”, but here too, the clause had been considerably diluted in that the original Chinese proposal for the application of an automatic mechanism to restore the balance was not accepted, and in that the clause in question did not stipulate any obligation on the part of the two contracting parties to reverse the imbalance. Each of the two parties was to attain a balance of trade “by its own means”.⁵³

Therefore, what emerged was a package deal, linking different clauses. On the EU side, they insisted on inserting safeguard clauses, whilst the Chinese side insisted on obtaining a trade balance clause. The balanced negotiated outcomes proved that the bargaining and exchange of interest between the two parties was successful. Since this issue linkage was made between several trade issues, it was a typical case of linkage within the same issue-area, which is trade.

This case also involved a contextual linkage, in which a specific trade issue (negotiating the 1978 Trade Agreement) was linked with the overall bilateral relationship. The EC side calculated, “this course (the negotiation of the EEC–China trade agreement) ought to be facilitated by the political positions adopted by the Chinese government in favour of a strengthening of cooperation with Europe”.⁵⁴ Indeed, the trade agreement was not only an economic agreement. It was also a political act since it was the first major event in the ongoing process of solidification of relations between two emerging forces outside the superpower framework, particularly at a time when Sino-American relations were progressing very slowly, and the Community had reached an impasse in its relations with the Soviet bloc. The Chinese Minister for Trade, Li Qiang, for example, stressed this point at the formal ceremony held on 3 April 1978 for the signing of the trade agreement. He declared:

The social system of our country is different from that of the States of Western Europe, but we are all faced with a common task, which is to safeguard our independence and sovereignty. We have much in common and

should provide each other with mutual support. We support Western Europe in its union for strength and in its struggle against hegemony. We want to see a united and powerful Europe, and the countries of Europe, for their part, we are sure, want to see a prosperous and powerful China. We are prepared to make our contribution to the development of cooperation and friendship between our country and the EEC.⁵⁵

The Chinese view was wisely echoed by the EC side. At the signing ceremony, the Chairman of the Council, Anderson, declared that “everyone is aware that today’s ceremony has an importance that goes beyond its purely commercial framework”,⁵⁶ while the vice-president of the Commission, Haferkamp, stressed the political and economic importance of such an agreement.⁵⁷

Negotiating the 1979 EEC–China Textiles Agreement

The textile agreement was the second accord concluded for three years between the two parties. It was initialled on 18 July 1979, and was fully implemented with effect from 1 January 1980. However, before the agreement could be concluded, the textile quota for China had become a major source of disagreement between the two parties. In fact, it had developed into a serious dispute between them as textiles had become China’s major industry after the Chinese Cultural Revolution (1966–1976), and a principal export item increasing from USD26 million in 1950 to USD263,200 million in 1980.⁵⁸ The Chinese wished to obtain a further increase in their exports in this sector – particularly cotton yarn – in order to augment their foreign exchange earnings to cover, as far as possible, the importation cost of industrial items needed for their rapidly expanding modernization plans.⁵⁹ In the negotiations that opened in Brussels on 5 February 1979, their objective was to obtain an increase in their textile exports from the existing level of 20,000 to 60,000 tonnes.⁶⁰

The European Commission, on the other hand, was not prepared to accept such a significant increase. First of all, the recession in the developed world, compounded by the decreasing capacity of European industry to face external competition, had generated a serious crisis, bringing the textile and clothing production to its lowest level in 1980.⁶¹ The number of workers, for example, had fallen by 400,000.⁶² Trade had suffered serious setbacks. While textile imports from the Third World were rising, textile exports to it were declining.⁶³

A combination of different considerations had made the European Commission very reluctant to accept the pressing Chinese demands for an increase in textile exports. The negotiations reached an impasse with the Chinese insisting on a quota of almost 60,000 tonnes and with the Commission refusing to go beyond 40,000 tonnes.⁶⁴

The three meetings that took place in Brussels between the two delegations at the beginning of 1979 led nowhere, and finally the talks were suspended. Summing up the difficulties in these negotiations, Roy Jenkins, the president of the European Commission, stated,

We have made it clear to the Chinese that some aspects of textiles, at any rate, are a very difficult and sensitive problem for us, and that with the best will in the world, we cannot, in our dealings with them, endanger the arrangements which we have so delicately constructed with a number of suppliers over the past year or upset our arrangements for giving temporary protection to a very sensitive and much endangered sector of our industry.⁶⁵

Formal negotiations were finally reopened in July 1979, and on July 18 a textile agreement was initialled. Since the agreement was concluded while the Sino-EEC Joint Committee was still under session (17–19 July), it can be presumed that some of the sensitive issues that had held up the textile negotiations were finally thrashed out in these meetings.⁶⁶

Throughout the negotiation process, I find that the Community had exercised two types of linkages. One was what we would call, “the linkage with the United States” and the other a “synergistic linkage”.

The negotiations were held at a propitious time for the Community. In the first place, the Sino-US textile negotiations had reached an impasse.⁶⁷ The United States was apparently unwilling to open US doors wide enough for the importation of Chinese textiles. The overall conditions of the US textile industry were too bad, and the pressures from the powerful textile lobby too strong to permit the US government delegation to conclude an agreement. In fact, it seemed that the Carter Administration had finally given in to pressures to impose limits on Chinese imports as part of a bargain with the US textile industry and labour representatives for their support for a new GATT agreement.⁶⁸

The European Commission presumably calculated that China badly needed an agreement, partly to neutralize the adverse political and economic effects of the abortive Sino-US textile negotiations, and partly to maintain the momentum of Sino-EEC rapprochement.⁶⁹ In this case, the EC’s linkage with the United States referred to its strategic way of thinking and tactic, involving the US factor and adding new dynamics in the EEC–China bargaining.

If the timing was propitious, the arguments invoked by the EC delegation to dissuade its Chinese counterparts from insisting on its maximum demands were equally persuasive. The Commission made clear that it was politically and economically impossible for the EEC to accept the Chinese quota of 60,000 tonnes of textiles, because it would never be accepted by the Council. Attention was drawn to France’s intransigence even for an overall quota of 40,000 tonnes and a cotton cloth quota of 20,000 tonnes.⁷⁰

The Commission, therefore, had to play a balancing act, the essence of which was a synergistic linkage. As we defined in the theoretical part, a synergistic linkage is a variant of issue linkage. This concept was coined by Robert Putnam in his two-level bargaining model. The essence of this linkage type involves introducing an incentive negotiated in the external negotiations into a domestic bargaining area. In this case, the Commission introduced the benefits of maintaining a good political and economic relationship with China into the Community’s domestic

arena, involving textile producers, importers and retailers and Member States so as to accommodate domestic pressure.

In the process of negotiations, different interested parties in Europe put pressure on the European Commission not to make any major concessions on textile importation. For example, Brian Smith, president of the British Textile Confederation, expressed the hope that any Sino-EC textile agreement would be modelled on the arrangements already made with other Third World countries, and that, in any event, quotas allocated to China would be within the total import ceilings set by the Community for low-wage textile suppliers. In a letter to the British Foreign Secretary, he demanded that any arrangements with China for textiles must provide for their cancellation "if circumstances in China should change",⁷¹ and must include a guarantee for the uninterrupted supply of cashmere – an important raw material for EEC manufactures.⁷²

The European trade unions for textile workers were mobilized. They called for a one hour strike of three million European textile workers on 2 December 1979 to protest against the liberal policies of the European Commission.⁷³ In fact, they broke off negotiations with the Commission's president regarding the Community's textile strategy, and publicly announced their refusal to 'collaborate' with the Commission "in the dismantlement of our industries and the employment they offer".⁷⁴

In addition, many members of the European Parliament had expressed serious fears regarding the liberalization of textile imports from China. One of them, Burgha, stated: "We must have regard for the low cost of Chinese textiles and not repeat the Hong Kong and Korea imports experience which put many Community workers out of employment".⁷⁵ By far the most effective pressure, however, came from French textile industry. But partly also because of its disappointment about its low level of participation in China's developmental plans, the French authorities were against the conclusion of any textile agreement with China which would considerably liberalize the Chinese textile quota. According to some reports, the French had delayed the conclusion of the agreement, which contained some concessions to the Chinese.⁷⁶

There also seemed to be some contradictory pressures within the European Commission. It seemed as if it was divided on the number of concessions it should and could grant the Chinese. While there were some who were impressed by the vast potential Chinese market, there were others who were frankly sceptical of the prospects of making a real commercial impact, favoured a strict attitude in the negotiations.⁷⁷

As a result, both the Community and the Chinese government made concessions. The Chinese government lowered its ambition of raising the quota from 20,000 tonnes to 40,000 tonnes a year, while the Community agreed to accept that modest increase. The reason that the Commission managed to convince the European textile producers and the relevant Member States was due to the attraction of China's market. The Commission had successfully signed a trade deal with the People's Republic just one year before. The European businesses showed tremendous interest in the Chinese market both in trade and investment. As

said above, the greatest resistance came from the French textile industry, which opposed the conclusion of textile agreement partly because of its disappointment about its low level of participation in China's developmental plans. That is to say, as long as the French textile industry was convinced by the Commission that they were able to participate in China's development plans, the resistance might dissipate.

Examining the EC's power resources, I find that the EC enjoyed an asymmetrical interdependent relationship vis-à-vis China in trade relations, boasting a large market, which was one of China's most important export markets. Therefore, it was not difficult for the Commission to establish a synergistic linkage by offering domestic "resistant force" a quid pro quo – further market access to the Chinese market.

I argue that the linkages in this case were effective. Firstly, the agreement that was finally initialled on 19 July limited China's exports to 40,000 tonnes a year, of which the controversial cotton cloth material was not to exceed 18,000 tonnes. On the whole, the agreement was clearly favourable to the Community. First of all, China accepted the strengthening of the 'safeguard clause', even for products that were not subject to any quota, thereby allowing the Community – should the need arise – to keep textile and clothing exports from China within limits.⁷⁸ Secondly, the Chinese accepted the so-called system of 'double administrative control' – control of imports and exports – applicable to all products and not merely to those subject to limitation. Thirdly, China agreed to a price clause under which importation would be suspended, should the price of commodities fall below a fixed level. Finally, China undertook to supply minimum guaranteed quantities of textile raw materials for the European processing industry (pure silk, angora, cashmere) and to respect the effective price clause.⁷⁹

However, it should nevertheless be noted that the agreement effectively doubled Chinese textile exports from 21,000 tonnes to 41,000 tonnes. This demonstrated a win-win nature of the EEC-China Textile Agreement.

Chapter conclusion (1975–1988)

Our findings show that the European Communities was largely a linkage power during this period, whose strength came from its burgeoning power resources, in particular, its potential status as a counterbalancing power against the Soviet Union, a systemic player contributing to the multipolar tendencies, as well as China's economic reliance on the European market.

The European Communities used linkages as a crucial strategy in handling its relations with China. We find that during this period (1975–1988), the EC-China relationship witnessed a trade-off between politics and economics. Specifically, the EC exchanged political benefits for economic gains in its dealings with China. This trade-off defined and shaped the EC-China relationship on the eve of the establishment of the bilateral relationship and during the early days after that. In the 1970s and 1980s, China's interest in the European Communities was primarily political. This political goal formed the basis of China's diplomatic behaviour

and nothing was really able to erase it – not even the highly pragmatic and economically oriented Dengist phase. In contrast, the Community's behavioural pattern towards China was principally influenced by economic factors, dictated by the very nature of its functions and its goal, which were – at least for that period – essentially economic. Naturally, there emerged a “market” for exchanging political and economic interests.

In this context, the European Commission established an issue linkage, offering political benefits to the Chinese side in exchange for economic gains. Firstly, the Commission responded warmly to the Chinese initiative for *establishing diplomatic relations* in 1975. Secondly, Commissioner Christopher Soames moved beyond the European Communities' competence to publicly state that the EEC had no relations with Taiwan. As a quid pro quo and in the hope that the EC would become a counterweight against the Soviet Union, China accepted the proposal by the Commission to sign a new trade agreement to replace all the existing bilateral trade agreements with the Member States. Since then, the EEC–China economic and trade relations moved into the fast lane. In this case, the Community was coherent in exercising power since it succeeded in mobilizing political power resources for economic benefits. This was largely due to a convergent understanding among the European Commission, the European Parliament and the Member States of the significance of establishing diplomatic relations with China.

The second case is *the EEC–China negotiations on the content of the 1978 Trade Agreement*. We also observed the linkages exercised by the European Communities. On the one hand, the political power resources owned by the EC side, such as its potential status as a counterbalancer vis-à-vis the Soviet Union, were conducive to obtaining economic concessions from the Chinese side and leading to earlier signing of that agreement. On the other, the mutual benefits and reciprocal nature of trade provisions in this Agreement also helped both sides to find a compromise, which allowed both parties to make concessions for a package deal. Specifically, two types of linkages have been applied: the linkage between two economic issues and contextual linkage, both of which achieved objectives. As a result of the former linkage, the Chinese side made concessions to accept a safeguard clause,⁸⁰ a highly diluted national treatment and the price-induced import restriction clause.⁸¹ China, however, was successful in obtaining a trade balance clause (Article 3 of the 1978 Trade Agreement), that would “foster the harmonious expansion of their reciprocal trade” and that would help to attain “a balance in such trade”. The contextual linkage, established on an excellent political relationship in the wake of newly established diplomatic relations and the political commitment made by the Chinese side for signing this trade agreement, ensured the finalization of this agreement, rather than a stalemate. The essence of contextual linkage is to link a sectoral issue with the overall context, in this case, the newly established EEC–China diplomatic relations.

The third case is *the negotiations on the 1979 EEC–China Textiles Agreement*. The negotiations reached an impasse when the Chinese insisted on a quota of almost 60,000 tonnes while the Commission refused to go beyond 40,000

tonnes. The Commission was under tremendous pressure from the Chinese side and domestic protectionist interests. Accordingly, the Commission fought on two fronts by applying two types of linkages: the linkage with the United States in response to China's pressure, and the synergistic linkage in response to the domestic pressure. With these two linkages combined, the Chinese side finally accepted the quota of 40,000 tonnes.

The substance of the linkage with the US was to introduce a third party into the negotiation, which originally involved only two parties, i.e., China and the EC. The addition of a new party may change the existing power structure and advantage one of the two parties. In this case, the Commission presumably calculated that China badly needed an agreement, partly to neutralize the adverse political and economic effects of the abortive Sino-US textile negotiations, and partly to maintain the momentum of Sino-EEC rapprochement.⁸² In fact, it seemed that the US Carter Administration had finally given in to pressures to impose limits on Chinese imports as part of a bargain with the US textile industry and labour representatives for their support for a new GATT agreement.⁸³ Therefore, the Commission implicitly linked with the US and successfully gained an advantageous bargaining position vis-à-vis China. In this case, this linkage was made implicitly, though both sides were clearly aware of the US factor and its weight.

The substance of the synergistic linkage was to introduce a new policy option/incentive into a domestic bargaining arena. In this case, the Commission promised to the domestic protectionist interest groups a further opening of the Chinese market as a result of the new EEC-China Trade Agreement signed in 1978.

Table 3.4 is a summary of the EC's linkage strategies in terms of effectiveness. In Chapter 2, we established a scoring system to assess the EC's linkage effectiveness, which has four levels: significant, considerable, marginal and nil. We score these four levels respectively as 5 points (significant), 3 points (considerable), marginal (1 point) and nil (0 point). We conclude that the EC's linkage strategies in the case of establishing the EC-China diplomatic relations was significant (5

Table 3.4 Effectiveness of linkage strategy (1975-1988)

<i>Effectiveness</i>	<i>Establish diplomatic relations</i>	<i>1978 Trade Agreement</i>	<i>1979 Textiles Agreement</i>
Contextual linkage		Considerable	
Linkage with the US			Considerable
Issue linkage (politics & economics)	Significant		
Issue linkage (economics & economics)		Considerable	
Synergistic linkage			Considerable
Overall effectiveness	Significant 5'	Considerable 3'	Considerable 3'
Average score	3.7'		

points), while that in the negotiation of the 1978 Trade Agreement and the 1979 Trade Agreement was considerable (3 points). On average, the effectiveness of this whole period is significant and scored “3.7 point”.

During this period, the European Communities can be largely qualified as a linkage power since the linkage was used as a crucial strategy and produced concrete effects. Its political, economic and institutional power resources were also used in a relatively coherent way, which should be attributed to a strong consensus among the major EC institutions and Member States in developing good political and economic relations with China. The coherence of the EC’s power resources also considerably strengthened the effectiveness of the EC’s linkages.

This period witnessed the politicization of the EC–China economic and trade relations in the sense that the Chinese side was particularly sensitive to the EC’s political-strategic power resources, such as its status as a potential counterbalancing power against the Soviet Union and a systemic player contributing to the multipolar tendencies.

Notes

- 1 It is the author’s translation. The original quote is in French. See: Dejean, H. (2002). *la Politique Chinoise de l’Union européenne*. IFRI Policy Paper, Avril.
- 2 MAO Zedong classified the United States and the Soviet Union as the ‘First World’, the developing countries in Asia, Africa, Latin America and other regions as the ‘Third World’, and the developed countries between the first and second world as the ‘Second World’, also called ‘the second intermediate zone’. See Mao, Z. (1994). *Selected Works of Mao Zedong’s Diplomacy*. Ministry of Foreign Affairs, pp. 600–601.
- 3 Kapur, H. (1986). *China and the EEC: The New Connection*. Leiden: Martinus Nijhoff Publisher, p. 7.
- 4 Ibid., p. 6.
- 5 Reuter, E. (2007). A New Agenda. In Crossick, S., & Reuter, E. (eds.), *China-EU: A Common Future*. World Scientific, pp. xi–xiii.
- 6 (1980). *People’s Daily*, April 2 as quoted in Kapur, Distant Neighbors, p. 164.
- 7 Moller, K. (2002). Diplomatic Relations and Mutual Strategic Perceptions: China and the Europe. In Special Issue: China and Europe since 1978: A European Perspective. *The China Quarterly* (169), pp. 13–14.
- 8 Deng, X. (1993). Socialism Can also Undertake the Market Economy. In Deng, X. *Selected Works of Deng Xiaoping*. Vol. 3, pp. 233–234.
- 9 Kapur, *China and the EEC*, p. 90.
- 10 Report by the European Parliament’s Committee on External Economic Relations on Economic and Trade Relations between the European Communities and China (Excerpts), 5 May 1977. see Kapur, *China and the EEC*, p. 140.
- 11 Kapur, *China and the EEC*, p. 33.
- 12 (1976). Official Journal of the European Communities, *op. cit.*, March, No. 241.
- 13 Guo, G. (2006). *A Study of China-EU Cooperation* (in Chinese). Beijing: World Affairs Press, p. 20.
- 14 Ibid., p. 25.
- 15 Ibid., p. 26.
- 16 Chen, Z., & Geeraerts, G. (2003). *Foreign Policy Integration in European Union: A Mission Impossible?* Beijing: Current Affairs Publisher, p. 354.

- 17 Duchêne, F. (1972). Europe's Role in World Peace. In Mayne, R. (ed.), *Europe Tomorrow: Sixteen Europeans Look Ahead*. London: Fontana, pp. 32–37.
- 18 (1976). Official Journal of the European Communities, *op. cit.*, March, No. 241.
- 19 Kapur, *China and the EEC*, pp. 31–32.
- 20 Ibid., p. 93.
- 21 Ibid., p. 69.
- 22 (1993). *Wall Street Journal*, December 13, p. 7.
- 23 Wang, Y. (2007). *The Political Economy of US-China Trade Relations* (in Chinese). Beijing: China Market Press, pp. 176–177.
- 24 Kapur, *China and the EEC*, p. 64.
- 25 (1980). *China Trade and Economic Newsletter* (291).
- 26 Qiu, Y. (1999). The EU's Long-term China Policy and the Sino-EU Economic and Trade Relationship. *World Economy* (Chinese periodical) (8), p. 9.
- 27 Guo, *A Study of China-EU Cooperation*, pp. 42–47.
- 28 Kapur, *China and the EEC*, p. 94.
- 29 Qiu, The EU's Long-term China Policy and the Sino-EU Economic and Trade Relationship, p. 9.
- 30 Deng, Socialism Can also Undertake the Market Economy, p. 119.
- 31 Winham, G. (1986). *International Trade and the Tokyo Round Negotiation*. Princeton: Princeton University Press.
- 32 Wallace, H., Wallace, W. & Pollack, M.A. (eds.). (2005). *Policy-Making in the European Union* (5th edition). New York: Oxford University Press, p. 381.
- 33 Kaspereit, G. (5 May 1977). Report on the Economic and Trade Relations between the European Community and the People's Republic of China, European Communities. *European Parliament Working Documents (1977–1978)*, p. 9.
- 34 Anderson, K.B. (1978). *Declaration on the Occasion of the Signing of the Trade Agreement between the European Communities and the People's Republic of China*. April 3, Brussels.
- 35 Guo, *A Study of China-EU Cooperation*, p. 27.
- 36 Kapur, *China and the EEC*, pp. 30–31.
- 37 Ibid., p. 33.
- 38 Moller, Diplomatic Relations and Mutual Strategic Perceptions, p. 14.
- 39 Algieri, F. (2002). EU Economic Relations with China: An Institutional Perspective. In Special Issue: China and Europe since 1978: A European Perspective. *The China Quarterly*, p. 70.
- 40 Kapur, *China and the EEC*, p. 93.
- 41 Ibid., p. 31.
- 42 Ibid., pp. 31–32.
- 43 (1975). European Parliament, Debates on 18 June 1975, see Kapur, *China and the EEC*, p. 123.
- 44 Ibid., p. 129.
- 45 Ibid., p. 125.
- 46 Kapur, *China and the EEC*, pp. 95–96.
- 47 Ibid., pp. 35–37.
- 48 (1975). Text in *FBIS Daily Report*, May 9, p. A–19.
- 49 Kapur, *China and the EEC*, p. 37.
- 50 The two delegations were reported to have deliberated during the whole night on the safeguard clause, *Le Monde*, 5/6 February, 1978.
- 51 Kapur, *China and the EEC*, p. 47.
- 52 Ibid., p. 48.
- 53 Ibid., p. 48.
- 54 (1977). Debates of the European Parliament, 5 July 1977, see Kapur, *China and the EEC*, p. 145.

- 55 Li, Q. (1978). *Speech on the Occasion of the Signing of the Trade Agreement between the European Economic Community and the People's Republic of China*. Brussels, April 3.
- 56 (1978). *Communautés Européennes: Le Conseil*, 'Discours de K.B. Anderson à la Cérémonie de signature de l'accord CEE-République Populaire de Chine'. Brussels, April 3, p. 2.
- 57 (1978). *International Herald Tribune*, April 4.
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- 59 Kapur, *China and the EEC*, pp. 60–61.
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- 62 ILO. (1978). *Textile Committee: Tenth Session*, Geneva, 1978.
- 63 Kapur, *China and the EEC*, p. 60.
- 64 Jonquières, G.D. (1979). China Seeking to Treble Sales of Textiles to EEC. *Financial Times*, March 15.
- 65 Official Journal (1979). *Debates of the European Parliament* (241), March 14, p. 128.
- 66 Kapur, *China and the EEC*, pp. 61–62.
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- 68 Ibid.
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- 70 Ibid., p. 63.
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- 72 Ibid.
- 73 Ibid.
- 74 Cited in Agnès, H. (1981). Textile: L'Europe en mal de politique. *Revue du Marché Commun* (244).
- 75 Official Journal. (1979). *Debates of the European Parliament* (241), March 14, p. 128.
- 76 Margaret, V.H. (1979). EEC–China Agreement Initialed. *Financial Times*, July 19; also see Bonanza, P. (1979). Chine-Europe: Premier accord. *L'Express*, May 12.
- 77 Kapur, *China and the EEC*, p. 61.
- 78 (1979). *Journal Officiel des Communautés Européennes*. Législation, December 31.
- 79 Ibid.
- 80 Under the safeguard clause, the Common Market was entitled to unilaterally take measures to re-impose and tighten quotas in the event of a sudden influx of Chinese imports.
- 81 When the price is lower than a certain threshold, an import restriction measure is triggered.
- 82 Kapur, *China and the EEC*, p. 63.
- 83 (1979). *Financial Times*, April 25.

4 The EC as an offensive power (1989–1992)

The year 1989 marked a watershed in international relations. Since April, the communist parties in Eastern European countries lost power one after another. In China, there appeared large-scale, student-led protests, demanding more democracy and calling for the removal of China's leader Deng Xiaoping and other communist officials. The Chinese government took action on 4 June. Immediately after the June 4 Incident (also called the Tiananmen Incident), there was widespread international condemnation. The United States, the European Communities and its Member States, Japan and other countries took various sanction measures.

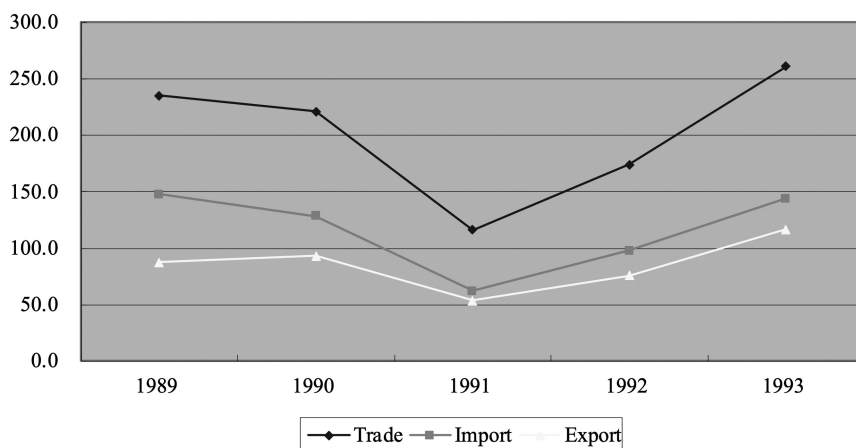
The Tiananmen Incident had a profound impact on the EC–China political relationship, which was immediately felt on the trade front. As Graph 4.1 shows, EC–China trade significantly decreased from the 1989 level and did not fully recover until 1993. Total trade value dropped from USD23.51 billion in 1989 to USD11.61 billion in 1991, decreased by 50.6%. In reaction to the Tiananmen Incident, the European export assistance programme and development aid were drastically curtailed.

This period (1989–1992) witnessed two distinctive phases. The first was the European Communities' economic sanctions from 1989 to 1990, where we see the Community exercising a strategy linking economic sanctions with the human rights issue. The second phase (1991–1992) witnessed a de-linkage process, in which economic considerations forced the Community and its Member States to lift the economic sanctions and bring back economic considerations to the mainstream of the EC–China relations.

The EC's evolving power resources

The 1989 Tiananmen Incident and the drastic changes in the Soviet Union and Eastern Europe dramatically changed the landscape of international relations, including the bilateral and multilateral foundations of the Sino-EC relationship. Bilaterally, the human rights issue took the centre stage. The drastically worsening of the bilateral relationship was aggravated by the end of the Cold War.¹

The dissolution of the Warsaw Pact Organization and the collapse of the USSR completely shook off the strategic foundation of Sino-EC relationship.



Graph 4.1 China's trade with the EU (1989–1993). Unit: hundred million (USD).
Data: Chinese Customs Yearbook.

Table 4.1 China's position in the EC's external trade relations (%)

	1989	1990	1991	1992	1993
EC export to China in the EC's total exports	1.6	1.3	1.4	1.6	2.4
EC import from China in its total imports	2.1	2.4	3.1	3.6	4.1

Source: EUROSTAT 1958–2006.

Western Europe, which no longer needed to fear the threat of the USSR, no longer needed China to counterbalance the USSR in the east. As China's strategic value was reduced, the Western countries started to challenge the basic principles for handling the EC–China relationship.²

Regarding the EC's solidarity and credibility, it is fair to say that at the beginning of the sanctions throughout 1989 and the first half of 1990, the EC maintained its internal solidarity vis-à-vis China. However, this solidarity gradually became loose and finally collapsed as a result of diverging interests and different approaches towards China following the "June 4 Incident". The European Communities also lost their credibility, which they had nurtured over the past 15 years through differentiating its policies from those of the United States vis-à-vis China. The Chinese authorities saw that the EC followed closely the US and imposed sanctions on China.

Economically, the EC's power resources remained unchanged, if not increased. Although the trade value was negatively affected, the EC remained one of China's most important trading partners. The tables below (Table 4.1 and 4.2)

Table 4.2 The EC's position in China's external trade relationship (%)

	1989	1990	1991	1992	1993
EC export to China in China's total imports	11.9	12.5	11.5	11.8	14.6
EC imports from China in China's total exports	19.0	21.5	26.0	25.7	25.4

Source: EUROSTAT 1958–2006.

convincingly demonstrate the EC's prominence in China's external trade. Between 1989 and 1993, the EC's share of China's total exports had been on the rise, increased from 19.0% in 1989 to 25.4% in 1993. In other words, 1/4 of China's exports flew to the EC market. It shows the EC's strategic position for China's external trade, and by extension, its economic growth. It is noteworthy that even in the year 1991 when the EC–China trade value hit a record low, the EC's share in China's overall exports still grew up to 26%, 7 percentage points higher than that in 1989. It was partially due to the poor overall performance of China's exports vis-à-vis its other trading partners after the Tiananmen Incident. Therefore, the EC's position was further strengthened as China's most important export destination.

In contrast to the United States, the West European countries did not threaten to revoke the most-favoured-nation status and GSP treatment granted to China.³ Neither did they forbid European companies to invest in China, or interrupt the Sino-EC cultural and academic exchanges.⁴ Despite that, the European companies' investment and technology transfer came to a standstill during this period. Development assistance was stopped, as part of the overall economic sanctions.

In terms of the EC's institutional power resources, the EC's instruments and competences vis-à-vis China did not change much. But its bilateral consultation channels with China were cut off as a result of sanctions.

The EC's offensive following the Tiananmen Incident – linking economics with human rights

Europe's attention was upon Beijing in 1989. The European Parliament adopted a resolution in late May 1989, in which the Chinese government was urged to enter into a dialogue with students in response to the ongoing demonstrations.⁵

In the immediate aftermath of the Tiananmen Incident, the leaders of the Twelve Member States reacted strongly. On 5 June, the European Commission published a statement in which it deplored “the brutal repression of the people of Beijing” as a consequence of which

the co-operation between China and the Community can only suffer [...] and would risk being permanently affected if the policy of the Chinese

Government were to start on a course which would put at risk the policy of openness and reform followed until now.⁶

On the following day, the Twelve condemned the violent suppression of China's democracy movement and suspended all high-level contacts with the PRC. The Chinese leadership was urged to stop using force against unarmed civilians and to resolve the crisis through dialogue.⁷ The public statement issued by the Twelve said,

The Twelve, deeply shocked by the tragic developments in China, strongly condemn the violent repression used against the peaceful demonstrators, which has resulted in widespread loss of life [...] continuing repressive actions, in violation of universally recognized human rights principles, will greatly prejudice China's international standing and compromise the reform and open door policies which the European Communities and its Member States have actively supported. The European Communities and its Member States have already taken a number of measures, including suspension of high-level contacts, and will continue to keep developments in China under urgent review.⁸

On 7 June, the Twelve decided to suspend economic and cultural relations with China. Because of German objections, however, the decision was translated into non-binding unilateral commitments.⁹

On 27 June, the Council called on China to refrain from further executions, announced its intention to initiate a human rights debate in international institutions and suspended arms exports to the PRC. Cultural, scientific and technological cooperation projects were to be reduced, and applications for the extension of visas by Chinese students to be treated favourably.¹⁰ Its statement said,

The European Council requests the Chinese authorities to respect human rights and to take into account the hopes for freedom and democracy deeply felt by the population. It underlines that this is an essential element for the pursuit of the policy of reforms and openness that has been supported by the European Communities and its Member States.

In the present circumstances, the European Council thinks it necessary to adopt the following measures: (1) raising the issue of human rights in China in the appropriate international fora; (2) Asking for the admittance of independent observers to attend the trials and to visit the process; (3) Interruption by the Member States of the Community of military cooperation and an embargo on trade in arms with China; (4) Suspension of bilateral ministerial and high-level contacts; (5) Postponement by the Community and its Member States of new cooperation projects; (6) Reduction of programmes of cultural, scientific and technical cooperation to only those activities that might maintain a meaning in the present circumstances; and (7)

Prolongation by the Member States of visas to the Chinese students who wish it.¹¹

Taking into account the climate of uncertainty created in the economic field by the present policy of the Chinese authorities, the European Council advocates the postponement of the examination of new requests for credit insurance and the postponement of the examination of new credits of the World Bank.¹²

The EC's economic sanctions, including suspending the high-level contacts, cooperation projects and other economic exchanges, was a typical example of issue linkage, in which economic and trade issues were linked with political issues, in this case, the human rights issue.

The EC showed its teeth based on the following power resources: (1) it was one of China's most important export markets; (2) the EC and its Member States, combined, were the biggest donors of development assistance to China and conducted many cooperation programmes in different sectors with China; and (3) the EC had economic sanction tools at its disposal. According to the EC law, economic sanctions were allowed.

However, the evidence did not support an explicit causal relationship between the EC's economic sanctions and a change of course of action by the Chinese government. Neither did we witness an improvement of China's human rights situation as expected by the Western world during the period 1989–1991 as a result of the sanctions imposed by the European Communities, the United States and other powers. It was generally recognized that Beijing did not bow to the international pressure after the Tiananmen Incident, and stuck to its own rhythm and pace of domestic economic and political reforms. For example, Beijing did not allow the admittance of independent observers to the trials and to visit the process. Nor did they accept the human rights standards advocated by the Western world. Even a constructive dialogue on China's human rights issue was going nowhere. As Nesshover revealed,

During the first phase, until 1992, the question of human rights dominated all political contacts with Beijing. But neither the German government nor French officials managed to establish a constructive dialogue with the Chinese authorities on these issues. This impossibility was partly due to Chinese intransigence in the matter, but moreover, throughout this phase, the German and French diplomats concentrated their efforts on announcement effects (unpromising) intended above all for their public opinion, asking amnesty for participants in student protests and the release of prominent dissidents.¹³

The Commission later admitted the ineffectiveness of tough declarations and sanctions in its 1995 Communication on China,

There is a danger that relying solely on frequent and strident declarations will dilute the message or lead to knee-jerk reactions from the Chinese government.¹⁴

I therefore conclude that the EC's linkage achieved very limited, even poor, results.

De-linkage – “take politics out of economics”

The EC's linkage strategy did not hold for long. Most of the sanctions were lifted by the end of 1991. Roughly in 1992, the EC and its Member States started to readjust their China policies. Firstly, they de-linked the improvement of China's human rights situation and the amelioration of their relations with China. Secondly, they de-linked economic relationship with human rights. They believed that their China policy should not set the aim of pushing for the collapse of China's Communist regime, since it was impossible. Instead, China should be transformed and encouraged to gradually 'integrate' itself into the international society through economic and trade cooperation and other means of engagement.¹⁵

Even at the time that the sanctions were adopted there was disagreement among the Member States. In answer to a question in the European Parliament in September 1989, Mme Cresson, President-in-Office of the Foreign Ministers, stated:

It is quite obvious that all the States were not on exactly the same wavelength as regards the measures to be taken against China. Some people might find that the text that emerged too timid, while others might think it goes too far. Be that as it may, what emerged was a single text intended to express very strong condemnation of the repressive measures used in China.¹⁶

Although the precise position was not clear, it seemed likely that Germany had favoured a milder approach to China while France – possibly seeing resonances with its own revolution in 1789 – probably took an unusual line (bearing in mind its subsequent stance) and favoured quite strong measures.¹⁷ Almost immediately an exception to the high-level contact prohibition had to be made for the United Kingdom because of the ongoing negotiations concerning Hong Kong.¹⁸ On 4 July 1989, EC foreign ministers announced their intention to re-establish political contacts with China. On 28 September, the foreign ministers of Italy, Ireland and Luxembourg met their Chinese colleague Qian Qichen on the fringe of the UN General Assembly. According to the official Chinese news agency Xinhua, “Italian Foreign Minister de Michelis said that in the present complex international situation, to strengthen the ties between the EC and China is of great importance to world peace and stability”.¹⁹ He also pointed out openly,

We of course need to keep pressure on the human rights issue. But it is not beneficial to keep divided between China, such an important country, and the European Communities. We believe that it is wrong to continue to isolate such a great country as China. The only way of touching China

is through moral persuasion, and it must be done in a frank framework of diplomatic relations.²⁰

Perhaps because there was not full agreement on the measures to be taken, they began to fall apart quickly. On 22 October 1990, EC foreign ministers decided gradually to resume economic cooperation and to re-establish high-level contacts.²¹ French Foreign Minister Roland Dumas explained the decision with “China’s support of the Western countries’ stand on the Iraqi incident”.²² On the same day, the embargo on development assistance, export credits and commercial loans was also lifted. In July 1991, the European Communities lifted the restriction on the visits by the heads of states from EC Member States. Until then, most of the sanctions were lifted except the ban on military sales. EC foreign ministers also decided to dispatch their Spanish colleague Fernandez-Ordenez to Beijing to discuss a gradual normalization of relations. The emissary had “friendly and serious” talks with Qian Qichen, Foreign Trade Minister Zheng Tuobin and Prime Minister Li Peng, in which human rights seem to have played a minor part.²³ In February and March 1991, Qian Qichen visited Portugal, Spain and Greece. Visits to Luxembourg (which then held the EC presidency) and Bonn did not materialize because of the latter’s refusal to rank the visit as official. In April, PRC Deputy Prime Minister Zhu Rongji visited the European Commission. Zhu emphasized Beijing’s continued commitment to economic reform and opening-up.²⁴ At that time, the Commission was debating new guidelines to make economic assistance offered to third parties contingent on political criteria such as the human rights situation.²⁵ In December 1994 during the German presidency, German foreign minister Jindal, on behalf of the EC 12, informed China formally that the Twelve decided in unanimity to cancel the measures of forbidding the exchange of visits at leader’s level and military exchange. Until this moment, all the sanctions had been lifted except arms embargo.

The short-lived linkage has shown that it was difficult for the European Communities to maintain an effective linkage at the EC level for a long time. The difficulties could be attributed to such factors as the EC’s priority for seeking economic interests, competing national interests among Member States and a conflict between the EC’s external economic and political objectives, as well as China’s diplomatic manoeuvring.

a) **The EC’s priority for economic interests**

The European urge to restore relations with China in the early 1990s had more to do with a new round of recession, driven, among other things, by high interest rates as a result of German unification, than with concrete plans to play a global role after the “end of history”.²⁶ The economic sanctions against China also had economic implications on specific Member States. For example, in 1990, Italian exports to China dropped dramatically by 45% and its industrial investment in China dropped to zero, since Italy formed part of the European sanctions against China and stopped supporting Italian exports and freezing investment of public

funds. Italy dropped from No. 7 in 1988 to No. 10 globally in China's foreign trade partners, and from No. 2 to No. 4 among China's trading partners in Europe. Pressure was mounting upon the Italian government to give a quick answer to the question about the relationship between Italy and China, as well as between Europe and China, which had stirred up many controversies and doubts.²⁷

In contrast to the sluggish economic growth in Europe, China's economy was rapidly growing. More importantly, China did not change its course of economic reform and opening-up. In 1991, China started to implement its eighth 'Five-Year Plan'. After Deng Xiaoping's 'South Tour'²⁸ in 1992 which confirmed China's continuation of reform and opening-up, China's GDP growth reached 13% for the following 2 years, 1993 and 1994. In the meanwhile, China's import and export grew up significantly. In 1993, China's external trade value reached USD195.8 billion, ranking at No. 11 in the world. China's economic achievements made the European Communities and its Member States feel that imposing sanctions upon China could not achieve their goals in any way. On the contrary, the sanctions cost themselves dearly.²⁹

The European Communities also realized that if they did not change its position, it would concede its position in the Chinese market to its competitors like the United States and Japan, who had already taken the first steps to show good will to China and lift the economic sanctions. As a matter of fact, Washington had never shut down its more discrete channels of high-level consultations³⁰ and was lobbying Beijing over sanctions against Iraq in the UN Security Council. In May 1990, President Bush had extended most-favoured nation treatment to China by another year. During the mid-July G7 Summit in Houston, Japan had been given permission to lift its sanctions for "reasons of geography". The Summit reopened the World Bank's credit line for PRC projects, including non-humanitarian ones.³¹

b) Competing national interests among Member States

One by one, the Member States from 1990 broke ranks with the common sanctions in order to gain political and economic favour with Beijing. Sectarian (chiefly economic) national interests are often presented as paramount in the calculations of EU foreign policy makers, to the detriment of collective goals such as the promotion of human rights.³² As Dejean pointed out,

The commercial interests of the Fifteen are often in competition, particularly for capital goods. A fierce competition thus opposed France to Germany for the construction of metro lines, telephone exchanges or thermal power stations; it continues today for the supply of a high-speed rail line between Beijing and Shanghai. Such large contracts inevitably lead the respective governments to multiply the steps in favor of their companies. This competition explains, to a large extent, that China has benefited from very significant concessional credits since the 1980s, hence the importance of official

development assistance (ODA) flows from which it has benefited [...] This intra-European commercial competition is obviously not the only one: European suppliers also compete with American and Japanese companies. Moreover, the competing interests within the European Union can give the Chinese authorities the temptation to oppose the Member States to each other to make its interests prevail.³³

In the process of normalizing relations with China, different Member States had different paces. For example, Italy and Germany were quicker while France and the UK were slower. This was mainly due to different national interests' consideration.

Italy was prudent on the question of sanction and expressed its willingness to recover its cooperation in all the areas at an early date. During its term as the EC presidency in the second half of 1991, Italy played a positive role in realizing the normalization of the EC–China relationship and lifting the sanctions against China.³⁴ The leaders on both sides exchanged high-level visits between 1991 and 1992. Italy believed that China's dialogue with Italy was conducive to a balanced world, and classified China as the priority country subject to Italy's development assistance and encouraged Italian companies to invest and establish joint ventures in China.³⁵ In 1991, Italy became China's second largest trading partner in Western Europe, with the trade value climbing to USD2.39 billion according to the Chinese Customs statistics. Since then, the Italy–China trade grew annually and reached USD4.66 billion in 1994, increasing by 100% within 3 years.

Germany also pioneered in normalizing its relations with China in 1990. On 26 September, both sides agreed to continue to develop the bilateral relationship. On 30 October, Germany decided to resume its development assistance and export credit guarantee to China. This symbolized that Germany's sanctions against China started to get loose. 1992 featured several exchanges of high-level visits between Germany and China. On 10 December, Germany decided to strengthen its political relationship with China and normalize the bilateral economic relations. With the visit by German Chancellor Kohl on 15–22 November 1993, the German-Sino relationship entered a new phase. As Kohl emphasized, his visit aimed at strengthening the bilateral cooperation in various areas, accord new quality to German-Sino relationship. During his visit, a series of economic and trade, scientific and technological, and cultural agreements and MOU were signed, with the total contracts valued at USD2.9 billion. In the 1990s, Germany had been China's largest trading partner in Western Europe. Between 1990 and 1994, the bilateral trade increased by over 100%.

In contrast, there emerged serious difficulties in normalizing the French and British relations with China. In November 1992, France sold 60 *Mirage* fighters to Taiwan despite strong opposition from the Chinese government. The Chinese side reacted strongly by closing down the French consulate in Guangzhou, freezing the implementation of all the important Sino-French economic contracts or projects, and cancelling the high-level visits. As a result, France suffered a serious loss of business opportunities. France dipped from No. 2 in 1980s to No. 4

in 1993 in the rank of China's largest trading partners in Western Europe. The big construction project of Guangzhou Metro station, which France had big chances to win, was grabbed by Germany.³⁶ The Sino-French relationship did not recover until 1994, when the French government committed not to approving any French company's participation in arming Taiwan.³⁷ The normalization of the British–Chinese relationship seemed to be even more difficult, mainly because of the disagreement on how to configure the political system of Hong Kong. The British–Chinese relationship did not improve until 1995.³⁸

c) **Competing interests within an individual Member State**

Different interests within that Member State competed for controlling the government's China policy for the sake of their own economic and political interests. Take France as an example. As Dejean recorded,

France, finally, distinguished itself in 1989 by a particularly critical line and by the reception of many Chinese dissidents. It was on his initiative that draft resolutions concerning China had been co-sponsored by Europeans at the United Nations Commission on Human Rights from 1991. When the decision was taken, by the government of Édouard Balladur, to normalize relations with Beijing after the Mirage affair, human rights initially remained a sensitive subject: successive governments came under harsh criticism during Édouard Balladur's visits to China (April 1994), then Li Peng in France (April 1996). These criticisms, without disappearing, went on decreasing after Jacques Chirac had developed, in 1996, a doctrine of constructive dialogue with Beijing. This policy, taken over by the government of Lionel Jospin in 1997, is no longer actively contested by the majority of the public, which does not mean that it is popular.³⁹

Three reasons can be identified for this change of course in France: first of all, the pressure of public opinion on the question of human rights had noticeably eased. Second, the success of French industry lobbying had something to do with shifts in China policy priorities from Paris. Whereas in 1992–1993, it was first the arms industry which succeeded in imposing its industrial policy arguments, after the victory of the right-wing coalition in the 1993 legislative elections, it was the big companies of civilian-use products, traditionally more inclined towards the People's Republic of China, who managed to put forward their point of view. For them, the future potential of the mainland Chinese market clearly portrays it on the preservation of an already partly saturated Taiwanese market. While French exports to Taiwan stagnated at around 1.2 billion dollars a year, despite the commitment shown by Paris, the trade deficit with the People's Republic of China had reached 12.1 billion francs in 1993, a record high. Finally, in the eyes of the French too, Germany's Chinese policy from 1992 seemed particularly effective, especially in economic matters, especially since German competitors were directly

benefiting from the tensions between France and China. Thus, in December 1992, to protest against the sales of Mirage to Taiwan, China excluded French companies from the market for the construction of the Guangzhou Metro; the contract, worth 700 million Marks, went to a consortium of German companies. Between 1992 and 1994 alone, Germany practically doubled its exports to China, increasing them from 5.7 to 10.2 billion marks. While Great Britain (with +71%), Italy (+71%), the Netherlands (+146%) and Spain (+227%) increased their exports to China even more between 1989 and 1994, sales from France to the Middle Kingdom only increased by 22%. The shortfalls for French industry, following the sale of the Mirage to Taiwan, amount to between 3 and 6 billion francs according to estimates.⁴⁰

d) Gap between external economic and political relations

The European policy can be criticized for being incoherent as concerns the demand to balance external economic relations and external political relations. This is a structural problem of the European integration process and an expression of the gap between intergovernmental and communitarian forces. The Chinese side understood not only the coherence dilemma of EC/EU external relations but also the competitiveness between Europe and the United States with regard to the economic and political shares that were expected from a deepened relationship with China. Both aspects can be used in the self-interest of Chinese diplomacy. Significantly, Chinese rhetoric expressed that European companies can profit in their trade relations with China from the separation of human rights and trade policy questions.⁴¹

e) China's diplomatic manoeuvring

Facing the sanctions and pressure from the West, Deng Xiaoping put forward a guideline for China's diplomacy. He said,

Although Eastern Europe and the Soviet Union had problems, and that the G7 of the West imposed sanctions against China, we only need to adhere to one guideline – continue to develop and develop well relations with the Soviet Union; continue to develop and develop well relations with the United States, and continue to develop and develop well relations with Japan and European countries. We have never moved away from this guideline for a single day.⁴²

With this principle, the Chinese government made efforts in improving the relations with the governments of Western Europe without abandoning his existing principles.⁴³ The Chinese side found that the West European countries did not threaten to revoke the most-favoured-nation status and the GSP treatment granted to China. Neither did they forbid European companies to invest in China, nor interrupt the Sino-EC cultural or academic exchanges.⁴⁴

Against that background, China did not choose to confront the European Communities, nor did it drift towards isolationism. Instead, it made great efforts to keep close contacts with the European Communities and sought détente and cooperation, promoting its own development through opening-up.⁴⁵ Immediately after the Tiananmen Incident, the Chinese leaders carried out intensive diplomatic visits with European leaders. Qian met his British counterpart, who had been given permission to continue his contacts with PRC representatives because of pending negotiations over the future of Hong Kong. In September 1990, it was alleged in the European Parliament that the UK had violated the embargo by issuing permits to GEC Marconi to sell radar equipment for fighter planes.⁴⁶ In January 1991, Zhou Jiahua, China's state counsellor and director of the State Planning Commission visited France. In February 1991, Qian Qicheng visited Portugal, Spain, Poland, Bulgaria, Hungary, Greece and Malta. In April 1991, Vice Premier Zhu Rongji visited the European Commission, Italy, the Netherlands, Belgium, France, Germany and Spain. During the visit, he once again confirmed China's reform and opening-up. In April 1992, Chinese premier LI Peng and Foreign Minister Qian again visited the European Commission, Italy, Switzerland, Portugal and Spain. During the visit, Li Peng emphasized,

China and the European Communities have wide-ranging common interests. They include: we all support the international relations move towards multi-polarity; we both support maintaining world peace and stability through consultation rather than force; we both recognize the leading role of the United Nations in resolving conflicts. In addition, both parties have tremendous complementarities in economic fields.

More than that, China sent out two big purchasing missions to the EC Member States, respectively, in June 1991 and June 1992. The first purchase signed the contracts valued at USD360 million while the second signed over USD15 billion.⁴⁷

Due to the above factors, the EC's sanctions did not remain long. The timing was gradually ripe for the European Communities as a whole to adopt a new China policy.

Chapter conclusion

This period (1989–1992) witnessed two distinctive phases. During the first phase (1989–1990), the European Communities imposed economic sanctions in 1989 against China, demanding the latter to improve its human rights situation. This was a political-economic issue linkage, tying economic sanctions with the human rights issue. The second phase (1991–1992) witnessed a de-linkage process, in which, economic considerations and institutional handicaps forced the Community and its Member States to lift economic sanctions and bring back economic considerations to the mainstream of the EC–China relations.

This case shows the EC's linkage power was not always effective. Three major factors caused this ineffectiveness: the EC's eroded power resources, its institutional handicaps and the heterogeneity of the Member States' interests.

Firstly, due to the EC's sanctions against China and the severing of high-level contacts, the EC–China political interdependence and bilateral institutionalization were significantly reduced. The EC's credibility with China was also considerably undermined. As time went by, the fissure among the Member States expanded. The EC's economic power resources also decreased as its technology transfer and development assistance to China waned.

Secondly, the sui generis institutional structure made the EC hardly a united entity. When deciding whether to impose economic sanctions, Germany showed its reluctance, which made the nature of such economic sanctions non-binding.

Thirdly, the heterogeneity of the Member States' interests and preferences was decisive in de-linking the economic sanctions and the political demand for improving the human rights situation in China. The competing national interests and in some cases, the competing interests within an individual Member State became the major obstacles for the EC to hold the sanctions for long.

In this context, we can hardly qualify the EC as an effective linkage power. On the one hand, its linkage strategy could hardly produce any substantive progress in the area of China's human rights conditions. On the other, it was proven that the EC had tremendous difficulties in mobilizing effectively its political and economic power resources, partially due to the institutional handicap, with foreign policy decision-making largely in the hands of the Member States, and partially due to the competing national interests among the Member States. This is an important feature of the EU as a sui generis linkage power, in comparison with other great powers.

That was why the EU's linkage strategy had not achieved its goal and I scored the EC's linkage effectiveness during this period as zero (0 point).

Notes

- 1 Chen, Z., & Geeraerts, G. (2003). *Foreign Policy Integration in European Union: A Mission Impossible?* Beijing: Current Affairs Publisher, p. 362.
- 2 Ibid., p. 362.
- 3 The US House of Representatives and the Senate passed the amendments on sanctioning China, respectively, on 29 June and 14 July 1989, urging US President Bush to take harsher measures, including examining whether it was wise to give China the most-favoured-nation status. See, Xie, Y. (ed.). (2002). *Contemporary History of China's Diplomacy (1949–2001)*. Beijing: China Youth Publishing, pp. 445–446.
- 4 Chen & Geeraerts, *Foreign Policy Integration in European Union*, p. 363.
- 5 Weidenfeld, W., & Wessels, W. (eds.). (1990). *Jahrbuch der Europäischen Integration 1989/90* (Yearbook of European Integration 1988/1990). Bonn: Institut für Europäische Politik, Europa Union Verlag, p. 459, quoted in Moller, K. (2002). Diplomatic Relations and Mutual Strategic Perceptions: China and Europe. In Special Issue: China and Europe since 1978: A European Perspective. *The China Quarterly*, (169), p. 16.
- 6 (1998). *The Guardian*. June 6.

- 7 (1990). *European Political/Cooperation Bulletin*. Florence: European University Institute 5(1), p. 187.
- 8 *European Foreign Policy Bulletin*. No. 89/171.
- 9 (1989). *Le Monde*. June 8.
- 10 (1990). *European Political/Cooperation Bulletin*, pp. 195–196.
- 11 *European Foreign Policy Bulletin*. No. 89/180.
- 12 European Council (1989). *EU Declaration on China*. Madrid, June 26–27.
- 13 Translated from French. The original text is quoted from Nesshover, C. (1999). Bonn et Paris face à Pékin (1989–1997): vers une stratégie commune? *Politique Étrangère*, 64(1), pp. 93–94.
- 14 Communication of the European Commission (1995). *A Long-Term Policy for China–Europe Relations*. Com (1995) 279/final.
- 15 Qiu, Y. (1999). The EU's Long-Term China Policy and the Sino-EU Economic and Trade Relationship. *World Economy* (Chinese periodical), (8), p. 4.
- 16 Question no. H-153/89 (EFPB document no. 89/204).
- 17 Baker, P. (2002). Human Rights, Europe and the People's Republic of China. *The China Quarterly*, (169), Special Issue: China and Europe since 1978: A European Perspective, p. 50.
- 18 Ibid.
- 19 (1989). *Xinhua*, September 30.
- 20 (1991). *International Data and Information*. Western leaders talking about peacefully transforming China, Issue 8, pp. 15–16.
- 21 (1990). *European Political/Cooperation Bulletin*, p. 454.
- 22 Feege, A. (1992). *Internationale Reaktionen auf den 4 Juni 1989 in der VR China, Zwischen Solidarisierung, Schweigen und Sanktionen* (International Responses to June 4 1989 in the PRC, Between Solidarity, Silence, and Sanctions). Hamburg: Institut für Asienkunde, p. 130.
- 23 Deputy Foreign Trade Minister Shen Jueren in an interview with *The Bangkok Post*, as quoted in Feege, *Internationale Reaktionen*, p. 131.
- 24 Weidenfeld & Wessels, *Jahrbuch der Europäischen Integration 1989/90*, p. 459, quoted in Moller, *Diplomatic Relations and Mutual Strategic Perceptions*.
- 25 Moller, *Diplomatic Relations and Mutual Strategic Perceptions*, p. 18.
- 26 Ibid., p. 20.
- 27 (1991). *International Data and Information*, pp. 15–16.
- 28 In Spring 1992, Deng Xiaoping made his famous southern tour of China, visiting Guangzhou, Shenzhen, Zhuhai and spending the New Year in Shanghai, in reality using his travels as a method of reasserting his economic policy after his retirement from office.
- 29 Guo, G. (2006). *A Study of China–EU Cooperation* (in Chinese). Beijing: World Affairs Press, p. 50.
- 30 George W.H. Bush secretly sent General Brent Scowcroft, his national security advisor, to Beijing on 30 June 1989 to exchange views with Deng Xiaoping. As Scowcroft later remembered, “The purpose of my trip [...] was not negotiations – there was nothing yet to negotiate – but an effort to keep open the lines of communication”. See Bush, G., & Scowcroft, B. (1998). *A World Transformed*. New York: Alfred A. Knopf, p. 110.
- 31 China Association of International Relations. (2006). *The History of International Relations* (1990–1999), Vol. 12, Beijing: World Knowledge Press, pp. 579–580.
- 32 Wong, R. (2008). Towards a Common European Policy on China? Economic, Diplomatic and Human Rights Trend since 1985. *Current Politics and Economics of Asia*, 17(1), p. 156.
- 33 Translation from the original French text, available at: Dejean, H. (2002). la Politique Chinoise de l'Union européenne. *IFRI Policy Paper*, Avril.

- 34 China Association of International Relations, *The History of International Relations*, pp. 579–580.
- 35 (1991). Chinese Premier met with Italian prime minister. *People Daily*, September 16.
- 36 Chen & Geeraerts, *Foreign Policy Integration in European Union*, p. 364.
- 37 (1994). The Joint Communiqué of the Chinese and French Governments. *People Daily*, January 13.
- 38 China Association of International Relations, *The History of International Relations*, pp. 579–585.
- 39 Translation from the original French text, available at: Dejean, la Politique Chinoise de l'Union européenne.
- 40 Translation from the original French text, available at: Nesshoyer, Bonn et Paris face à Pékin (1989–1997), pp. 98–99.
- 41 Algieri, F. (2002). EU Economic Relations with China: An Institutional Perspective. In Special Issue: China and Europe since 1978: A European Perspective. *The China Quarterly*, pp. 76–77.
- 42 Deng, X. (1993). China Never Allows Other Countries to Intervene its Internal Affairs. In Deng, X. *Selected Works of DENG Xiaoping*, Vol. 3, p. 359.
- 43 Chen & Geeraerts, *Foreign Policy Integration in European Union*, p. 363.
- 44 Ibid., p. 363.
- 45 Guo, *A Study of China–EU Cooperation*, p. 51.
- 46 (1990). *European Political/Cooperation Bulletin*, p. 322.
- 47 Guo, *A Study of China–EU Cooperation*, p. 52.

5 The EU as a power through partnership (1993–2004)

This period saw the EU–China relationship walk away from the tensions in the 1989–1992 years and finally move to a comprehensive strategic partnership in 2003. By abandoning a confrontational approach, the EU decided to adopt a soft and practical one in 1995, focused on engagement, dialogue and cooperation. This gave the EU renewed bargaining power and entailed concrete results. That is why I qualify the EU during this period a *power through partnership*. This partnership was not equal to a relationship free of problems and tensions. Rather, the partnership was a framework in which the EU and China managed to strike a bargain across different issue-areas. It was also because of the effective functioning of this framework that this partnership was able to evolve from a constructive partnership to a comprehensive strategic one. Within this framework, various linkages were established and had concrete outcomes. This partnership was therefore part of the EU’s global governance strategy and a manifestation of its civilian power.

In order to present the evolution of the EU’s partnership power, I divide this period into two phases: the first phase (1993–2000) when the EU decided to leave behind the confrontational policy adopted during the Tiananmen Incident and issued its first China policy paper in 1995, and established a constructive partnership with China in 1998; and the second phase (2001–2004) when the EU and China established a comprehensive partnership in 2001, and later upgraded it to a comprehensive strategic one in 2003.

The EU’s new China policy and the establishment of the EU–China constructive partnership (1993–2000)

As the memory of the Tiananmen Incident faded and public pressure declined, the Member State governments started to reflect upon their China policies. Germany played a pioneering role. In September 1993, Germany issued its New Asia Strategy, which centred on China, and added strategic considerations about global and political issues.¹ Chancellor Kohl led several high-level business delegations in China. In 1994, during the German presidency, the EU published its Asian strategy – “Toward a New Asia Strategy”, stating, “the Union needs to adopt more proactive strategies: emphasising fuller, and increasingly targeted

use of economic co-operation to promote European trade and investment (with Asia)".² This Communication also took note of the new US attitude towards China –

A further sign of such a shift in US policy towards Asia is the recent decision to extend (with a few exceptions) the MFN-treatment of Chinese exports into the US. The US thus delinked trade and human rights. This shift may also be regarded as a move towards a more long-term strategy aimed at influencing developments in China by further integrating China into world trade and economic relations.³

Since 1995, France had taken initiatives to improve its relationship with China. So had the UK. The timing was gradually ripe for the EU to take a concerted move in its relationship with China.

In October 1995, the European Commission followed an earlier German example and published the Communication on China – “A Long-Term Policy for Relations between China and Europe”.⁴ This Communication set out three objectives: (1) to encourage China to become fully integrated in the international community; (2) to contribute to reform inside China; (3) to intensify ties between the European Union and China.⁵

To safeguard the EU’s above-mentioned interests, the EU adopted the approach of engagement, the core of which was to engage China on all fronts and integrate it into the international community through incentives, including bringing China more fully into the world trading system (China’s WTO accession), supporting the process of economic and social reform underway and supporting China’s transition to an open society.

As Dejean well summarized,

1995 clearly marks a “rediscovery” of China by Europe after decades of relative mutual ignorance, punctuated by periods of crisis. This first Communication from the European Commission on China had an important effect in China itself, convincing leaders and experts that the Union now had a “strategic vision” and a long-term policy towards their country.⁶

It symbolized the beginning of an EU policy towards China.⁷ The Chinese side was quick to applaud this recognition of its international importance while passing over the details.⁸ After all, 1995–1996 represented a new low in US–PRC relations, a situation European business was tempted to exploit and Beijing appeared willing to let be exploited.⁹

Three years after the EU’s first China Communication, the Commission issued a new one in March 1998 – *Building a Comprehensive Partnership with China*.¹⁰ This policy paper emphasized that “the analytical foundations of the 1995 Communication still hold true, and it therefore remains the platform on which the EU’s policy towards China is built”.¹¹ It called for building a new, comprehensive EU–China Partnership. It not only inherited the major ideas of

the 1995 paper, but also made policies more pragmatic and positive, which laid a strong foundation for the development of EU–China relations since the late 1990s.¹² Whereas the listed areas of cooperation (global, regional, bilateral) were not very different from the 1995 paper, the suggested spectrum was wider (e.g., by proposing dialogue with China on Burma, the Indo-Chinese and Central Asian states), and recommendations were more detailed in areas such as WTO accession where general declarations were no longer considered sufficient.

This 1998 Communication also proposed to upgrade the EU–China political dialogue to an annual Summit mechanism by stating,

The time has now come for the EU and China to raise the status of their relationship by holding annual summits at Head of State and Government level [...] Annual EU-China Summits would put the EU-China relationship on a commensurate footing with the EU's approach towards other major international partners such as the US, Japan and Russia, raise the profile of the EU in China and vice versa, as well as injecting added momentum into the negotiation and resolution of key issues in the EU-China relationship.¹³

The establishment of the annual EU–China Summit mechanism in 1998 created a new opportunity for the EU to place the key issues, political, economic, scientific and environmental, in one single bargaining arena, which were easily subject to linkage politics.

The first EU–China Summit was held in London in April 1998, in which, both sides agreed to establish a long-term and stable *constructive partnership* oriented towards the 21st century.¹⁴ Two more Summits were held respectively in 1999 and 2000, which consolidated and developed this constructive partnership.

This period witnessed the emergence of a new EU–China bargain, in which, issue were knitted together and traded off in possible combinations in the shadow of a newly established partnership. This partnership was also enriched and reinforced by those issue linkages. In other words, linkages underlay the partnership, while the partnership enabled old linkages to be reinforced and new linkages to be created.

Generally speaking, China's major interests were to see the EU become a pillar for the future multipolar world, get the EU to support its WTO accession and receive European capital, technology and development assistance. The EU's major interests were to get China's support and recognition of its integration cause, reap the economic, political and social benefits from China's WTO accession process, and improve China's human rights conditions (largely a normative goal for the EU's diplomacy). Specifically, the linkages were made in and across three broad issue-areas – political and security, economic and trade, human rights issues. In such an interdependent relationship, issue linkage could be made:

Politically, there existed a market for exchanging political interests between the EU and China. Both sides believed that, when the world was going through significant and deep transformation, it was in their fundamental interests to have further strengthened dialogues and cooperation. China gave its support to the

European integration project and welcomed the launch of the Euro. In return, the EU welcomed China's determination and its way to conduct its economic reform. More importantly, the EU was seen by the Chinese side as an important pillar in the future multipolar world. Since 1997, the establishment of a multipolar world had become one of the founding objectives of China's foreign policy. The Report delivered by the Chinese President Jiang Zemin at the 1997 Communist Party Congress stated,

The pattern of the world is changing toward multipolarity [...] The development of the trend toward multipolarity contributes to world peace, stability and prosperity.¹⁵

China also made its position clear on the question of multipolarity on many international occasions during this period.

The practices have already proven and will continue to prove that political multipolarity is conducive to world peace and development, and fits the wishes of the peoples around the world [...] Multipolarity is better than unipolarity. Multipolarity has important significance for world peace, stability and development. It has become an important consensus of most countries and peoples. It is an unavoidable global trend".¹⁶ "International affairs are complex. It is harmful and impossible for a single country or a few countries to dominate world affairs".¹⁷

Although the view of multipolarity was strongly held in France and Germany, the Benelux countries, Scandinavia and the Mediterranean states, it was not a concept which was popular and widely accepted among the others such as the United Kingdom and the ten new EU members in Eastern Europe. Therefore, at the EU level, multipolarity is not written in any official EU declarations or formal documents. The European Union tended to put economic benefits at the centre of its foreign policy, whilst China often put political interests above economic ones. China's expectations that the EU would become a strategic power and contribute to multipolarity conferred on the EU advantageous bargaining resources. I therefore argue that the EU's power resources came from China's one-sided expectations that the EU would embrace multipolarity.

Economically, both sides emphasized that further strengthening economic and trade ties constituted the important foundation of the ever-developing EU-China relationship. The EU supported China's early entry into the WTO, but set a high threshold of conditions, in particular, trying to reach a package deal with China on furthering China's market access of goods and services. The EU thereby managed to establish an issue linkage between China's market concessions and the EU's commitment to allow China to join the WTO at an early date.

In addition, there existed what I call "contextual linkage" in the EU-China negotiations on China's WTO membership. Although not necessarily explicit, the willingness and intention on both sides to foster a constructive partnership

facilitated the resolution of any emerging sectoral problems. This partnership enabled the Commission to wring more economic concessions from the Chinese side and grant the EU at least the same concession level that China granted to the US. In this case of contextual linkage, the overall EU–China partnership was linked with a sectoral issue – China’s WTO accession.

On *human rights*, the EU adopted a soft way of dialogue and cooperation with China on the various areas of human rights so as to improve China’s human rights conditions.¹⁸ What underlay the EU’s new approach was the EU’s attempt to link this issue with China’s overall social and economic opening up, as well as putting the human rights issue in the overall EU–China partnership. In contrast to the ineffective hard approach in 1989 by imposing economic sanctions, the EU used a softer approach by putting the human rights issue in a wider context – China’s desirability for opening up to the outside world and the EU–China overall relationship. This was basically an attempt to reconcile the abstract human rights imperative with real economic interests on the ground. As the EU’s 1995 Communication on China analyzes,

There are already signs that the increasing exposure of all areas of Chinese life to the outside world is having a deep – if gradual – impact through social change and increased mutual understanding. EU policy is based on the well-founded belief that human rights tend to be better understood and better protected in societies open to the free flow of trade, investment, people, and ideas. As China continues its policy of opening up to the world, the EU will work to strengthen and encourage this trend. This is a major reason why the EU will continue to support the active participation of China in the international community in all fields of policy, political and economic, and to welcome China’s increasing openness to dialogue. It is also an important reason for using the EC cooperation programme to encourage China’s own efforts towards opening up, socially and economically.¹⁹

The then EU Trade Commissioner Pascal Lamy confirmed in his book, *L’Europe en Première Ligne*, the EU’s intention to link China’s commercial opening and the improvement of human rights conditions:

To the questions from European parliamentarians on the human rights situation in China [...] I will answer what, after careful consideration, has become a conviction: a country that is more commercially open becomes necessarily less repressive. Why would China be an exception?²⁰

Here, the issue linkage between human rights and the economic issue (China’s commercial opening up) was established in a soft manner. In addition, the human rights issue, as an integral part of the EU’s new China policy, was linked to the overall EU–China relationship, and thereby subject to any issue in so far as it concerned the overall bilateral relationship. This certainly improved the EU’s bargain weight on human rights.

Building a comprehensive strategic partnership (2001-2004)

In June 2001, two years after the Prodi Commission came into office, the Commission published its third Communication on China – *EU Strategy towards China: implementation of the 1998 Communication and Future Steps for a more Effective EU Policy*.²¹ This Communication reaffirmed the consensus that the existing policy towards China and the EU's longer term aims in relations with China, as defined by the Commission Communication and the resulting Council Conclusions in 1998.

Compared with the previous “constructive partnership” period, the 2001–2004 period featured a fast expanding agenda of the EU–China dialogues, coordination and cooperation, which contributed to upgrading the EU–China *constructive partnership* to a *comprehensive partnership* in 2001 and later to a *comprehensive strategic partnership* in 2003.

On 5 September 2001, the 4th EU–China Summit was held in Beijing. Both sides expressed their resolve to promote the development of a *comprehensive partnership* between the EU and China.²² At this Summit, leaders considered a number of ways to enhance the relationship, including through greater exchanges, contact and cooperation between the peoples of the EU and China. The cooperation areas were expanded to the negotiations for an EU–China maritime transport agreement, trade deficit issue, investment, the conflicts in the Middle East, the Western Balkans and Central Africa, and the support of the reconciliation process on the Korean peninsula.

At the 2002 EU–China Summit, leaders stressed their resolve to expand and deepen further EU–China cooperation in all areas on the basis of equality and mutual benefit and to promote the development of a comprehensive partnership between the EU and China. The cooperation areas were further extended to combating terrorism after 9/11, negotiating an agreed tourism destination status for the EU (ADS agreement),²³ environmental and climate change issues, strengthening the multilateral trading system, food and consumer safety problems as quickly as possible, to open the way for more fruitful cooperation on sanitary and phytosanitary issues, specific cooperation activities in the area of satellite navigation and the possibility of future cooperation in the framework of the recently launched GALILEO programme.²⁴ This Summit was important in the sense that it prepared well the establishment of the EU–China comprehensive strategic partnership.

In September 2003, the Commission issued its fourth China policy paper, titled “*A maturing partnership – shared interests and challenges in EU-China relations*”.²⁵ This Communication well summarized the institutionalized evolution of the EU–China relationship,

The last decade has seen a dynamic growth of the relationship between the EU and China. Relations which were once largely confined to the areas of trade and investment and financial/technical assistance have expanded to cover a multitude of sectors.²⁶

Building upon the extended cooperation areas and visible outcomes, both sides moved fast towards establishing a *comprehensive strategic partnership*. In October 2003, at the annual EU–China Summit, the two sides agreed that their high-level political dialogues had been fruitful and the dialogues and consultations at other levels had also further expanded in intensity and scope and such multi-layered structure of China–EU relations is an indicator of the increasing maturity and growing strategic nature of the partnership.²⁷ Leaders welcomed the signing of the GALILEO Satellite Navigation Cooperation Agreement and the initialling of the Memorandum of Understanding on Approved Destination Status. Leaders considered both to be significant milestones in their expanding bilateral relations.²⁸ Leaders also welcomed the newly established dialogue on industrial policy that aims at ensuring a business-friendly level playing field for industrial operators and at contributing to smooth and sustainable trade relations between the EU and China. Leaders welcomed the recent progress achieved on several sectoral agreements and expressed particular satisfaction with the China–EU maritime transport agreement which had been signed in December 2002. The two sides expressed their satisfaction with progress in China–EU scientific and technological cooperation and its expansion under the EU’s Sixth Framework Programme on Research and Technological Development (2002–2006). They especially welcomed the new initiatives launched to fight against SARS and other infectious diseases. European Commission President Romano Prodi remarked, “If it is not a marriage, it is at least a very serious engagement”. Reflecting the euphoric “China fever” that is gripping Europe, the French government proclaimed 2004 the “Year of China,” commemorating it with no fewer than 378 exhibitions and events around the country.²⁹ More importantly, in 2003, the EU–China Comprehensive Strategic Partnership had been set as both a reflection and reality of EU–China relationship. Scholars even qualified the relationship as a “honeymoon”.

On 6 May 2004, the then Chinese Premier Wen Jiabao visited the European Commission in Brussels and issued together with the Commission President Prodi a joint press statement. Leaders were of the view that the current international situation was undergoing profound and volatile changes with increasing uncertainties that posed a threat to world peace and development. China and the EU should endeavour to maintain international security on the basis of mutual trust, mutual benefit, equality and cooperation; uphold the vital role of the United Nations in maintaining peace, stability and security and promoting sustainable development throughout the world, and promote multilateralism and democracy in international relations. The Chinese leader noted the ongoing discussions within the EU on the possible lifting of the embargo on arms sales to China and hoped that a decision on its lifting would be made as soon as possible so as to further enhance the political trust and cooperation between the two sides. The Chinese side reiterated its request for an early solution of the full market economy status issue while emphasizing China’s efforts and achievements in her striving for market economy.³⁰

On 9 December 2004, the 7th EU–China Summit was held in The Hague, Netherlands. China welcomed the new European Commission and European

Parliament, the enlargement of the EU and the agreement by EU Heads of State and Government on the treaty establishing a Constitution for Europe. The two sides affirmed that the deepening and widening of the EU should contribute to further strengthening Sino-EU relations. The two sides affirmed that, due to the continuous development of EU-China relations in recent years, the EU and China will explore actively the feasibility of concluding a new EU-China framework agreement. The two sides signed the Joint Declaration on Non-proliferation and Arms Control whereby they recognise each other as major strategic partners in the area of disarmament and non-proliferation. Both sides welcomed the dynamism of their trade relations, best illustrated by the EU becoming China's largest trading partner and China becoming the EU's second-largest trading partner in 2004.³¹

This period witnessed the prime time of the EU-China relationship and featured an effective overall bargaining between the two parties, in which, issues were knitted together and traded off in possible combinations in the shadow of a comprehensive strategic partnership. The closer partnership created better chances for the effectiveness of issue linkages. During this period, the trade-offs were seen in the following areas:

Politically, there was an issue linkage between different political issues. For the EU side, the Iraqi War seriously undermined the transatlantic alliance and divided Europe. The EU needed China to counterbalance the US's unilateralism and the tendency towards a unipolar world. China, as always, pursued a multipolar world. This laid down a strategic foundation for the EU-China partnership. The 2003 EU Communication added new elements to the EU-China partnership – multilateralism and the cooperation for global governance. The EU and China had an ever-greater interest to work together as strategic partners to safeguard and promote sustainable development, peace and stability. Interests converged on many international governance issues, notably the importance both attached to the role of the UN in physical and environmental security and to that of the WTO, where both had much to gain from further trade liberalisation. The draft European Security Strategy of June 2003 aims to “reinforce the EU's Common Foreign and Security Policy, and recognises that China is one of the EU's major strategic partners”.³² I argue that there was a trade-off between China's pursuit of multipolarity and the EU's pursuit of multilateralism. In 2004, China, for the first time, accepted the EU's idea of multilateralism and agreed to advance multilateralism and the democratization of international relations together with the EU.³³

Moreover, China had started to raise the Taiwan Question and the arms embargo issue when negotiating the Summit joint statement, respectively, in 2001 and 2004. These two issues were high on the agenda of the EU-China relationship. The EU did make efforts to come up with more positive language on the arms embargo issue in 2004, which stated,

The EU and China confirmed that EU-China relations in all aspects have developed significantly in the last years. In this context they discussed the

issue of the EU arms embargo against China. The EU side confirmed its political will to continue to work towards lifting the embargo. The Chinese side welcomed the positive signal, and considered it beneficial to the sound development of the comprehensive strategic partnership between China and the EU.³⁴

To conclude, there existed an issue linkage in the political-security area, with China mainly concerned with multipolarity and the democracy of international relations, the Taiwan Question and the arms embargo, while the EU mainly concerned with fostering effective multilateralism and global governance issues.

Economically, there was also a trade-off on the basis of reciprocal market opening, and joint efforts in pursuing the success of the new round of multilateral trade negotiations – the Doha Round Agenda. As the joint statement of the 5th EU–China Summit states,

The Chinese side reiterated that it would, while enjoying its full rights in the multilateral trading system, fully implement its commitments [...] The two sides affirmed their shared interest in strengthening the multilateral trading system, and in particular, their commitment to a successful conclusion of the multilateral trade negotiations of the Doha Development Agenda.³⁵

For the EU side,

In promoting China's economic opening at home and abroad, priorities are to work together to ensure success of the Doha Development Agenda, monitor and assist China's compliance with its WTO commitments, and monitor new regional agreements to ensure WTO-compatibility. The early signing of an "Authorised Destination Status" agreement to facilitate Chinese tourism in Europe is a major priority. Negotiations on a long-delayed customs agreement should begin as soon as possible.³⁶

In the meanwhile, the growth in the bilateral trade relationship was striking: economic and trade relations between the EU and China had developed in step with the latter's emergence on the global economic scene. China in 2002 overtook Japan to become the EU's second-largest trading partner outside Europe, with a trade volume of over EUR115 billion. The EU was also a major investor in China, with the stock of EU FDI at USD34 billion at the end of 2002.³⁷ The trade agenda was also expanded significantly. In 2004, leaders welcomed the launch of the new Trade Policy Dialogue on multilateral, regional and bilateral issues, and the establishment of the China–EU Textiles Trade Dialogue. Leaders agreed to establish the Dialogue on Intellectual Property Rights, with the objective of improving communication and cooperation on the protection of intellectual property rights and in view of the establishment of a long-term strategy on IPR enforcement to be supported by EU technical assistance programmes.³⁸ In

the same year, the Chinese side reiterated its request for an early solution of the full market economy status issue.

While Washington accused China of using its currency peg to win an unfair trade advantage and of not living up to World Trade Organization commitments, president of the European Commission Prodi stressed his hope that Europe would become China's biggest trade and investment partner. For Beijing, the EU was an important counterbalance to Washington, especially when China's large bilateral trade surplus was a hot political topic in the US.³⁹ Wen Jiabao, the then Chinese prime minister, hailed European integration as creating a new pole of political and economic influence that was "good for world stability and development [...] We hope the European Union will become our biggest partner in economic and trade relations", Mr Wen told a joint news conference.⁴⁰

To conclude, there was a trade-off for the reciprocal market opening. Moreover, this trade relationship was also influenced by the US factor. For China, it wanted to use its partnership with the EU as a lever to counterbalance the US pressure, while for the EU, it would like to get economic benefits from the China-US competition.

To summarize, the rapid maturity of the EU-China partnership (1993-2004) should be attributed to several different types of issue linkages, as elaborated upon above. Although the issue linkage in the political-security sector can stand alone, the linkage in the economic, trade and other areas such as in the case of GALILEO helped the effectiveness of the linkage in the political-security area. This logic also applied to the linkage in these non-political areas. In other words, these different types of linkages mutually reinforced one another. Combining them together, the EU and China managed to build a comprehensive strategic partnership.

In the prime time of the EU-China relationship, a symbolic case was the cooperation in the GALILEO project.

The EU's new power resources since 1993

Our analysis focuses on the EU's power resources in political, economic and institutional areas.

Political power resources

Firstly, there was an increased political interdependence between the EU and China. As China's first EU Policy Paper states in 2003,

The European Union (EU) is a major force in the world. To strengthen and enhance China-EU relations is an important component of China's foreign policy.⁴¹

History proved that the establishment of diplomatic relations between China and the European Economic Community in 1975 had served the interests of both

sides. Despite the twists and turns, China–EU relations as a whole had been growing stronger and more mature. Both China and the EU were committed to establishing the comprehensive strategic partnership, an idea proposed by the Chinese side in 2003. In May 2004, Chinese Premier Wen Jiabao explained (during a lecture in Brussels) what he thought a strategic partnership mean:

“Strategic” 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 systems and is not subjected to the impact of individual events that occur from time to time. “Partnership” means that the cooperation should be equal, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavours to expand converging interests and seek common ground on the major issues while shelving differences on the minor ones.⁴²

Secondly, though the EU–China political interdependence was increasing, there still existed asymmetry in that political relationship in the EU’s favour, which was mainly due to China’s strong expectation that the EU would contribute to building a multipolar world. With the end of the Cold War, a new international political structure was emerging. Taking the opportunity of the coming new international political and economic order, Chinese leaders were in favour of multipolarity, which in their opinion, “helps weaken and curb hegemonism and power politics, serves to bring about a just and equitable order and contributes to world peace and development”.⁴³ As once asserted by Deng Xiaoping, China perceived its position as a pole in the forthcoming multipolarity:

Nowadays the old structure is in the process of transformation, and the new structure is not yet formed [...] No matter how many poles there will be in the world structure, three poles, four poles, or even five poles [...] in the so-called multi-polarity, China should be counted as one of the poles.

China’s pursuit of multipolarity was motivated by the understanding that a multipolar world offered an international political structure in which China could better safeguard and promote its national interests and so complete its grand goal of becoming a powerful and prosperous country. As such, Chinese leaders preferred a multipolar environment since it would allow China to play a decisive role as one of the poles.

China considered Europe as one of the pillars of a multipolar world order. Multipolarity in turn is its key device for pursuing soft-balancing and cracking America’s hegemony.⁴⁴ This gave the EU tremendous strategic power resources vis-à-vis China. As Chris Pattern sarcastically commented in his book, *Not Quite the Diplomat*,

continuing European integration – the launch of the single currency, the broadening of the single market, enlargement – fitted into China’s world

view, in which there are several poles of influence not simply one hegemon: not a very surprising idea if you represent over a fifth of humanity. I sometimes felt when I met Chinese visitors that they seemed to believe more strongly in Europe's world role than we did ourselves.⁴⁵

Thirdly, the EU's internal solidarity had been significantly strengthened. Compared with the 1989–1992 period, the EU Member States and the EU institutions gradually reached a consensus on China and a greater internal solidarity in its relations with China was fostered. Between 1995 and 2003, the EU issued four Communications on China, which reflected a high level of consensus among Member States about the strong need to transform China through engagement. In the case of negotiating China's WTO accession, the Council of Ministers gave the Commission a wide negotiating mandate and reached a strong consensus. As Pascal Lamy, EU trade commissioner recalled,

As soon as I returned to Europe on 10 April 2000, I informed the Council of Ministers of the Union which met in Luxembourg: a number of European interests had not been taken into account, and important blocking points remained, such as for telecommunications. I am announcing to the ministers that I would like the negotiation mandate to be renewed, thus indicating to our Chinese interlocutors that all the member countries of the Union are on the same line of firmness. The Union has already shown flexibility. It now expects a similar attitude from China, taking into account the specific interests of Europeans. The reaction of the ministers is positive, that of the European Parliament also. The unanimity of the Ministers of the Fifteen and the support of Parliament represent important assets.⁴⁶

Fourthly, the EU's credibility with China also improved. On the one hand, the EU–China negotiations on China's WTO accession were concluded successfully. It was a historical event in the EU–China relationship. The EU's approach in trying to differentiate from the US position was appreciated. On the other, the EU continued to move forward in its own integration process. The EU's potential to become a future pole reinforced its credibility. There had been significant developments in the EU since 1998, including the ratification and implementation of the Amsterdam Treaty, and the signing of the Nice Treaty and the adoption of an EU Charter on Fundamental Rights in December 2000. This reinforced the EU's Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP) as well as its Justice and Home Affairs (JHA) policy and other policy areas. The ongoing consolidation of EU integration made the Union better equipped to engage China on an increasingly wide range of issues.⁴⁷ Also, the successful introduction of the euro notes and coins at the beginning of 2002 was a landmark achievement in the history of European integration, soon to be followed by the EU's biggest enlargement ever in terms of scope and diversity, with ten new members set to accede on 1 May 2004. At the same time, the internal reform of the EU continued, with plans for an EU constitution under discussion.⁴⁸

Economic power resources

The EU–China trade relationship grew fast, but still with asymmetry. During this period, China was already the world’s seventh largest trader, the second-largest recipient of Foreign Direct Investment (FDI) and a major player in certain key economic sectors such as telecoms and the information society, and energy. The EU–China economic interdependence grew strongly as the bilateral trade and the EU’s investment in China increased significantly. For example, the EU’s imports from China accounted for 4.3% in its total imports in 1994. This figure increased to nearly 10.8% in 2004. The same was true for the EU’s exports to China. In 1994, only 2.3% of EU’s exports went to China. But in 2004, this figure turned to be 5.0%. During this period, the EU’s investment and technology transfer towards China increased sharply. With the prospects of the enlargement from 15 to 25, the EU’s market would become even more attractive to China.

However, the EU–China trade relationship was still asymmetrical in favour of the EU, since China relied more on the EU than vice versa. The tables below (Table 5.1 and 5.2) showed that, between 1994 and 2004, China’s exports to the EU remained over 20% of China’s total exports. In 1994, China’s exports to the EU accounted for 22.3% in its global exports. In 2004, this figure was 25.4%.

The European Union had also significantly increased its economic assistance to China since 1995. Before that, under the basic budget lines for development aid and economic cooperation in Asia, less than 20 million ECU was set aside each year during the period 1991–1994. This compared with some 90 million ECU for India, or 460 million ECU for the former Soviet Union countries under the TACIS (Technical Aid to the Commonwealth of Independent States) programme in 1994.⁴⁹ In 2001, the Commission issued its first country strategy paper (2002–2006), which provided China with the assistance of EUR250 million and set three priority areas: support China’s economic and social reforms, promote sustainable development and environmental protection and improve governance and the rule of law.

Table 5.1 China’s position in the EC’s external trade relations (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	04
Export	2.3	2.5		2.2	2.3	2.5	2.7	3.1	3.4	4.1	5.0
Import	4.3	4.5		5.2	5.4	6.3	6.8	7.3	8.3	9.7	10.8

Source: EUROSTAT 1958–2001 and 1958–2006.

Table 5.2 The EC’s position in China’s external trade relationship (%)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	04
Export	12.8	14.6		13.1	12.2	12.5	10.4	11.8	12.6	12.6	11.8
Import	22.3	21.7		21.8	20.2	27.2	26.0	21.2	24.3	25.2	25.4

Source: EUROSTAT 1958–2001 and 1958–2006.

Table 5.3 Effectiveness of linkage strategy (1993–2004)

	<i>Building a strategic partnership 1993–2004</i>	<i>GALILEO 2003</i>	<i>Reciprocal opening up 1993–2004</i>	<i>China's WTO accession 1993–2001</i>	<i>Coke dispute in 2004</i>
Contextual linkage	considerable				Considerable
Linkage with the US				Considerable	considerable
Linkage with China		Considerable			
Issue linkage (political-economic)	Considerable				
Issue linkage (economics & economics)	Significant		Significant		
Conditionality				Significant	
Synergistic linkage			Considerable		
Effectiveness	Significant 5'	Considerable 3'	Significant 5'	Significant 5'	Considerable 3'
Average score of effectiveness	4.2'				

A positive factor in China's surging exports to the EU had undoubtedly been the Community's GSP system. It should be noted that China had been, by far, the biggest beneficiary of the EU GSP in recent years. China's exports enjoying GSP benefits jumped from 2.1 billion ECU in 1988 to 6.6 billion ECU in 1992 and the Chinese share in the total benefits of the EC system went up from 13.7% to 22.2%, three times as much as the second beneficiary.⁵⁰ In 1997, China accounted for more than 30% of the value of all beneficiaries' imports.

Institutional power resources

The EU had sufficient institutional power resources vis-à-vis China during this period, featuring strong trade competences, instruments and bilateral institutions.

For the WTO talks, the Commission received a very broad, unwritten mandate from the Member States. When the details of the accession process were negotiated the Commission thus had a lot of freedom of manoeuvre. DG Trade negotiators constantly consulted with members of the industry in Brussels and in China to obtain detailed knowledge about market conditions in China. Over time this gave the Commission a considerable information advantage towards the 133 Committee in the Council of the European Union. This underlined the important role of information as a core factor in establishing the autonomy of the

Commission and enabled it to pursue a strategy with relatively little interference from the Member States. The Article 133 Committee and the trade bureaucracies in the Member States seemed to lose increasingly the competence of following the often extremely minute details of the negotiations. In any case, the Article 133 Committee hardly ever intervened in the negotiations. The major reason for this was that the Commission simply stuck to the broad mandate with a view to the necessary ratification of the results by the Council. As a leading Commission negotiator said: “the geopolitical interests in this case were so overwhelming, that there was no place for squabbling among the Member States and between the Council and the Commission”. Commission and Member States thus had a common strategic vision which led to a very united stance.⁵¹

The EU also had sufficient policy instruments at its disposal in pressing China for further market opening. According to the EU’s Market Access Strategy in 1996, the EU’s policy instruments available were two avenues: multilateral and bilateral. At the multilateral level, the instrument includes the reduction of barriers to EC exports or other economic interests in the context of negotiations concerning the accession of third countries to the WTO or the OECD. At the bilateral level, the Community had other means of persuasion and of negotiation at its disposal. It included: (1) bilateral negotiations of a general or sector-specific character, ad hoc or in the context of the conclusion of overall agreements with the country in question; (2) systematic, coordinated use of all bilateral opportunities, including high-level visits to Brussels or Commissioners’ and senior officials’ missions in third countries and other relevant international events; and (3) the Trade Barriers Regulation can also be used as a bilateral tool to ensure that the obligations assumed by a country under any international trade rules, be they multilateral or bilateral, are adhered to; and (4) the Generalized System of Preference (GSP), since its benefits could be withdrawn in full conformity with international rules from an individual developing country discriminating against the Community or failing to comply with their Uruguay Round market access commitments.⁵² Among these instruments, it has been proven later that negotiating on China’s WTO accession was the most effective means for opening up China’s markets. This was because China set the WTO accession as its state policy which was supported by its top leadership.

During this period, the EU–China relations reached a highly institutionalized and interwoven level of cooperation. The institutionalization of the EU–China dialogue at the level of heads of states, including the European Commission, started on the fringes of the Asia–Europe Meeting (ASEM), at the London meeting in April 1998, and today EU–China Summits are part of the process. Symbolically China has reached the same EU dialogue relevance as the United States, Russia and Japan.

The Commission’s March 1998 ‘Comprehensive Partnership with China’ initiative which envisaged a comprehensive partnership between the EU and China, aimed to upgrade political consultation to annual Summits, dialogue on human rights, support for China’s accession to the WTO, and the promotion of bilateral trade and investment. Annual EU–China Summits would put the

EU–China relationship on a commensurate footing with the EU’s approach towards other major international partners such as the US, Japan and Russia, raise the profile of the EU in China and vice versa, as well as inject added momentum into the negotiation and resolution of key issues in the EU–China relationship.⁵³

On the trade front, bilateral trade dialogues were pursued alongside the WTO process as an effective means of exchanging information and resolving bilateral issues. Issues pursued within this bilateral dialogue were supposed to dovetail with the EU’s Market Access Strategy, launched in 1996, to target the removal of obstacles to EU exports and investments worldwide.

Also, the relations which were once largely confined to the areas of trade and investment and financial/technical assistance had expanded to cover a multitude of sectors. A robust and regular political dialogue was established. A number of sectoral agreements were concluded, or are under negotiation. There were frequent and, in many cases, institutionalized, exchanges in areas ranging from global challenges such as the environment and illegal migration, through the field of basic and applied research and technological cooperation, to the regulatory framework in key sectors of the economy. EU assistance under the EC–China Co-operation Programme had been refocused on the EU’s China policies in general. These changes brought about a new maturity in the relationship, characterized by increasingly close policy coordination in many areas.⁵⁴

The EU’s overall linkage strategy in trade – reciprocal market opening (1993–2004)

Trade constitutes a major aspect of the EU–China relationship. Reciprocal market opening was one of the main themes of the EU’s foreign policy towards China. The EU’s lever was tying its own market opening to China’s economic open-up, which I would qualify as a case of issue linkage.

The EU’s immediate interest was to ensure a reciprocal market opening in China. As the EU’s 1998 Communication on China states,

The EU has confirmed to China that it is ready to phase out its quantitative restrictions on Chinese products as rapidly as China is able to remove its own. The removal of both sets of quantitative restrictions should be pursued as part of an overall market opening strategy and in the context of the WTO accession negotiations.⁵⁵

However, the EU’s interest in China was broader than market opening. The EU wanted to encourage China to continue with its domestic political and economic reform and take up a bigger role and responsibility in global economic governance. The EU’s 2003 China Communication had written:

The EU regards the successful and sustainable economic development of China as important and beneficial for the entire world. Its aim remains

to contribute as much as possible to ensure that China masters successfully its transition to a stable, prosperous and open country. The EU is thus an ardent supporter of China's integration into the global economy, and has fully backed China's bid for WTO accession from the start. At the same time, it has sought to assist China in its internal reform process, and to help it in addressing the daunting challenges that this has brought. The EU offers open and liberal markets for Chinese exports, the transfer of European capital, technology and know-how that come with reinforced commercial ties, but also European experience and best practice in relevant economic, environmental and social sector [...] In turn, the EU looks towards China to act as a constructive and responsible player in the world economy, playing a role commensurate with its size and importance [...] Like all other major players, China should set an example by abstaining from protectionist reflexes, and help prevent them elsewhere. Having itself benefited significantly from globalisation, China should reciprocate by progressively opening its own economy, in line with its WTO accession commitments and beyond. China, as the EU, should do its utmost to help make the new round of WTO negotiations under the Doha Development Agenda (DDA) a success.⁵⁶

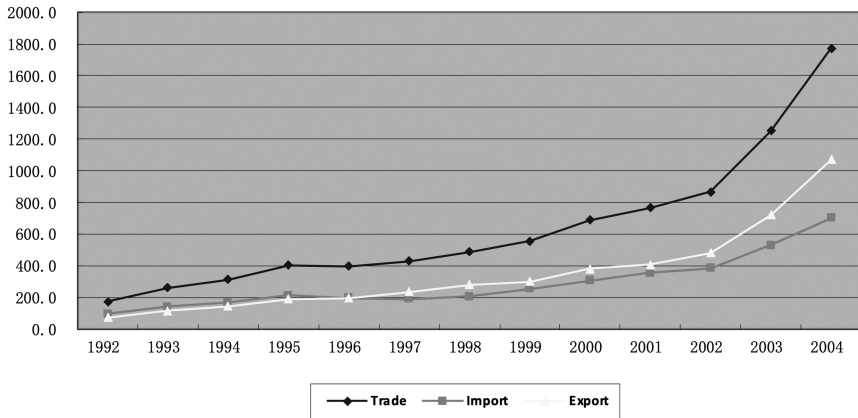
I therefore witnessed an issue linkage between China and the EU on reciprocal economic opening. The implied message was that the EU would remain open provided China would reciprocate with equal intention of economic opening and a more active role in global economic governance. Such a linkage came about due to the factors resulting from two levels: globally and bilaterally.

Globally, the Commission decided to build its trade policy on a strategy of market access in the mid-1990s. The 1996 EU's Market Access Strategy marked a shift in the EU trade policy, which aimed at reciprocity. The reasons for such a shift were as follows, as the Market Access Strategy explained,

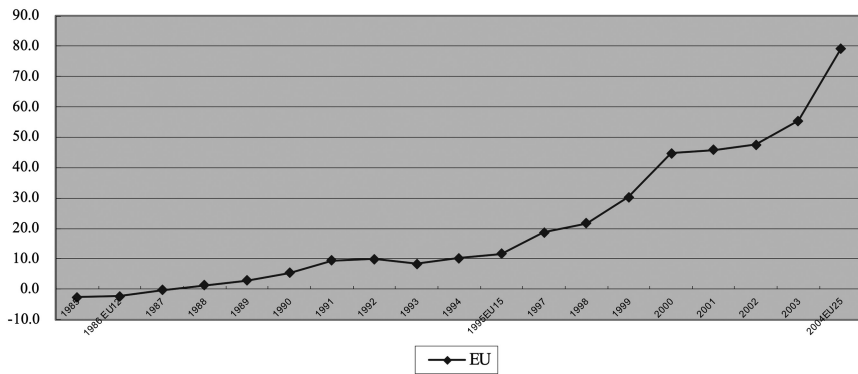
European firms encounter a multitude of obstacles abroad of a very different nature. Therefore, in addition to carrying out adequate policies to promote the international competitiveness of European industry, the Community must strive to achieve improved market access in third countries in parallel to the continued progressive opening of its own market, both by ensuring the full implementation by its partners of the Uruguay Round obligations and through other market access actions.⁵⁷

In the meanwhile, the rising might of Asia was already on the minds of European policymakers, and they believed that Asia needed to be accorded "a higher priority than in the past".⁵⁸

Bilaterally, it was mainly due to a rapidly growing trade imbalance in favour of China (see Graph 5.1). Between 1983 and 1987, the EC enjoyed a positive trade balance, reaching a peak in 1985 with a 3.2 billion ECU trade surplus vis-à-vis China (see Graph 5.2). Since 1988, however, the situation had changed



Graph 5.1 China's trade with the EU (1992–2004). Unit: hundred million (US\$).
Data: Chinese Customs Yearbook and the Ministry of Commerce.



Graph 5.2 Trade balance between EU and China (1985–2004) (ECU/EUR mio).
Source: Eurostat External and Intra-EU trade – statistical yearbook – data 1985–2004.

dramatically. China enjoyed a 1.2 billion ECU trade surplus that year and from then until 1991, doubled it every single year.⁵⁹ Since 1993, China started to run a massive trade surplus with Europe. The EU's trade deficit in 1997 reached 20 billion ECU, reflecting China's growing export capacity as well as the obstructive effect of market barriers in China itself. As the EU's 1998 Communication on China decided,

The EU should use all available channels, notably China's WTO accession process and the EU's bilateral trade negotiations, to iron out such barriers and help create an open Chinese economy that benefits European and global interests alike.⁶⁰

I find that the EU's linkage strategy for reciprocal market opening was effective. As Pascal Lamy said in a report assessing his achievements as trade commissioner (1999–2004),

China is now the 2nd largest EU trading partner, with a bilateral deficit running at 50% of the total (more than 60 billion euro), while total trade is growing faster than US-China or US-Japan. Moreover, China's whole role in the system has been transformed, economically and politically.⁶¹

In parallel with the external bargaining with an aim of reciprocal market opening, there was also a bargaining process inside the EU between the force of market opening and that of market protection. Central to the outcome of this internal bargaining was a *synergistic linkage*, the essence of which was to introduce from the international bargaining an incentive to resolve a domestic bargaining deadlock.

As a key component of EU's Market Access Strategy, the EU's talks on China's WTO accession and monitoring on China's enforcement on its WTO commitments laid the groundwork for a synergistic linkage. The Commission attempted to convince the domestic protectionist forces that market opening was necessary and a good thing from a long-term view. China's opening up towards the EU was the valuable policy option that the Commission needed to break the domestic deadlock, pitting market liberalism against protectionism. I find that overwhelmingly, the negotiated outcome on China's WTO accession was welcomed in Europe and China basically fulfilled its WTO commitments. As a result, the European Union maintained its liberal trade policy and market opening. The European Commission further consolidated its position in the trade policy area within the Union, and its credibility as a tough and pragmatic chief trade negotiator was strengthened on the global stage.

Negotiating China's WTO accession (1993–2001)

China formally requested the resumption of its membership in the GATT (General Agreement on Tariffs and Trade), the predecessor of the WTO in 1986. Unexpectedly, it took China 15 years to finally join the WTO in 2001.

On 24 March 1948, China signed the Final Acts of the United Nations International Trade and Employment Conference held in Havana and became a member of the Transitional Executive Committee of the International Trade Organisation. On April 21, 1948, China signed the preliminary Applicable Protocol of GATT and became a founding contracting party of GATT on 21st May. When the People's Republic of China was founded, it announced to the world that the Chinese government would examine its international treaties signed between the old Chinese government (KMT-ruling government) and the foreign governments and would decide to treat them with either recognition, revocation, modification or revision. But the Taiwan authorities announced its withdrawal from the GATT in the name of China on 6 March 1950. At that

time, the GATT asked the new China to replace the membership of the KMT government. However due to historical reasons, the Chinese government saw the GATT as “the club of rich people” and chose not to join. Only in 1971 when China resumed its legal membership in the United Nations and many other international organisations and institutions did the Chinese side changed its mind about the GATT.

Into the 1980s, China started to resume contacts with the GATT. In August 1980, China was invited to attend the executive committee meeting of the International Trade Organisation. In 1981, China joined the Multi-Fibre Agreement (MFA) and became a member of the MFA Executive Committee. A decisive step was taken on 25 December 1982. The Ministry of Foreign Economic Relations and Trade, together with the Ministry of Foreign Affairs, the State Economic and Trade Commission, the Ministry of Finance and the General Administration of Customs presented a report to the State Council, saying

at this stage, China has adopted an open-door policy and our trade relationship with the GATT members is developing, with the trade value accounting for around 80% of China’s total external trade. Therefore no matter whether we join the GATT or not, the relevant decisions of GATT would have a direct or indirect impact on China. After the IMF and World Bank resumed China’s membership, we think it necessary to put on the agenda the issue of the GATT membership. In order to safeguard China’s legitimate rights and interests, it is appropriate for China to join the GATT now.⁶²

Very quickly, the State Council proved that proposal. At that time, the Chinese policymakers believed that it was better to opt for resuming its GATT membership than re-accession. This was a consistent Chinese approach to establish contacts with the United Nations and other international organizations, and could avoid a long negotiation with the major contracting parties on accession conditions. Based on those considerations, China set out its principles and positions for resuming its GATT membership: (1) China would request for resuming its GATT membership; (2) the Chinese government is ready to have substantive negotiations with the contracting parties on the conditions for the membership resumption; (3) China is a socialist developing country and therefore should enjoy the equal treatment accorded to other developing countries. After a relatively long period of preparations, the Chinese government formally put forward its request to the GATT secretary-general on 10 July 1986 for resuming its GATT membership, and then immediately started the negotiations on trade regime review, tariff reductions, multilateral and bilateral market access. After one year, the China–EC talks formally started.⁶³

The EC was the first interlocutor that China approached after she decided to apply for the resumption of its official status in the GATT.⁶⁴ In June 1987, the Chinese delegation, led by LI Lanqing, then Vice Minister of Foreign Trade and economic cooperation of China, went to Brussels to have the first formal and

substantive bilateral consultation with the European Communities. The Chinese negotiating guideline, which was made public now, was the following:

The European Communities is a powerful trading group, holding a very important position in the GATT, only second to the United States. China has an excellent relationship with the European Communities. Politically, the Community welcomes and supports China's request for resuming the GATT membership. But in the negotiations of substantive economic interests, the Community has taken an approach of making no compromise and seizing every bit of interest as regards to the terms of China's resumption of GATT membership. Therefore, the Community is one of the major negotiating interlocutors for our talks. We need to lobby hard and enhance mutual understanding. On the one hand, we should elaborate upon our position and views on the GATT membership resumption, presenting China's opening-up and economic reform policies, showing our sincerity and determination to participate in the multilateral trading system. On the other, we would listen to the Community's feedback on China's request and have a good understanding of the specific demands from the European Communities.⁶⁵

The Community took a positive but pragmatic attitude. Interest calculation was on the top of the EU decision-makers' minds. According to the Chinese official account of LI Lanqing's meeting with the Community delegation during his visit in Brussels,

LI firstly elaborated upon the three principles that we proposed in resolving the question of resuming GATT membership (i.e. taking the resumption approach, carrying out the substantive negotiations based on tariff reduction, and insisting on the developing country status), then requested the Community to end the discriminatory quantitative restriction policies [...] as the Community requested, we also briefed them on our consultations with the United States. The head of the Community delegation, deputy director-general of DG External Relations, emphasized that the Community attached great importance to China, believed that there was a need to coordinate with China on international economic and trade issues. The Community was determined to work hard to facilitate China's early entry to the GATT, and never doubted the success of this effort. But the Community also argued that it was far from an easy task to integrate China, such a huge economy. It required time and energy in such arduous negotiations.⁶⁶

Nevertheless, the Tiananmen Square Incident in 1989 delayed China's accession talks with the EC. It was not until the year 1995 that we saw a remarkable change of the EU's policy towards China and its approach on China's WTO accession. Thanks to the end of linkage between trade and human rights issues,⁶⁷ the European Union was able to play a more constructive role within the negotiating process of China's WTO entry.⁶⁸

Contrary to the US position, which opposed a fast entry of China, the EU supported a quick accession from the mid-1990s on. Since the WTO was established in 1995, the EU had consistently sought to accelerate progress towards a decision on Chinese membership, based on conditions which would guarantee both China's ability to meet the extensive requirements of WTO membership and the integrity of the WTO system.⁶⁹ The 1998 EU Communication on China states, "The EU remains one of the keenest advocates of China's early accession to the WTO".⁷⁰ It increasingly became a mediator of various interests within the negotiations on China's WTO entry.⁷¹ Initiatives of a more flexible approach in negotiating with China characterized this new role. The EU, for example, proposed a "transitional membership status" for China; it was also the EU that softened the American position that China should enter the WTO with the status of a developed country, and instead opted for a more case-by-case "sectoral" approach.⁷² The Europeans also hoped to resolve two of their biggest problems regarding trade with China through the WTO: the trade deficit and the access to the Chinese markets.⁷³ Whereas the European Member States enjoyed a trade surplus with China at the beginning of the 1980s, the EU-China trade relations were marked by a sizeable and widening EU deficit with China in the 1990s and 2000s,⁷⁴ which in 2000 hovered around EUR40 billion.⁷⁵

Although Sir Leon Brittan (EU trade commissioner from 1995 to 1999) made efforts in having China join the WTO, his efforts had not paid off. When Lamy came into office in 1999, he basically followed Sir Leon Brittan's position of having China join the WTO as soon as possible, but with more and tougher market access demands. One example is that Lamy demanded from China further market access negotiations even after the US had signed a deal with China in 1999. As Lamy recalled in his book *L'Europe en Première Ligne*, the Commission had both economic and political considerations to do that.

I have my services prepare an analysis of the Sino-American agreement from the point of view of European interests. The agreement is viable, but the results obtained by the Americans are weaker than expected on services, telecommunications or distribution, where Europe is better placed than them [...] this analysis ends up convincing me, even if it was clear that a negotiation would be random and would take time [...] and we choose the action. For reasons of economic but also political interests: it was important that, in this historic stage of globalization, Europe asserts itself.⁷⁶

The EU-China negotiations were very difficult. It was partially due to the fact that the EU's demands went beyond the concessions that China had agreed to in its deal with the US signed in November 1999. For example, the EU was asking Beijing to allow foreign life insurance companies to take a controlling stake in China joint ventures, up from the 50% ceiling that the US settled for in its agreement. The same applied to mobile telecommunications, where the EU would also push for permission for equity stakes in excess of the 50% that the US and China agreed. Brussels was also interested in whittling down Chinese import tariffs on a "not very

long but significant list” of items of importance to European exporters. Cognac and mandarin oranges were thought to be two items on the list.⁷⁷ Throughout the negotiation process, the EU resorted to linkage strategy, as it did in other trade negotiations with China. This time, the EU mainly exercised three types of linkages: conditionality, linkage with the United States and contextual linkage.

Conditionality

The negotiation on China’s WTO accession was a typical case of linkage in the form of conditionality. The EU took China’s WTO membership as a bait to induce China’s domestic economic and political reforms. The EU’s 1995 China Communication said, “the full integration of China into the WTO system [...] would contribute to guaranteeing the continuation of China’s reform process until a mature market economy is established”.⁷⁸

While enthusiastically supporting China’s accession to the WTO, the EU was extremely pragmatic about the terms and conditions that China needed to meet for its WTO membership. In the EU’s 1995, 1998 and 2001 Communications on China, these conditions were listed in detail. These conditions mainly involved market access and other commitments relating to trade liberalization, ranging from import tariffs, services, foreign trade monopoly, government procurement, to quotas, non-tariff barriers, industrial policies and rapid implementation of the WTO TRIPS Agreement. As stated in the EU’s 1998 China Communication, the EU’s approach during the China accession negotiations, above all, was characterized by a strong resolution to secure firm and viable market opening commitments commensurate with China’s stage of development, potential and size.⁷⁹

The EU, as a founding member of both the GATT and the WTO, was the principal trading power in the multilateral trading system. As China’s most important export market, the EU was the major interlocutor for China’s WTO accession whose demands could not be simply turned away by China.

In terms of the effectiveness of this linkage, it is generally recognized that the EU achieved quite a lot from its deal with China. Lamy remarked,

This agreement does not, of course, correspond to all European demands, but it is substantial: reduction of customs duties on 130 products or services of particular interest to Europeans, possibility for insurance or telecommunications companies to set up joint ventures with Chinese companies, with a shortening of implementation times; lifting of most restrictions for large retailers.⁸⁰

China’s WTO bid also had a profound impact on China’s economic and trade system, patterns and institutions. Although the EU’s and the US’s negotiations with China on its WTO membership were not the only drivers,⁸¹ they served as a strategic lever to consolidate and accelerate China’s national reforms. As China’s then Vice Premier LI Lanqing commented,

China's WTO commitments, and its participation in the WTO after accession, can be read as more the consequence than the cause of its sweeping unilateral reforms. Throughout the negotiation process, China's foreign trade regime was accordingly reformed, which prompted a market-based process to transform completely China's foreign trade regime. Planning and command was reduced earlier than expected. No fixed pricing was imposed any more on products to be exported. Administrative measures governing import and export were streamlined. Greater efforts were made to give full play to tariffs, exchange rate, taxation, credit and other economic levers governing import and export. Foreign trade legislation was strengthened and China's Foreign Trade Law was promulgated, together with many other foreign trade-related rules and regulations, which significantly increased the transparency of China's foreign economic and trade policies. China also followed the international practices to revise its laws on China-foreign joint ventures, cooperative enterprises and wholly foreign-owned enterprises. About 2,300 pieces of Chinese laws and regulations were screened, among which, 830 pieces were revoked and 325 were revised. A foreign trade regime, compatible with international rules and practices was established under the conditions of socialist market economy. The reform of China's foreign trade regime lifted China's foreign trade to a new height. The ever deepened reform of China's foreign trade regime, in particular, China's accession to the WTO, ushered China into a new stage of opening-up, and further improved China's open economy and socialist market economy.⁸²

Apart from the impact on trade, the EU-China WTO accession negotiation and the following agreement, were also seen by the EU side as a political success not just for Europe, but also for the global political and trading system as a whole. As Lamy said,

Beyond the content, this agreement gives us a double satisfaction. That of the awakening of Europe at the time of negotiations of primary importance, with the verification of our basic axiom according to which it is the union of Europe which can make it powerful and respectable; and that of having contributed to opening the way to a more balanced world, involving China which, by developing its partners, will, like all of us, have an interest in contributing to its stability and balance [...] The WTO will definitively welcome China, in Doha, after final negotiations. With a new member country weighing a quarter of humanity, it is no longer possible to say that globalization is a Western affair. New balances are emerging, based on a multipolarity that Chinese and Europeans have called for. This is a historic step, commented the press. We are convinced of it.⁸³

Conditionality can also be seen as a variant of economic-economic issue linkage, the essence of which is exchange market for market. The EU promised to grant China WTO membership and therefore opened up its market provided that China did the same by accepting and implementing its WTO commitments.

To conclude, conditionality played a decisive role and produced significant results in wringing concessions from the Chinese side. Conditionality, as a linkage strategy, gave the EU great power advantages.

Linkage with the United States

Throughout the EU's talks with China, the US factor had always been behind the calculations of the EU negotiators. On the one hand, the EU and the US made concerted efforts in bringing China into the WTO, but with different negotiating styles. On the other, the EU attempted to profit from the dynamics resulting from the US–China talks for its own negotiating interests. In other words, the EU both allied with and competed against the United States.

At the very beginning of China's efforts in resuming GATT membership, the EC gave close attention to China's interaction with the United States. For example, at the first substantive consultation between China and the European Communities in June 1987, the EC requested the Chinese side to brief on China's talks with the US.⁸⁴ Before Sir Leon Brittan, the EU stood solidly, if quietly, behind the Americans, agreeing that China should "get it right before it gets in". At that time, America had taken a tough position on the question of China's WTO accession. It took the lead in pressing China to join as a developed country – meaning that it should make a commitment to immediate compliance with WTO free-trading rules – rather than as a developing country, which would give it more time.

The EU, however, changed its attitude since Sir Leon Brittan came to office in 1995. It seemed that the Europeans were evidently eager to boost their standing in China. In contrast to the outspoken US opposition to a quick and easy WTO accession for China, the EU took a more positive stance and its position had been consistently based on stressing cooperation rather than confrontation. During his visit, Sir Leon repeated that China must show a commitment to honour WTO rules; but, he said, all parties concerned needed to adopt fresh attitudes. The 1995 EU Communication on China elaborated on this delicate approach,

The EU has taken a leading role in the negotiation, in particular in establishing the principle that of the commitments that China would make when joining the WTO, most would be implemented on the date of membership, but some could be implemented under multilateral surveillance over a specified period of time after entry into the WTO. This general approach reflects a sympathetic understanding of the fact that China is a country that is rapidly developing, but, in important respects, has not yet become a developed economy with all the characteristics of a fully-fledged market-economy system.⁸⁵

This policy was reaffirmed in the EU's 1998 Communication on China,

part of the final package may require the use of clearly defined transition periods for sectors where China needs to phase in its WTO obligations beyond

the date of accession while adjusting its laws and practices. This approach has been put forward by the EU to respect China's own policy of implementing reforms gradually.⁸⁶

The EU's gesture, arguably, put the EU in an advantageous position vis-à-vis China. Arguably, such a gracious gesture would not go unrewarded in Beijing, which in the past had made generous use of fat contracts to express its gratitude for political favours.⁸⁷ It could even be argued that throughout China's WTO talks, the EU had been consistently perceived as a good interlocutor, or even a friend in China's campaign for WTO membership. That was why the Chinese foreign trade minister Shi Guangsheng was surprised when Lamy requested for further market access negotiations in 2000 after the China-US deal.⁸⁸

That said, the EU's institutional handicaps still made the EU less a forefront negotiator with China than the United States, even after Sir Leon Brittan took a more positive and differentiated attitude. The Commission's authority to negotiate multilateral trade deals with one voice covered trade in goods only and not, for example, trade in services or TRIPs, areas that have come under the WTO's purview as a result of the Uruguay Round. These are precisely the areas in which the United States has led from the front in castigating China for its copyright violations, or for not opening up its services sector to foreign competition.⁸⁹

Apart from that, a rapprochement with the US position, at least in substance, occurred in mid-1996, when the EU dropped firm reference to developing country status and began to talk in terms of a case-by-case, or sectoral, approach to China's accession.

With the agreement reached between China and the US in November 1999, the EU came under pressure, first, to bring negotiations to an end and, second, to achieve results that would go beyond the US-China agreement. Without the American bargaining factor, the Chinese could focus pressure on the Europeans. At the same time there existed a correlation between the US Congressional debate on granting Permanent Normal Trade Relations to China and the outcome of the EU-China negotiations. The EU also recognized that the outcome of its negotiations would influence the inner US debate in an election year.⁹⁰ However, for the European Commission's bargaining position it was obviously important to reach an agreement in the end and not to ruin the dynamics by insisting on all the demands.⁹¹

I argue that Mr Lamy carefully analyzed the timing and the situation of the EU-China talks, which was just before the US Congress vote. He calculated that China was more desperate than himself in striking a deal, since the benefit out of it was to get the Congress vote through the PNTR as early as possible. In other words, there was a logical link between the EU-China deal and the US Congress ratification of the PNTR status. As President Clinton himself emphasized on 3 April 2000:

If we don't vote for permanent normal trading status, and China makes its agreement with Europe, they still get in the WTO. The only difference is Europe and Japan gets the benefits of the deal that we negotiated.⁹²

Since China desperately needed the PNTR status, it was his top priority to strike a deal with the EU as early as possible.

Although Lamy insisted that he wouldn't be influenced by the imminent US Congressional vote on China's Permanent Normal Trade Relations (PNTR), he said an EU deal could "only positively contribute" to the outcome of the Congressional vote. PNTR was not essential for China's WTO bid, but without that status, it would be very difficult to implement the US-China deal.⁹³ As the *Financial Times* comments,

Chinese negotiators are notoriously tough but they may have met their match with Mr. Lamy who has years of experience manoeuvring the EU's machinery. The Commissioner has already shown enough sang froid to take the Chinese to the brink on the accession. And he has clearly has the upper hand in the talks, as China is desperate to join the WTO – whereas the EU can afford to dig in until its demands are met.⁹⁴

One EU official said, "Beijing was a disappointment, but much more for them than for us [...] Time is on our side. We can sit on this – and we will, if the Chinese won't move".⁹⁵

Pascal Lamy confirmed this point by saying,

The political situation seems rather favourable. The ratification of the US-China agreement in view of China's accession to the WTO is on the agenda of the United States Congress. And the vote appears uncertain. It is clear that the conclusion of an agreement between Europe and China would be an incentive for the ratification of the agreement by the representatives and the American senators, who would take a dim view that the Chinese and other trade allies agree, leaving the United States aside.⁹⁶

Finally, China and the EU managed to sign a deal on the 19th of May, just three days before the US Congress vote.

In terms of effectiveness, linkage with the United States had considerable impacts on the negotiated outcome between the EU and China. However, we have to differentiate the effectiveness in the early days of Sir Leon Brittan as trade commissioner and the days of Pascal Lamy. For the former commissioner, the EU's differentiation from the US position did win credit for the Commission in 1995 in its negotiation with the Chinese government. However, the EU later on shifted its position and converged with the US position, which undermined the benefits resulting from its linkage with the US. For Lamy, his linkage with the US was effective.

Contextual linkage

The EU and China signed a deal in May 2000 when the two sides were moving with full speed from a constructive partnership to a comprehensive one. The Joint Statement of the first EU-China Summit in April 1998 states, "Further

strengthening the economic and trade ties constitutes the important foundation for the ever-developing EU–China relationship”.

China’s accession to the WTO was the top priority of the EU–China trade policy agenda at that time. China wanted to join the WTO as soon as possible, while the EU welcomed that, but insisted on getting considerable market access concessions from the Chinese side. In order to realize this goal, the EU turned to contextual linkage, which linked the EU–China constructive partnership with a sectoral issue – China’s WTO accession. The talk between Pascal Lamy and the Chinese President Jiang Zemin after the EU and China reached an agreement on the terms of China’s WTO accession was revealing on this point.

President Jiang said, “Our relations are millennial and they must intensify, whether in trade or education [...] The world is so small, I am happy that China and the European Union have reached this agreement”.

Lamy responded,

Relations between China and Europe, perhaps because they are located at the ends of the same continent, have a strong particularity, marked by a long common history. What brings us together is our conception of a world organized on an open basis, accessible to all, multilateral as we say, rather than bilateral and exclusive. It is this vision that inspired the construction of Europe.

I note that we have reached this agreement just in time to celebrate the 25th anniversary of the establishment of diplomatic relations between China and Europe. This is perhaps the reason that led your minister, my friend Shi Guangsheng, to accelerate the movement.⁹⁷

Lamy mentioned his preference of multipolarity, “do we not wish together, for the world, a multipolar balance?” President Jiang responded, “Your reflections invite me to go further. Yes, China and Europe want a multipolar rather than a unipolar world [...] as in physics, we cannot obtain a balanced situation without the combination of several forces”.⁹⁸

I therefore conclude that throughout the EU–China negotiations, the political considerations were never absent. The EU’s embrace of China in the WTO was largely a political decision, which recognized China’s economic weight and encouraged China to integrate into the international system. On top of that, the EU made good use of the EU–China partnership based on a similar strategic vision of the international structure and pattern, and got economic concessions from the Chinese side. Having said that, this linkage was by no means zero-sum game. Instead, this linkage increased the wellbeing of both parties and turned out to be a win-win result.

The EU–China space cooperation – the case of GALILEO (2003)

GALILEO is Europe’s initiative for a state-of-the-art global navigation satellite system, providing a highly accurate, guaranteed global positioning service

under civilian control. On 27 October 2003, the Council adopted the decision proposed by the European Commission to authorise the EU Presidency to sign a Co-operation Agreement between the European Communities and the People's Republic of China on GALILEO. The official signature took place at the EU-China Summit on 30 October 2003. As Loyola de Palacio, European Commission vice-president in charge of Transport and Energy said,

This is a very important step ahead which shows the high level of confidence created by GALILEO throughout the world. The partnership with China is a good news and paves the way for future other bilateral and regional agreements which are of mutual benefit [...] The EU-China agreement will do more than secure a promising future for Galileo and European business interests: it opens the way for China's participation in the Galileo Joint Undertaking and a substantial financial stake-holding of some €200 million.

A report issued by the European Institute for Security Studies (EUISS) well summarized the EU's motivations,

Cooperation with China on the EU's space endeavour Galileo was triggered both by political and commercial considerations: EU decision-makers wanted to bolster the nascent EU-China strategic partnership; there was a need to build up international support, primarily vis-à-vis American and internal EU resistance; and finally, there was the attractive prospect of gaining access to the vast Chinese market, as Galileo was meant to be financed by selling commercial applications.⁹⁹

I argue that there existed, what we would call, a "party linkage". The Commission allied with China to resist the pressure from the United States and some doubting Member States so as to secure the establishment of an independent satellite positioning system, rivalling the US GPS (Global Positioning System).

In the first place, the Pentagon did not want the EU to develop its own independent satellite system, insisting GPS provided an adequate satellite umbrella and warning that GALILEO would lead to duplication. The US military officials were particularly concerned that Chinese weapons could incorporate the GALILEO system.¹⁰⁰

GALILEO's supporters (like France, Spain and Italy) argued that the project was crucial in diminishing the EU's dependence on the US's global positioning satellite system. In December 2001, France's President Jacques Chirac warned that Europe risked becoming a "vassal" of the US if GALILEO was not approved. Loyola de Palacio, the European commissioner responsible for the project told the members of the European Parliament,

Galileo is indispensable for European industry, for technological capacity, but also for other issues [...] such as autonomy and sovereignty [...] This is

one of those moments when we see if there is political will to move forward with a Europe that counts in the world.¹⁰¹

After initial hesitation, the Commission decided to press on, arguing that it would show Washington that Beijing was as committed to GALILEO as the EU's 15 Member States. Commission officials said the deal with China could be followed by similar agreements. "Russia is interested, and Israel is interested", said one.¹⁰² Europe's ambitions to compete with the US in navigation satellite technology were boosted when China pledged to invest in GALILEO. As Loyola de Palacio said: "China will help Galileo to become the major world infrastructure for the growing market for location services". The Chinese investment, which Commission officials said could amount to over EUR230 million, would bring Beijing a more sophisticated satellite system, allowing it to upgrade its communications systems and provide greater accuracy for a broad range of civilian activities.¹⁰³

The European Space Council emphasised in its 2008 guidelines the importance of Europe's "sovereignty" in space; it defined space as a Lisbon "growth sector" for the EU and a means to improve security.¹⁰⁴ The integration of China in GALILEO in 2003 helped to overcome resistance from individual EU Member States and the United States against an independent EU system, a crucial step towards this "sovereignty in space". Collaboration also fell in line with the EU policy of tying China closer to the international system; dialogue and collaboration would help to avoid dangerous misinterpretations of the PRC's intentions in space and hopefully lead to more transparency.¹⁰⁵

The EU-China Coke Dispute (2004)

China is the world's largest supplier of coke, an essential ingredient in transforming iron ore into steel.¹⁰⁶ In 2003, China supplied 50% of the world's coke. Under China's coke-quota system, companies buying its coke also had to buy an export license. In the beginning of 2004, China began capping coal exports to preserve supplies for its booming industries. To help protect domestic producers from rising costs and for environmental considerations, the Chinese authorities indicated they would restrict the issuance of coke export licenses for 2004. Fewer than 10 million tonnes of licenses would be issued in 2004, compared with some 14.7 million tonnes exported in 2003. Europe was hit hard because it imported nearly one-third of its supplies from China. The curbs represented little problem for US steelmakers because the US still had large coal mines and coking ovens. Most had been shut in Europe because of stricter environmental rules. The European steel industry long complained that the restrictions had helped drive up world prices to dizzying heights – from USD79 a tonne 2 years before to USD350 in the first quarter of 2004. In addition, a reduction of the value added tax rebate for exported products was cut from 15% to 5% for coke, and the cost of licenses for overseas sales outside quotas had been raised, weakening the incentive to export.¹⁰⁷

The European Union warned China that it must revoke restrictions on exports of coking coal, designed to protect the Chinese steel industry, or risk a trade dispute. One European Union trade official said no other trade conflict between the two sides was as close to sparking a legal challenge at the World Trade Organization. It would be the first such EU challenge against Beijing since China joined the WTO in 2001. As a report issued by the Hong Kong Development Council analyzed,

If the Commission does decide to proceed with that case before the WTO it is likely to claim that the system maintained by mainland China is inconsistent with the General Agreement on Tariffs and Trade 1994 (“GATT”) and China’s Protocol of Accession. According to Article XI of the GATT, the general rule is that, among other things, no export prohibitions or restrictions other than duties, taxes, or other charges, whether in the form of quotas or export licenses, can be instituted or maintained by any WTO member on the exportation of any product destined for the territory of another WTO member.¹⁰⁸

The Chinese government, however, argued that the WTO rules justified the protection of its own strategic raw materials. Coke production had a significant negative impact on the environment. Many of the coke producers in developed countries were forced to close down because of environmental pressure, leading industries to turn to China for coke. The government had scrapped tax rebates for coke exports and suspended approvals for new coke plants amid concerns of excessive investment in the industry because of high prices.¹⁰⁹

In defending its export restrictions on coke, the Chinese mainland may rely on Article XX of the GATT. Although any arbitrary discrimination or disguised trade restriction between countries where the same conditions prevail is never allowed, Article XX contains a list of exceptions to the general prohibition of Article XI of the GATT. One such exception is that a WTO member may adopt restrictive measures in order to conserve exhaustible natural resources; or to ensure essential quantities to the domestic processing industry; or where such restrictive measures are essential to the acquisition or distribution of products in general or local short supply. However, exceptions invoked on the basis of Article XX of the GATT are subject to the strict conditions laid down in that Article as interpreted by several WTO panels and Appellate Body in various cases.¹¹⁰

Pascal Lamy, the EU trade commissioner, formally complained about the measure to Bo Xilai, China’s commerce minister. In his letter, Mr Lamy said China’s export licensing system was “in clear breach” of Beijing’s WTO commitments. He argued that none of the justifications under international trade law applied in the case of China and coke. On 11 May 2004, Lamy declared that the EU would not wait beyond 14 May 2004 to institute a WTO action. By that date, however, it adopted a more flexible and conciliatory approach without officially fixing an ultimatum date for instituting such action, with informal discussions still continuing. In any event, the EU warned that, in case the

mainland failed to remove its export restriction system on coke it would be ready to formally request consultations under the WTO Dispute Settlement System.¹¹¹ According to the *Financial Times*, “the threat of a WTO legal challenge by Pascal Lamy marks an important shift in EU–China trade relations. Despite numerous disagreements, the two sides have so far been at pains to solve their disputes through negotiations”.¹¹²

The deal was finally struck on 31 May 2004. EU officials said that a last-minute deal had been secured that would guarantee coke imports from China, removing the imminent threat of a World Trade Organization (WTO) complaint. The European steel industry would get at least 4.5 million tonnes of coke from China in 2004, the same number it had imported in 2003. Export licences were delivered without cost or delay. Lamy said,

We are obviously very pleased that agreement has been confirmed on 2004 coke exports from China, which are obviously of vital importance to the EU steel industry. It shows the growing maturity and strength of the EU-China trade relationship.¹¹³

This deal was a compromise. On the one hand, the Chinese side made concessions to keep the coke export volume at the 2003 level – 4.5 million tonnes. On the other hand, the EU allowed China to keep its export licensing system.

Throughout the negotiation process, the EU applied at least two types of linkages – linkage with the United States and contextual linkage.

Linkage with the United States

European trade officials had been careful to avoid the aggressive stance often adopted by their US counterparts towards China. In March 2004, the US filed its first WTO complaint against Beijing, over what the US said was a discriminatory tax on semiconductors. With the EU about to follow the same path, China could soon be embroiled in trade disputes with two of its biggest trading partners and investors. Analysts said this was precisely the situation that the Chinese leadership had been desperate to avoid since it brought the country into the WTO three years ago.¹¹⁴ In this context, the EU took a conciliatory approach in public – in direct contrast to the big-stick approach used by the US. The Commission President Prodi said he “understands China’s domestic pressures” in dealing with WTO commitments. And whereas the US demanded a revaluation of the Chinese currency, Mr Prodi accepted Mr Wen’s caution, saying his country first must clean up its banks and stabilize its macroeconomic imbalances. Behind closed doors, conflicts brewed over concrete issues, such as the coke issue.

I argue that the Commission’s approach different from that of the US was a delicate move with clear intention – to win favour from the Chinese side so as to secure the coke supply to its own steel industry.

Contextual linkage

The Commission also managed to solve the coke issue by putting it in the context of the EU–China comprehensive strategic partnership. 2004 witnessed the EU–China honeymoon. During the visit in China in April, the European Commission President Romano Prodi discussed the coke issue with the Chinese President HU Jintao and Premier Wen Jiabao. The dispute was later discussed during Chinese Premier Wen Jiabao’s visit to Brussels on 5–6 May, 2004. Mr Lamy voiced his concerns in a meeting with Wen Jiabao and Bo Xilai, trade minister, in Brussels.

As a result, Mr Wen and Mr Bo had offered to increase coke shipments, but had not signalled any intention to abolish the system of export licensing through which Beijing controls the quantities that go abroad, European officials said.

To conclude, the Commission’s linkage efforts had considerable impact on the course of action by the Chinese government. At least, the Chinese side agreed to increase coke shipments to Europe after the exchanges of high-level meetings. Finally, the Chinese side agreed to increase the coke export to 4.5 million tonnes, making the quota volume roughly the same level in 2003.

Chapter conclusion

Since 1993, the EU governments had reviewed and reformed their China policy. A new attitude featuring “transformation through engagement and partnership” was gradually accepted and adopted in Europe. The Commission published four China Communications during this period respectively in 1995, 1998, 2001 and 2003, which were endorsed by the Council of Ministers and the European Parliament. The leaders on both sides decided in 2003 to upgrade their relationship to a comprehensive strategic partnership, kick-starting an EU–China honeymoon moment. For the clarity of presentation and giving a special focus on the EU–China comprehensive strategic partnership, I divided this period further into two phases – the phase (1993–2000) when the EU adopted a new China policy in 1995 and a constructive partnership was established in 1998; and the phase (2001–2004) when the EU and China first established a comprehensive partnership in 2001 and then a comprehensive strategic partnership in 2003.

This period boasted the strongest power resources on the EU part. Politically, the EU–China relationship entered the historical best, culminating in the establishment of a comprehensive strategic partnership in 2003. This reflected the reality of the EU and China as two rapidly rising powers in the international system, who needed each other, and a much broader bilateral agenda covering a wide range of issues on the global, regional and bilateral level. China still looked up to the EU as an important force for the multipolar trend. This maintained the political asymmetry in the EU’s favour, which placed the EU at an advantageous position in its relations with China. Also, the EU’s integration process made a big step and successfully enlarged to 25 Member States in May 2004. Economically, the EU–China trade relationship grew up fast, especially due to China’s WTO accession. The EU also considerably increased its investment, development assistance and technology

transfer to China. Institutionally, the EU established the Summit mechanism with China in 1998. The Maastricht Treaty, the Amsterdam Treaty and the Nice Treaty considerably reinforced the EU's competences in trade policy. In one word, the EU was in an unprecedentedly advantageous position vis-à-vis China.

The hallmark of the EU's diplomacy towards China during this period was what I called the *partnership diplomacy*. That is to say, the EU exerted its influence upon China and achieved objectives through establishing and reinforcing its partnership with China. Partnership was not equal to a relationship free of problems and tensions. On the contrary, it served as a framework in which the EU and China managed to strike a bargain and make trade-offs within and across issue-areas. Issues were knitted together and traded off in different combinations in the shadow of a newly established and evolving partnership, which was again enriched and reinforced by the existing and newly added issue linkages. In a nutshell, linkages underlay partnership, which in turn consolidated the existing linkages and fostered new ones.

The following table is a summary of the EU's linkages in terms of effectiveness during this period. For each case (e.g., the coke dispute), we illustrated the different linkages that the EU applied and scored them one by one. Then we averaged the score for each case and finally gave an overall score of the effectiveness for the whole period. We concluded that the EU's linkages during this period produced significant impacts and scored at 4.2 points.

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6 The EU–China Textile Disputes in 2005

China joined the WTO in November 2001, and was entitled to benefit from the complete liberalization of textiles starting on 1 January 2005. Though it was envisaged that there were going to be export surges and tensions, it was still a major shock for everybody when the ‘tsunami’ of Chinese textile exports reached Europe’s shores. In such unprecedented circumstances, the EU and China negotiated and bargained in innovative ways to find a solution.

The Textile Disputes in 2005 can be divided into two phases. In the first phase (January–June 2005), the European Commission managed to negotiate a voluntary export restriction deal with the Chinese authorities. The second phase (July–September 2005) was dubbed the ‘Bra War’ by the British press. The Commission tried to negotiate a burden-sharing solution for releasing blocked textiles with the Chinese side.

The EU’s power resources

Before moving onto the EU’s linkage strategy in this case study, I first analyze the EU’s power resources vis-à-vis China in 2005.

Politically, the EU–China relationship was still in a honeymoon phase at the beginning of 2005. There was good news to celebrate. Firstly, the year 2005 marked the 30th Anniversary of official relations between the EU and China. Secondly, China welcomed the EU’s enlargement on 1 May 2004, the new European Commission and European Parliament, and the agreement by EU Heads of State and Governments on the treaty establishing a Constitution for Europe. The two sides affirmed that the deepening and widening of the EU should contribute to further strengthening Sino-EU relations.¹ In particular, the EU’s new enlargement significantly reinforced the EU’s power resources in terms of population, economic strength, size of market and peace and stability in Central and Eastern Europe. Thirdly, the two sides affirmed that, as a result of the continuous development of EU–China relations in recent years, the EU and China would actively explore the feasibility of concluding a new EU–China framework agreement (Partnership and Cooperation Agreement, PCA). Fourthly, the EU and China confirmed that EU–China relations in all aspects had developed significantly in recent years. In this context they discussed the

arms embargo issue. The EU side confirmed its political will to continue to work towards lifting the embargo. The Chinese side welcomed the positive signal, and considered it beneficial to the sound development of the comprehensive strategic partnership between China and the EU.

A further important political power resource that the EU had at disposal, often ignored, was a considerable level of solidarity among the Member States. In retrospect, the Textile Disputes, although dividing Member States initially, ended with consensus among Member States. As a Commission official commented,

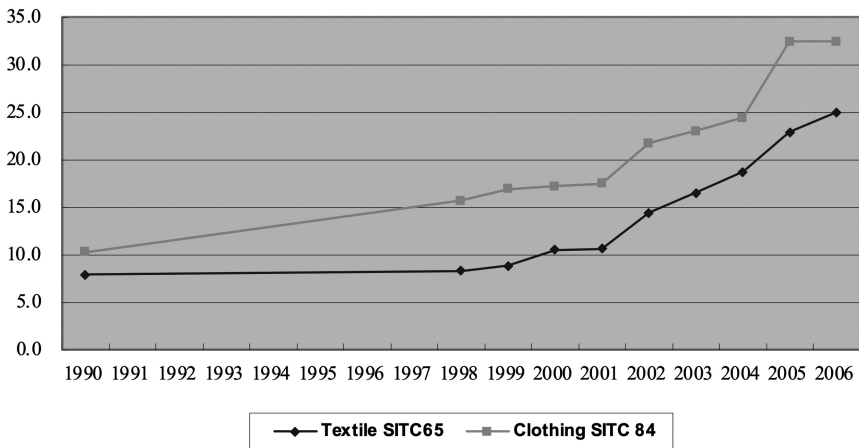
Again, the solidarity element worked. For the Shanghai Agreement, liberal Member States, in particular the Nordic Member States accepted it. This time (the second textile dispute, also called the 'Bra War'), it is the turn of Southern Member States to show their solidarity. If they don't do that, there may be bad consequences for the EU, which might end up with the North opposing the South. Politically, it would be damaging for the ratification of the European Constitution.²

The Commission also helped foster solidarity. It leaned towards European producers during the first phase of the Textile Disputes, and then towards retailers and importers on moral grounds during the second. It sold the idea that unblocking the goods would help the traumatized importers and retailers, show European solidarity between traders and manufacturers, and between liberal Member States and protectionist ones. On 29 August 2005, the then EU Trade Commissioner Peter Mandelson made it clear that EU retail businesses should not be unfairly penalized by the agreement with China taking effect.³

Regarding the EU's credibility in trade issues, it was considerably weakened compared with the previous period (1993–2004). This was due to the EU's departure from a liberal trade policy, which the Commission had advocated for the past decade. By threatening import restrictions against China to protect its own industry, the EU was seen as leaning towards protectionism and exercising double standards. As a result, the EU's credibility perceived by the Chinese government and trade community was undermined.

Economically, the EU enjoyed a favourable position in its trade relations with China. In 2004, the EU became China's largest trading partner and China the EU's second largest trading partner. However, the economic asymmetry still remained. In 2005, the EU's exports to China accounted for only 4.8% of the EU's total exports, whilst China's exports to the EU accounted for 26.4% of China's global exports. In 2005, the EU remained one of the major sources of investment, technology and development assistance to China.

This economic asymmetry was also manifest in textiles trade, which showed China's significant reliance on the EU market. The EU remained China's largest textiles export market. The graph below (Graph 6.1) shows that in 1990, the EU's imports of textiles from China accounted for 7.9% (SITC 65)⁴ and 10.3% (SITC 84) in its total textiles imports, while in 2004, this figure increased to



Graph 6.1 China's share of total EU imports % (1990–2006). Data: Eurostat Yearbook 1958–2007.

18.7% (SITC 65) and 24.4% (SITC 84). In 2006, this figure even climbed to 25% (SITC 65) and 32.4% (SITC 84).

Institutionally, textiles trade falls under the exclusive competence of the European Union. It is characterized by a strong role delegated to the European Commission in policy design, policy-brokering, policy execution and managing the interface with “abroad”; an empowering role for the Council of Ministers through strategic bargaining and package deals.

During China's WTO accession negotiations, China made a major concession on a textile safeguard mechanism. Paragraph 242 of the Working Party Report of China's WTO accession, provides for a special safeguard mechanism against textile/clothing imports from China – the ‘textile-specific safeguard clause’ (TSSC), which was negotiated by the USA. Since China had to extend any concession offered to one member to all others, the TSSC was incorporated into the Working Party Report and can thus be invoked by any WTO member. It was transposed into European Communities legislation almost word for word by Regulation 138/2003, which inserted Article 10a into Regulation 303/93.⁵ The conditions for use of this clause are set out in paragraph 242 (a):

In the event that a WTO Member believed that imports of Chinese origin of textiles and apparel products covered by the ATC as of the date of the WTO Agreement entered into force, were, due to the market disruption, threatening to impede the orderly development of trade in these products, such Member could request consultations with China in a view to easing or avoiding such market disruption [...] Upon receipt of the request of consultation, China agreed to hold its shipments to the requesting Member

of textile or textile products in the category or categories subject to these consultations to a level no greater than 7.5 per cent (6 per cent for wool product categories) above the amount entered during the first 12 months of the most recent 14 months preceding the month in which the request for consultations was made.⁶

Basically, this meant that if Chinese textile exports enter the EU market too fast and cause market disruption, the European Commission has the right to hold consultations with the Chinese government, which may lead to import restrictions. These provisions could be applied until 31 December 2008. As far as the wording of the TSSC was concerned, the term “threaten to impede the orderly development of trade” was noteworthy. The Commission noted that this concept is nowhere defined in WTO or EC law, so in its Notice on the Application of Article 10a, it gave its own definition as a ‘rapid’ rise or surge in imports, in absolute or relative terms.⁷

If such a ‘rapid rise or surge in imports’ occurs in *relative* terms, the Commission acknowledges that the case for action

will obviously be weaker and more difficult to justify, except in case the imports took place under certain conditions (for instance in case of [...] significant drops in exports to the EU from, for example, Euro Mediterranean or ACP partner countries).⁸

This aspect is elaborated under section 4(d), expressing concern over the impact that China’s exports might have on some ‘more vulnerable’ and ‘textile-dependent developing countries’ that are part of the ‘natural zone of competitiveness of the EU T/C industry’. In the view of the Commission, a ‘serious displacement from the EU market of traditional suppliers can constitute a sign that trade is disturbed’.⁹

The Commission’s interpretation basically meant that the TSSC could be invoked on behalf of third countries. It made the imposition of safeguard measures more easily justifiable, given that it is not the EU’s own industry that needs to be affected, but it is enough if traditional third country suppliers were displaced. As a matter of fact, absolute volume of textile imports into the EU hardly changed in 2005. What occurred was a dramatic shift in market share in favour of China.¹⁰ For while China’s textile exports to the EU rose by 40% in the first 8 months of 2005, overall EU textile imports rose by a mere 2.1%.¹¹ Countries like Burma and the Philippines showed the biggest losses in market share, with EU imports down in 2005 by 54.4% and 41.4%, respectively. South Korea (–28.6%), Thailand (–15.1%), Pakistan (–16.3%) and Bangladesh (–9.3%) were also considerably affected. Moreover, imports from African countries dropped by 24% in value and 28.1% in volume.¹² It must be added, however, that some of these countries had started to lose market share many years before Chinese exports displaced them.¹³ In those cases, sudden liberalization perhaps only accelerated their decline in T/C competitiveness.¹⁴

This period boasted a high level of bilateral institutionalization. The EU–China Summit, the Economic and Trade Joint Committee, and a specialized textile committee formed the backbone of the EU–China institution on textile trade.

First phase of the Textiles Dispute (January–June 2005)

The textile issue has long been a source of tension between the developed and developing countries. Restrictions became first institutionalized under the 1961 Short-Term Agreement on Trade in Textiles, negotiated to protect US cotton producers, followed by the Long-Term Agreement in 1962. Despite these arrangements, exports of textile and clothing from developing countries continued to grow, so that importing countries “instigated negotiations on a more comprehensive package of restraints”.¹⁵ The resulting *Multi-fibre Agreement* (MFA), which was introduced in 1974, differed from usual GATT provisions in that it provided for bilateral quotas rather than tariffs and allowed discrimination among trading partners, contrary to the most-favoured-nation (MFN) principle, one of the cornerstones of GATT.¹⁶ The MFA contained the concept “market disruption”, which served as an instrument for the developed countries to curb the textile exports from the developing countries whose textiles industry were rapidly becoming competitive.

The MFA was later replaced by the *Agreement on Textiles and Clothing* (ATC), one of 14 agreements concluded at the end of the Uruguay Round in 1994. The ATC provided for a ten-year phase-out period. Its objective was to end the textile quota imposed by the developed countries upon the textile exporting industry from the developing countries and liberalize the trade in textiles globally, starting from 1 January 2005. The ATC was seen as a significant concession made by the developed countries to the developing ones. Though the ATC made provisions for a gradual phase-out of quantitative restrictions, it seems fair to say that its implementation turned the very end of 2005 into just the kind of ‘big bang’ that was meant to be avoided. In other words, “while importing countries followed the letter of the agreement, they strayed very far from its spirit”.¹⁷

I start with the actions and reactions of different stakeholders in Europe against the background of the end of textile quotas, and elaborate upon the EU’s linkage strategies in handling its textile disputes with China.

The actions and reactions of different stakeholders – The EU-level interest groups, the Member States and the European Commission

Initially, the European Commission opposed postponing the end of quotas. This was mainly because the Uruguay Round agreements were extremely advantageous for European multinationals, especially on those new trade-related issues such as the Agreement on Trade-Related Investment Measures (TRIMS), the Agreement on the Trade-Related Aspects of Intellectual Property (TRIPS) and the General Agreement of Trade in Services (GATS). In the long negotiating

process, the developed countries led by the United States had to show some readiness to compromise to win the support of developing countries on these new trade-related issues. Part of the compromise was the liberalization of trade in textiles. In addition, the Agreement on Textiles and Apparels (ATC) had allowed the developed countries a ten-year-long transitional period to accommodate the challenges and adjust to the changes. In this context, as the leading supporter of the multilateral trading system, the European Communities felt that they had no justified grounds to delay ending of quotas.

However, the EU Trade Commissioner Mandelson very soon found himself in a bind. He knew that European producers had been given more than enough time to prepare for the end of the quota regime. He also knew that – no matter how many obstacles politicians put in the way of Chinese imports – the country's unrivalled manufacturing prowess would in the long run be impossible to defeat. But there were political factors to consider, too. The EU's draft Constitution had just been rejected by voters in the Netherlands and France, plunging the Union into turmoil. Much of the hostility faced by the EU institutions appeared to feed on the perception that the Union had allowed foreign competition to undermine national labour and social standards and caused job losses. And finally, Mr Mandelson had his political masters to consider. Big EU Member States were telling him to take action to curb the influx of Chinese goods. The Commission, they demanded, had to act fast or Europe's once-proud textiles industry would face annihilation.¹⁸

In this textile drama, the EU-level interest groups played an important role. Immediately after the liberalization of textiles trade on 1 January 2005, the EU's societal forces started to mobilize themselves. They were divided into two camps: protectionist such as the European Apparel and Textile Organization (Euratex) and free trader, such as the Foreign Trade Association (FTA) and EuroCommerce. The Member States were also divided along this line. The European Parliament was generally sympathetic to textile producers.

The European textiles producers were struggling for survival due to a combination of setbacks ranging from lack of competitiveness, the strong euro, and fierce competition from emerging economies such as China and India. The Euratex, representing the interests of European textile producers, pointed its finger at China and expressed strong dissatisfaction over the way the European authorities had handled the textiles issue. The Euratex lobbied both intensively and extensively.

Mr Filiep Libeert, president of the Euratex, criticized the slowness in response of the Commission in an EP hearing on 19 April 2005, "Enough is enough. We do not want kind words or reassurances, we desperately need action". On China, "a large number of my members and their employees feel entirely let down by the European authorities".¹⁹

To defend its interests, the Euratex arguably adopted a carefully devised strategy of public communication. At the legal level, the Euratex requested safeguard measures to tackle the large-scale imports of Chinese textiles, but rhetorically the Euratex focused its fire on China's alleged predatory pricing, which was subject

to anti-dumping measures. If we compare the effects of a textile safeguard measure and an anti-dumping measure, the former is applied to curb massive imports, while the latter targets at the specific tariff code of Chinese textile exports. Faced with a flood of Chinese textile imports, it was obvious that a textile safeguard measure was more appropriate than an anti-dumping measure. The reason why the Euratex adopted that strategy, in a nutshell, was to get sympathy and moral justification first, and then resort to the right legal instrument. The Euratex was fully mobilized to apply this communication strategy. Mr Filiep Libeert, president of Euratex, said,

I accept that everyone expected some growth in Chinese and other exports to the EU after the end of the quotas. Not however to the astronomic levels we see, nor at these absurd prices which these anti-dumping cases have publicly confirmed.²⁰

The Euratex, together with the ETUC (European Trade Union Confederation), organized a mass balloon release event on 8 April 2005, just outside the European Parliament. Each balloon symbolized one lost job caused by China's textile "invasion".

The European Parliament also expressed its serious concerns over Chinese textiles. In a report originally drafted in April 2005, the Parliament set out many of its concerns, ranging from concerns over European job losses, social and labour conditions in the Chinese textiles industry, economic and social impact on other developing countries and China's non-market economy conditions, which distorts competition. That report recommended:

"We must support the possibility of quickly putting in place defense and trade regulation instruments when circumstances justify it".²¹

The other camp was in favour of free trade, where the Foreign Trade Association and the EuroCommerce (the retail, wholesale and international trade representation to the EU) represented the interests of importers and retailers of textiles and clothing products.

In February 2005, the Foreign Trade Association, representing the foreign trade interests of European commerce, called for predictability in trade in textiles²² and opposed the European Commission guidelines, which provided for a trigger level for the application of the textiles-specific safeguard clause safeguards. The FTA claimed:

The guidelines are exaggerated and too schematic. By setting exact upper limits for imports, which if exceeded could lead to safeguards, the Commission has taken a dangerous first step towards returning to a new quota regime. The guidelines focus greatly on the methods and procedures necessary in order to restrict imports of textiles and clothing from China, without taking the just as legitimate interests of the importers into account. The unbalanced

approach taken by European Commission is unfortunately symptomatic, as the interests of European textile producers are continuously promoted to the disadvantage of the trading sector.²³

Later, the FTA criticized as highly inappropriate the decision by EU Trade Commissioner Peter Mandelson to launch an investigation for the imposition of safeguard restrictions on imports of various textile products from China. It claimed that this step was seen as politically motivated and was caused by the intense pressure exerted by some EU Member States in conjunction with the European textile and clothing industry. Mr Jan. A. Eggert, FTA General Secretary, explained the difficult situation that European importers and retailers had to face as a result of safeguard measures:

The imposition of safeguard restrictions would be a major drawback to European commerce, where a greater certainty in planning and a possible return from the economic rock bottom had been expected in consequence of the liberalization. Now, obligations from contracts with Chinese suppliers could no longer be met, scheduled advertising campaigns needed to be cancelled, all of this being also to the disadvantage of the consumer.²⁴

Another importer and retailer organization, the EuroCommerce, took a similar position. The EuroCommerce position paper in May 2005 expressed concerns over the Commission's safeguard investigation into nine textile product categories originating in China, launched on the 28th of April, when the European Commission decided to initiate a safeguard investigation into nine textile product categories originating in China.²⁵

Member states are also divided. We saw tensions emerging between the Member States of "Southern Europe" and "Northern Europe". The strongest advocates for restrictions against Chinese textile exports were some South European Member States, notably Spain, France and Italy. All these countries' textile industries were affected, albeit with some differences. The Spanish textile industry perhaps felt the impact of competition from China most intensely and has lost about 55,000 jobs since 2003.²⁶ According to the study on the implications of the 2005 trade liberalization in the textile/clothing sector, which was made by l'Insitut Français de la Mode,

the large spinning industry has been affected by the elimination of quotas, since it is strongly orientated towards products that only became liberalized in 2005. Upgrading possibilities are seen as limited since the high end market is dominated by Italian producers.²⁷

Such high-end production and the fame of their brands enabled some Italian companies to remain profitable and even retain manufacturing in Italy, such as in the case of Ermenegildo Zenga, known for its men's suits. This family firm is also "among the vanguard of global brands entering China" and has opened retail

outlets in 24 Chinese cities.²⁸ But such niches were obviously not available for all. Evidence suggested that, on the whole, the fragmented Italian T/C sector, with its clusters of small mostly family-run firms, could not withstand competition from China, since their production processes were “too inefficient to be competitive in all but the highest value segments”.²⁹ Many firms had long outsourced manufacturing, focusing exclusively on design and research and development. This showed that even within one country’s industry, there were brand owners who saw China as a market opportunity and manufacturers losing out as consumers shift towards cheaper imports.³⁰

The exact opposite interests were represented by countries like Germany, the Netherlands and Scandinavian countries. Their T/C sectors had either already disappeared or were forced to specialize in niches because of pressures within the internal market. In Germany, for example, 85% of T/C production consisted of chemical fibres for technical textiles, for which there was growing demand particularly in China and which thus showed impressively growing export rates.³¹ This “Northern” coalition also tended to have strong retail industries, which profited from cheap Chinese exports.³² Danish prime minister said, “in the end, (the application of restrictions) will not save one job for European industry”.³³

Faced with enormous pressure from various interests, the European Commission went into crisis management mode. It first established an early warning system to monitor Chinese textile imports, as a preventive measure, on 1 January 2005.

On 9 March 2005, the European Apparel and Textile Organization (Euratex), the interest group representing the European textile industry, formally petitioned the Commission for the textile safeguard measure to be applied against 12 categories of Chinese textiles. On the 10th of March, Italy officially requested Commissioner Mandelson to place a limit on imports of textiles from the Chinese mainland. The reason given was that a dramatic rise in imports of such products was threatening to cripple major textile industries in Italy, and also in other European countries, namely France, Portugal, Greece and Spain. The official request came in a letter from the Italian minister for industries, Antonio Marzano, claiming that “the Chinese products have been flooding EU markets since 1 January 2005, i.e., since the termination of textile quotas pursuant to the WTO rules, and are causing market disruption”.³⁴

On 6 April, the European Commission agreed to publish *guidelines* that clarified under what circumstances it would consider safeguard action against textile and clothing imports from China. The guidelines related to the textiles-specific safeguard clause written into China’s Protocol of Accession to the WTO in 2001 which was incorporated into EU law in 2003. The guidelines established procedures and criteria for the objective and transparent use of safeguard proceedings. By establishing when, and on what basis, action could be taken, the guidelines provided clarity and predictability for both China and European textile producers.

On 14 April, Commissioner Mandelson met representatives of the Italian textile industry and Euratex, the Trade Association of European textile producers. The Commissioner discussed with industry representatives the guidelines on the

use of textiles safeguards against Chinese textile exports to the EU published by the Commission on the 6th of April. Commissioner Mandelson informed textile producers that the Commission was examining the request for safeguards against certain Chinese textile imports presented by Euratex on the 9th of March. He said that providing the Commission had credible import data for Chinese textiles he would be in a position to make a decision on launching a safeguards investigation on the 25th April.³⁵

On the 24th of April, Commissioner Mandelson announced that he had decided to ask the European Commission to authorize him to launch investigations into nine categories of Chinese textile exports to the EU. In all these categories, import volumes for Chinese textiles had risen above the 'alert levels' defined by the guidelines published by the Commission on the 6th of April. The Commission then conducted a rapid investigation (maximum two months) to determine if market disruption had occurred and whether the EU should impose special safeguard measures. In parallel, it launched immediate consultations with China in an attempt to find a satisfactory solution.³⁶

On 25 April, trade ministers of the 25-member European Union said they supported the launch of an investigation into a flood of cheap textile and clothing imports from China. The ministers, meeting in Luxembourg, were reacting to an announcement by EU Trade Commissioner Peter Mandelson that he planned a probe into nine categories of Chinese textile and clothing products. Mr Mandelson urged China to cut its textile exports to Europe, or face formal curbs on products such as T-shirts and trousers. Major European textile producers, such as France, Italy and Portugal, were demanding that the European Union, which handled all foreign trade matters for its Member States, impose limits quickly on Chinese exports. However, other countries, such as Britain, the Netherlands and Sweden, were against imposing emergency measures.³⁷ The emergency measures, which 13 mainly textile-producing EU states wanted, would allow Brussels to bypass months of investigations and consultations otherwise needed to take action. But they also risked raising the ire of Beijing and opening a painful trade dispute with the Asian giant.³⁸ "At this stage we are expecting a formal request for emergency measures", EU trade spokeswoman Claude Veron-Reville said.³⁹ On the 26th of April, France sent Brussels a formal letter requesting for emergency procedures.⁴⁰

On the 29th of April, the Commission started textile safeguard investigations into nine categories of Chinese textiles. Mandelson's proposal might have been the result of the increasing pressure exerted by several EU Member States, including, France, Italy, Spain, Greece, Portugal and Belgium; countries that were asking the Commission to speed up its actions to curb the boom in textile imports. These countries had long been exhorting the Commission to cut short a normal investigation and the informal consultations process, and rapidly move towards formal consultations. Such views were re-stated at the EU Competitiveness Council which took place in Brussels on 10 May 2005.⁴¹

On the 17th of May, Mandelson proposed to the Commission that it launch formal consultations with China for two of the nine categories of textile imports from China under investigation: T-shirts and flax yarn. On the 23rd of May, the

Commission adopted the proposal to impose safeguards on two categories. On the same day, the Textile Committee within the Council of the European Union, which brings together Member States and the European Commission, supported the proposal. Following the Committee's approval, the decision to launch formal consultation was taken by the Commission on the 25th of May. France and Italy supported the Commission's proposal most strongly when it was discussed in the EU Textiles Committee on the 23rd of May. In fact, during that meeting, the Committee gave its support by qualified majority to the emergency actions proposed by the Commission. However, not all Member States were in favour of the emergency measures. In particular, Nordic countries, including Sweden and the Netherlands, had never hidden their position that they considered the proposed emergency measures to be "protectionist".⁴²

On the 24th of May, Commissioner Mandelson met Chinese Vice-Minister of Commerce and Special Textiles Negotiator Gao Hucheng to discuss further the possibility for the EU and China to reach agreement on how to respond to surges of Chinese exports in categories of concern.⁴³

On the 27th of May, the Commission requested formal consultations on two categories of products. The Chinese government retaliated by scrapping all export taxes.⁴⁴

On the 1st of June, facing the threat of EU limits on Chinese textiles imports, Beijing made a conciliatory gesture and announced it would raise export tariffs on 74 categories of textile products from the 1st of June.⁴⁵

On the 10th of June, Commissioner Mandelson arrived in Shanghai to hold talks with the Chinese Minister of Commerce Bo Xilai with a view to finding a mutually agreeable solution to deal with the market situation in the EU. In a speech, the Commissioner rejected a return to the quota system for textiles, stating that his policy was based on the need to "manage change and adjustment, rather than to manage trade" – preferably through a negotiated agreement.⁴⁶

On the 11th of June, the European Commission and the Chinese government signed the Memorandum of Understanding (MOU) on the Export of Certain Chinese Textile and Clothing Products to the European Union.⁴⁷ Back in Brussels, the deal was met with an overwhelmingly positive response. Only Sweden and Denmark – traditionally the Union's staunchest defenders of free trade – voted against it.⁴⁸

Mandelson's agreement with Beijing over textiles was celebrated in Brussels as a diplomatic coup, showing it was possible to make Beijing restrict its exports voluntarily. It also helped erase some of the doubts about Mr Mandelson's negotiating skills by demonstrating that he could manage the difficult balancing act between containing China's booming exports and avoiding blunt protectionism on an issue such as textiles, which split the 25-nation EU down the middle.⁴⁹

The EU's linkage strategies

A Commission official involved in this case commented positively on the negotiating performance of the European Commission,

The textile case at least confirmed the Commission's central position in trade. There was a problem. In the end, the problem was solved. The Commission delivered. Of course, how it delivered is a question mark [...] But in any case, the EU–China relationship was boosted after the row.⁵⁰

Throughout the Textile Dispute, Peter Mandelson, the EU trade commissioner, exercised a careful balancing act. Eager to soothe concerns over the rising exports, while trying not to sour relations with Beijing, the Commission adopted a less confrontational stance than the US. The latter had launched a raft of safeguard requests and measures, based for the most part on threat of injury in 2004, and in April 2005 decided to introduce quotas for some categories of products, without seeking consultations with the Chinese. Unlike the US approach, the Commission first tried to engage in talks about possibilities to curb Chinese exports. For some time, the Commission managed to resist pressure to take more drastic action. However, ultimately the pressure was so strong that the Commission felt that it had to act before it was too late.

As to the specific negotiating strategy, linkage was a crucial one. Throughout the textile negotiations, the EU adopted different linkages to find a delicate balance among three forces – the protectionist camp, the free trade camp and China. Additionally, the EU followed closely the US's moves, trying to benefit from the dynamics of the US–China textile talks, not only for the sake of its own commercial interests, but also to secure a good EU–China political relationship. In the first Textile Dispute (January–June 2005), at least five types of linkages were applied – cognitive linkage, linkage between two economic issues, contextual linkage, linkage with the US and synergistic linkage.

Cognitive linkage – “for the sake of development”

In the theoretical part, I defined cognitive linkage as referring to linking issues into packages in deference to an intellectual strategy or evolving awareness of causal understanding. That means issues are linked into packages in accordance with the ‘artificial’ knowledge,⁵¹ which can be structured, reorganized, created or even manipulated to a linker's own interest. I am in particular interested in knowing how the EU persuades the other party to change its original course of action through this type of linkage.

The European Commission integrated the development dimension into the classic dispute on trade in textiles. It attempted to persuade the Chinese government to restrict its exports for the sake of other developing countries, whose economies significantly relied on the textile exports to the EU, and therefore to justify its import restrictions. To put it simply, the Commission linked trade with development.

This type of linkage was observed before the end of liberalization and at an early stage of the 2005 Textile Dispute. The Commission adhered to this line of argument throughout the whole negotiating process. At the EU–China Business Summit on 9 December 2004, Commissioner Mandelson took an outspoken stance in reminding the Chinese Premier and the Commerce Minister of the

political sensitiveness of the textile issue, especially to least developing countries. He emphasized,

This liberalization is a major prize for you (referring to China). But I would urge you to be sensible about the growth of your exports – not to stop you exporting a lot more, but to moderate the growth of those exports – over a reasonable time period. Not for the sake of domestic protection in Europe, but in recognition that in countries, for example, like Bangladesh, Sri Lanka and Mauritius, the fate of millions of workers hangs by some fraying textile threads. They face the prospect of harsh upheaval, grim poverty and possibly civil unrest if they are not given time to adjust to the new competition from China.⁵²

On 27 December 2004, Commissioner Mandelson reiterated that argument, showing its concern about the economic welfare of the least-developed countries:

Huge pressures are building up to renege on this commitment (i.e. to abolish quotas), especially in the US. I have made clear that I would only resort to temporary safeguards if there were a massive surge of textile exports from China, which in particular threatened to cause economic and social mayhem in vulnerable developing countries losing the guaranteed access to our market that the disappearing quotas used to give them.⁵³

Commissioner Mandelson even went to Morocco and Tunisia to discuss textiles issues on the 24th and 25th of March 2005, to show his concern about the textile trade between those countries and Europe.

On 15 March 2005, Commissioner Mandelson mentioned the necessity to protect the vulnerable developing countries before publishing the *Guidelines* that clarified under what circumstances it would consider safeguard action against textile and clothing imports from China, and took the likely impact on vulnerable developing countries as one important criterion for triggering import restrictions. He said,

In order to increase clarity and predictability I intend to publish guidelines which set out clear “danger zones”. If Chinese import levels in any sector were to reach such danger zones, we would investigate these further, with a view to determining their impact in terms of disruption of trade flows, possible injury to EU industry and the likely impact on producers in vulnerable developing countries – not forgetting of course the positive impact that this development should have on consumers.⁵⁴

Here, I argue that the Commission practised a distinctive intellectual strategy, which, on the one hand, played on China’s sympathy for other developing countries, and on the other, built up international pressure, pressing China

to take into consideration textile exports from other developing economies towards the EU.

But *why did the Commission make this type of linkage?* The European Commission's preferences were two-fold: to soothe concerns over the rising exports and not to sour relations with Beijing. It preferred to avoid a confrontational approach, which might lead to closing off its market to one of its largest export markets. It would rather place its hope in voluntary restrictions exercised by the Chinese side. Voluntary restrictions could also help the Commission to assuage the pressure from the free trade camp both within the European Union and in the rest of the world. They also helped the Commission to build an alliance with the development-oriented NGOs.

As one Commission official dealing with textiles said,

the linking with development argument provided justification and legitimacy for the EU's restrictions measure. Internationally, if the EU restricted only for its own benefit, it was selfish. So, the EU's linkage with development was a self-serving argument, but remains a valid point. Subsequently, the statistics showed that the overall increase of textiles imports into the EU market was small. Rather, it was the Chinese exports that displaced those from other developing countries.⁵⁵

This justification and legitimacy enhanced the EU's negotiating position.

The EU's cognitive linkage in this case was effective. China recognized that its textile exports to the EU and American markets constituted competition vis-à-vis the textile industries of both developed and developing countries. According to Cao Xinyu, vice-president of China Association of Textiles Imports and Exports,

The three largest markets for Chinese textile exports are respectively the United States, the European Union and Japan, while India, Mexico, Pakistan, Bangladesh, Thailand, Sri Lanka, Vietnam, South Africa and many other developing countries have overlapping export markets. Market share of some textile categories was lost due to China's competition. Many developing countries remained on high alert for China's exports to their traditional export markets.⁵⁶

China has seen itself as a developing country and, to a large extent, has built its foreign policy upon its relationships with other developing countries. As China's former Minister of Commerce, Mr Bo Xilai said at a press conference on 30 May 2005, ten days before signing the Shanghai MOU, "The Chinese government, as ever, has been attaching great importance to the economic development of developing countries. They are our old friends. Our heart goes out to them. We fully understand their needs and difficulties".⁵⁷

Premier Wen Jiabao later acknowledged when meeting prime minister of Mauritius on 6 November 2006, "The Agreements that China signed with the

EU and the US, have, to a large extent, taken into consideration the African countries' interests in the EU and American markets".⁵⁸

This view was echoed by China's textiles agreement with South Africa in June 2006. As Premier Wen Jiabao said,

We are willing to take initiatives in restricting Chinese textile exports to South Africa so as to ensure the stability of the South African textile market.⁵⁹

Mme Wu Yi, former Vice Premier in charge of textile trade issue, said on several occasions, "On the issue of textile trade, China must look after the interests of other developing countries. China cannot afford to offend all partners, otherwise she would be isolated and lose the moral high ground".⁶⁰

Mr BO Xilai, former Minister of Commerce confirmed that line of argument,

We should not take all the benefits and crowd out the interests of our poor brothers (from the developing countries). We need to consider the situation as a whole and not to forget the interests of other developing countries.⁶¹

In an interview after the conclusion of China–EU Textiles MOU, Minister Bo Xilai revealed that safeguarding the textile interests of other developing countries was one of the factors that the Chinese authorities weighed up in the negotiation process:

This trade dispute concerns the interests of many developing countries. Their textile markets are mainly Europe and the United States. The more market share China takes, the less other developing countries get. They may have to withdraw from their traditional export markets. China must take into consideration the interests of developing countries.⁶²

Commissioner Mandelson called the Shanghai MOU a "win-win-win" agreement, in the sense that "(the) agreement will be fair on both sides. It provides clarity, certainty and predictability and will also provide relief for developing country textile exports to Europe. It is an agreement that helps everyone's interests".⁶³

Issue linkage – "Taking the moral high ground, and exchange market for market"

In the Textile Dispute, the European Commission linked its textile restrictions with China's alleged unfair trade and market access barriers. Here, the EU tried, through linkage, to acquire the moral high ground, and rally support and sympathy. This linkage was also part of the EU's Market Access Strategy launched in 1996 and reaffirmed by Commissioner Mandelson. In short, it was designed to achieve two purposes: rallying public support and creating pressure on the Chinese authorities for further market opening.

It was alleged that China did not keep to its WTO commitments and practised unfair trade. The main areas of concern were intellectual property rights, exchange rate, government procurement, policies discriminating against foreign companies, barriers to market access in a number of services sectors (e.g. construction, banking, telecommunications and express courier).⁶⁴ China was accused of cheating in all the areas mentioned above, while taking advantage of its newly acquired rights as a WTO member.⁶⁵ Commissioner Mandelson said in February 2005,

China, for its part, must demonstrate that it will not seek unfair advantages for Chinese exporters by fixing prices below long-term sustainable costs. They must not permit wage levels well below those negotiated by free trade unions in other developing countries. They must not stick to an artificially low exchange rate as part of a strategic trade policy.⁶⁶

W.H. Lakin, the secretary general of the Euratex, addressed to the 133 textiles committee of the Council of the European Union about China's predatory pricing,

The Chinese textile producers have in the months of this year, (sold the textiles products) at prices which are below those of the fibres from which they have been manufactured. It is surely not possible to account in any logical way for negative added value along the preparation, spinning, knitting or weaving, dyeing and finishing and making up stages of manufacture, together with the costs of transport and insurance and to reach such subterranean levels. This is not a question of efficiency or greater competitiveness, it is predatory pricing, practiced from within a non-market economy with an undervalued currency.⁶⁷

The reasons why the European Commission made this linkage were as follows: fair trade and market access in third countries, in particular, the emerging economies such as China, remain to be the two top priorities of the EU's trade policy. The Commission's Communications titled "EU-China: Closer partners, growing responsibilities" and "Competition and Partnership" issued in October 2006 revealed a dichotomy in the EU's trade politics: "the EU cannot demand openness from China from behind barriers of its own", and emphasized the need to "offer open and fair access to China's exports and to adjust to the competitive challenge".⁶⁸ But at the same time, China must fully implement its WTO commitments, and "move beyond its WTO commitments in improving market access for EU companies".⁶⁹ On this point, the Commission and the Euratex had similar positions. The latter took as its priorities maintaining fair trade and opening up third country markets. As the Euratex president emphasized,

We view it as essential that there should be a harmonization of tariffs and an elimination of non-tariff barriers around the world at the earliest possible moment and we count upon the support of our authorities, and our

Parliaments, to achieve this non-contentious but highly desirable objective. Art 7 of the ATC stipulated that third markets should open as quotas were dismantled. Virtually no one complied, and Europe said nothing.⁷⁰

This linkage was effective as a communication strategy within Europe. In the first half of 2005, the textile issue hit the headlines in nearly all the major international and European newspapers. Public opinion shifted dramatically from generally “positive” to “negative” towards China. This was also partially due to the effective communication campaign launched by the Euratex. A general sense of sympathy and solidarity with the European textile producers prevailed among the European public.

In terms of correcting unfair trade and improving market access, the yardstick is to examine whether China takes any substantive measures to honour its WTO commitments and further open up its market, for example the textiles and clothing market, as a result of the EU’s linkage strategy. Evidence shows that China continued to implement its WTO commitments as scheduled. However, we did not feel that there was any direct causality between the EU’s linkage and China’s implementation of its WTO commitments. China simply implemented its WTO commitments according to its own timetable. Since the implementation process started in 2002 immediately after China’s WTO accession, we can see 2005 as merely a continuation of that implementation process. In textile, the Chinese side imposed twice export duties to calm its textile exports, but did not make any substantive move to reduce textile import duties, which was important for the EU textile exports to China.

To conclude, the EU’s issue linkage only played a marginal role in further opening up China’s market. Linking textile issue with China’s alleged unfair trade practices only gave the EU a justification for imposing restrictive measures.

Contextual linkage – “Put the textile issue in context”

In the textile case, the Commission linked the textile issue with the overall EU–China relationship, and tried to convince the Chinese authorities to view the textile issue from the perspective of the whole bilateral strategic partnership. It deliberately pursued a strategy of politicizing a sectoral issue – textile, and brought it to the attention of the Chinese leadership.

The European Commission took a political approach to handling the textile issue. Before Peter Mandelson became Trade Commissioner, he had worked out a political strategy to deal with the EU–China textiles trade. He said,

The removal of textile quotas in 2005 will pose an acute test of political management. The Chinese textile industry is highly competitive and it poses the biggest threat to other developing country producers who have benefited from preferential quota access to European and American markets – countries as varied as Bangladesh and Lesotho.⁷¹

In February 2005, Mandelson paid a visit in China on the issue of textiles. As he later testified before the International Trade Committee of the European Parliament, the key message he brought to China during the visit was to call on his Chinese hosts to play a responsible role in international trade, and managed to convince the Chinese ministers of the importance of finding a solution.⁷² In his testimony, Mandelson put the textile issue in the context of EU-China economic and political relationship:

Europe should not resent China: Our responsibility is to compete. Europe is developing a deep economic and political relationship with China. On textiles we have mapped out a policy that is fair to both sides. The EU will take action as necessary to ensure that policy is enforced. The conclusion, I believe, is that closer political partnership and intensifying economic competition can go together.⁷³

In May 2005, the European Commission president, José Manuel Durao Barroso, wrote a letter to Chinese President HU Jintao. According to the French magazine, *le Nouvel Observateur*, “Barroso assured that he had sent a very firm letter to Chinese President Hu Jintao a few weeks ago, asking him to take measures because there may be market distortions in textiles”.⁷⁴

The EU made this linkage as a result of a carefully considered political choice. The EU's preference was to put pressure on the Chinese leadership to make a political decision to voluntarily restrict its textile exports. By linking a specific trade issue with the overall EU-China relationship, the EU pressed the Chinese authorities to make a political decision – either making concessions on the textile issue or taking the risk of damaging the newly established EU-China comprehensive strategic relationship.

The Chinese side took a pragmatic approach in response to the EU's linkage. On the one hand, the Chinese side tried to find a solution through dialogue and hoped to ensure a significant textile export growth in the European market. On the other, it believed that it would not be in its overall interest to enter into a trade war against the EU. When handling the textile crisis, the Chinese leadership had consistently put the textile issue in the context of overall China-EU strategic partnership. Chinese Premier Wen Jiabao said on 11 May 2005 when meeting the EU troika foreign ministers,

(In handling the textile issue), we need to put the textile issue in the perspective of the overall China-EU comprehensive strategic partnership, strengthen dialogues and communications, conduct consultations on an equal footing, seek appropriate ways to solve the problem so as to work together with the EU to maintain a good China-EU trade relationship.⁷⁵

In an interview after the conclusion of the China-EU Textile MOU in Shanghai, Minister Bo Xilai emphasized China's strategic thinking in the Textile Dispute:

Consideration must be given to the overall situation of China's diplomacy. China's relationship with the European Union is much broader than the textile case alone. We have many other important issues to handle and cannot allow the single textile issue to affect the China-EU comprehensive strategic partnership.⁷⁶

To sum up, the Chinese leadership saw the textile issue as an issue with strategic implications, which might have significantly affect the China-EU partnership if not properly handled. As the French newspaper, *Les Echos* summarized matters well, "Justifying its ultimate concession, Beijing indicated that the two partners did not want their dispute on this particular issue to compromise their entire commercial relationship".⁷⁷ Arguably, Beijing made commercial concessions for the sake of maintaining a good overall relationship with the EU.

That said, both parties made concessions. According to the Chinese side, Brussels agreed to terminate the investigations of ten categories of Chinese textile exports and promised to apply with prudence any possible safeguard measure on other Chinese textiles, which were not covered by the textile MOU.⁷⁸ Commissioner Mandelson qualified the deal as a "win-win". Therefore, we can equally argue that the Chinese side might also have applied contextual linkage in order to get a better treatment in the textile agreement.

Linkage with the US – "We need to offer a better deal than Americans"

The US-China and the EU-China textiles negotiations took place at the same time. The US factor was inevitably taken into consideration by the Commission negotiators. Commissioner Mandelson tactically linked the two negotiations to gain an advantageous bargaining position. This is a typical case of "party linkage". Firstly, Commissioner leveraged the US power to pressure China. Secondly, he differentiated his approach from that the US's, so as to win China's favour in negotiating a quick deal.

In his meeting with Chinese Vice-Minister of Commerce, Gao Hucheng, Peter Mandelson made clear that he would give China a better offer than the Americans.⁷⁹ This gave rise to the following anecdote: Mandelson's services put a proposal to the Chinese side just before the meeting. The Chinese delegation, however, proved mathematically that the EU's proposal was no more generous than the American one. Commissioner Mandelson expressed surprise and then immediately asked his services to revise the EU offer and make sure that the new offer was better than the American one.⁸⁰

According to a Commission official closely involved in the textile negotiation with China, Commissioner Mandelson did intend to give China a more generous offer than the American one, to allow a larger quota of Chinese textiles imports. The reasons for doing so were three-fold: Firstly, the EU did not want to impose unilateral restrictions, as the US had. In fact, the Commission intended to reward China for the global textiles liberalization. Therefore, it preferred an approach based on serious negotiations with China. Secondly, it would hardly have been

acceptable for the EU to be more restrictive than the US in the textile case. Thirdly, it was said that the Commissioner was instinctively against the idea of imposing restrictions on the Chinese textile imports.⁸¹

It is a fact that the EU and the US were negotiating with China on textiles at the same time. In such a triangular relationship, both political and economic calculations were relevant. In the Commission's calculations, it was important for it to distinguish itself from the US, so as to gain political favour from the Chinese side. This was also a good fit with the overall pattern of the EU-China relationship, which was blessed by the leaderships on both sides as a "comprehensive strategic partnership", whilst the US-China relationship was more one of strategic competition than partnership. As a Commission official said, "the Commissioner was keen to keep on good terms with China. Instinctively, he was reluctant to introduce restrictions".⁸²

In terms of effectiveness of linkage, it was obvious that China was highly critical of the US approach and could distinguish between the US and the EU approach. As the Chinese official Xinhua News Agency commented,

The EU move contrasts sharply with the US's hasty implementation of import restrictions, an approach that has been widely criticized by the international community as discriminatory and protectionist and undermining the very principles they promote.⁸³

Minister of Commerce Bo Xilai reaffirmed this point in an interview,

The EU sent out its "Commander" at the very beginning of negotiations, which made our negotiations start at a high level [...] the negotiations in Shanghai went well and reached a quick conclusion. Although there were difficulties, and ups and downs in the 10-hour-long talks, Commissioner Mandelson and myself were able to make quick decisions on key issues and reach consensus.⁸⁴

Minister Bo Xilai also commended Mandelson for this positive role in the talks, while recognizing he was a tough negotiator,

Mandelson pays great attention to EU-China trade relationship. He also has a deep understanding of the East, in particular, of Chinese culture. I appreciate his quick actions and courage in shouldering responsibilities when facing difficulties. Commissioner Mandelson made a personal contribution to solving the EU-China textile dispute. When difficulties arose, Mandelson took the lead and discussed with the Chinese side and enabled both sides to negotiate on an equal basis.⁸⁵

As a Commission official said,

Whatever may be said about the actual textile dispute, the EU-China relationship emerged stronger afterwards. Politically it was a success in that both parties successfully resolved an initially intractable situation. It was a test

successfully passed by the EU-China partnership, particularly if compared with EU-US trade disputes which frequently ended in trade wars and retaliatory measures. After the textile dispute, the EU-China relationship was fully normalized and trouble-free for some time.⁸⁶

I attribute the effectiveness of this linkage to the EU's strategic power resources – the excellent EU-China political relationship, which had been developing extremely well for a decade. It was no coincidence that in 2005, both sides attached great importance to the celebration of the 30th anniversary of establishing diplomatic relations between China and the EU and managed it well.

Linkages among Member States – “United, we stand”

As defined in the theoretical part, synergistic linkage seeks to introduce some form of incentive from international negotiations or from a domestic issue-area to break the deadlock of domestic bargaining. In this case, France and Germany struck an internal deal through backscratching – exchanging textile issue interests and the issue of ratifying the Treaty establishing a Constitution for Europe (TCE). The prospects of ratifying the TCE in France was essential for the future development of the European Union, which was of key interest to Germany, an ardent supporter of the European integration. The Franco-German solidarity enabled the deadlock of the EU-level bargaining on the Chinese textile issue finally to be resolved and a unified EU position could then be formed vis-à-vis China.

At the beginning of the first EU-China Textile Dispute, the Member States were evenly divided. As the French newspaper *Les Echos* commented,

On the side of the Twenty-Five, there is no common front: the countries of the North are rather hostile to protective measures, while France, Italy and Portugal, which are home to strong industries in the sector, are much more interventionist.⁸⁷

Thomas Ostros, Swedish Minister for Trade and Industry, commented in the *Financial Times*,

Sweden has, since joining the EU, been at the forefront of advocating a liberal European trade regime [...] we will continue to work with our allies within Europe to stall the forces that are continuously lobbying for protection, most recently in the area of textiles from China. Those in Europe working for free trade need to work together. Any efforts to persuade China “voluntarily” to restrict its trade would not only hurt the European consumers, it would run quite contrary to idea of “partnership and responsibility” that, as Mr Mandelson pointed out, the EU and China should share in the global economy.⁸⁸

Commissioner Mandelson started with a bias towards liberal trade. However, mid-way through the textile drama, Commissioner Mandelson changed his position and bowed to the demands of the protectionist camp, which called for imposing restrictions as soon as possible. The major reason behind Commissioner Mandelson's change of position was, arguably the emergence of solidarity among the large Member States, in particular, France and Germany in the context of the French referendum on the EU Constitution of 29 May 2005.

In France, textiles became a hot topic in the referendum campaign. French politicians, both from left and right, all talked about textiles, for different reasons. French President Jacques Chirac saw China's textile exports as "une invasion brutale et inacceptable" during his debate with young people in mid-April. The president of the UDF (Union pour la Démocratie Française), Francis Bayrou, described China as a country which was "ultra-ultra-ultra-liberal and communist at the same time, in the process of becoming the factory of the planet with wages 30 times lower than at home".⁸⁹

The textile issue quickly turned out to be a test of the EU's power. As Bayrou said, "If the United States and China did not exist, we would not need to make Europe [...] France cannot manage alone".⁹⁰ An article in the French newspaper *Les Echos* recorded the French debate of the EU's power and its role in French politics,

In France, on the right as on the left, the theme of "powerful Europe" is in the process of supplanting that of "protective Europe" among the partisans of the "yes". It must be said that the controversy over the import of Chinese textiles has invited itself into the countryside. If he prefers to handle the theme of social Europe, François Hollande also considers it crucial that Europe "can decide the fate of the world", affirming that "if we do not create a coherent political space, we leave the world be organized without us".

Moreover, Martine Aubry said: the Constitution will make it possible to establish "an influential Europe speaking with a single voice at the UN and at the WTO to build another world", she affirmed yesterday in an interview with *Libération*. "This awareness also owes a lot to the controversy over the import of Chinese textiles which has recently been invited into the referendum campaign".⁹¹

Les Echos reported an important moment during the EU-China Textile Dispute,

on April 20, Italy and France wrote a letter to eleven other countries of the European Union to support their request for the immediate application of the safeguard clauses in the face of the explosion of Chinese textile imports, indicated by the Italian Deputy Minister of Industry, Adolfo Urso. The Italian Minister and his French colleague Delegate for Foreign Trade, François Loos, will organize an informal pre-summit on Sunday in Brussels, with representatives of these countries, to obtain their support before the meeting with the Commission chaired by the European Commissioner for Trade, Peter

Mandelson. "The objective is to achieve a majority of 13 States to put forward, at the summit, an official request for the immediate application of the safeguard clauses in favor of the sector", specified by the Italian Minister.⁹²

Not all EU Member States supported a quick imposition of safeguard measures. Some of them, such as Germany were sceptical about the imposition of urgent safeguard measures. At the 10th of May Competitiveness Council meeting, German Economic Minister Wolfgang Clement said that the German textile industry had already undergone structural changes and was not worried about Chinese competition.⁹³

However, on the 20th of May, just three days before the vote of the Textile Committee on the Commission's proposal to impose restrictions on two categories of Chinese textile exports, Germany changed its position. German Economy Minister Wolfgang Clement told the news agency DPA (Deutsche Presse Agentur) that "Germany will act 'in solidarity' with its European partners in the trade row with China over cheap textile imports".⁹⁴ It was surely no coincidence that one day before, on the 19th of May, German Chancellor Gerhard Schröder had a summit meeting with the French President Jacques Chirac in Nancy. Chirac demanded the European Union and China move quickly to bridge differences over China's textile trade.⁹⁵ A Commission official reaffirmed that Franco-German solidarity meant,

Germany and France could not allow the other to be isolated. Germany understood that textiles were an important issue to France.⁹⁶ Meanwhile, liberal Member States kept a low-profile, showing solidarity with protectionist Member States. A Commission official explained the reasons behind that solidarity: "Here, it is a question of level of interest. For the Member States producing textiles, it is a matter of job losses, while for other Member States, it is just a question of sourcing. The latter may encounter disadvantages, but not significant impact. In trade policy, a public spat between Member States is rare".⁹⁷

Moreover,

Member States calculate the relative price they have to pay. Log-rolling usually applies – if a Member State has a high interest in a specific issue, the other Member States would show solidarity, since they know that although they are called upon to pay this time, they might need others to pay next time. Faced with the ratification of the European Constitution, the last thing that the leaders of Member States would like to have seen was a public row. That would have damaged European integration. That was why the Northern countries finally kept a low-profile.⁹⁸

Seeing the solidarity among Member States and the overwhelming support for imposing restrictions, the Commission could only follow suit. After initial internal

wrangling, the EU finally managed, showing solidarity, to speak with one voice on the textile issue. This gave the EU significant power in its textile negotiations with China.

When the Commission signed the Shanghai MOU with the Chinese government on the 10th of June, the Textile Committee in the Council gave a broad welcome to the deal. As Commissioner Mandelson said in the International Trade Committee of European Parliament,

I know that this is a difficult issue for many of them (Member States). I have been in close contact with several Ministers and trust that in their final assessment of the agreement – from their different standpoints – they will show a sense of EU solidarity and unity and desire to resolve this issue once and for all.⁹⁹

Second phase of the Textile Dispute (July–September 2005)

According to the EU–China Textile MOU signed on 10 June 2005, China agreed to restrict its exports of ten categories of textiles. This agreement was widely hailed and seen as a vindication of bilateral negotiation and compromise. However, after only a few weeks the deal had “degenerated into farce”.¹⁰⁰ Part of the problem was that the buying cycle for major EU retailers – which normally operates approximately 12 months in advance for mail-order companies and 6–9 months in advance for retailers – was out of step with the EU decision-making process. As a result, many retailers had placed large orders for Chinese textile and clothing goods prior to the announcement of new quantitative restrictions, and before it was known that these annual quota limits would operate retroactively. To make matters worse, while the EU arrangement for governing Chinese imports was announced on the 10th of June, it was not until four weeks later, on the 12th of July, that the Commission actually published the accompanying regulations.¹⁰¹ The Chinese producers, exporters and the EU importers grabbed this window of opportunity – the month between the 10th of June and the 12th of July when there was no accompanying regulation whatsoever – to trade textiles freely, assuming that the textiles traded during this one month would not be subject to quota restrictions. The national governments (including even France and Italy, which had lobbied hardest for the imposition of textiles safeguards against China) reportedly granted licenses to retailers to import a further 120 million Chinese garments – a figure twice the quota for the rest of the year and four times greater than total sales in 2004!¹⁰²

As a result, the European Commission found in early August of 2005 that the quotas for several categories of textiles for the rest of that year had been exhausted. It then decided to block the clearance of shipments through the EU’s customs. Since many textile and apparel products had been dispatched some four or five weeks before and were already on their way to Europe, tonnes and tonnes of Chinese textiles piled up in the ports of EU Member States. Therefore, within approximately 6 weeks of the announcement of new quantitative restrictions on Chinese textiles, quotas had not only been exhausted but an additional 77 million

Chinese garments were left stranded at EU ports. As Commissioner Mandelson himself explained,

Prior to legislation implementing the MOU, Chinese and EU traders launched massive shipments of pullovers and trousers to get these goods into Europe under the wire. As a result, in these categories alone, the agreed quotas have been exceeded.¹⁰³

With pullovers, trousers, blouses, T-shirts, bras and yarns made in China and worth hundreds of millions of euros blocked in warehouses, the Commission was then forced to renegotiate the terms of the Textile MOU with China, and to increase the quota ceiling in order to release the impounded orders. The British press jokingly called this incident a “Bra War”.

Yet again, the two sides managed to reach an agreement. EU Trade Commissioner Peter Mandelson and Chinese Minister of Commerce Bo Xilai agreed to share the quota burden by letting half the amount of the blocked garments count towards the 2005 quota, the other half towards the 2006 quota.¹⁰⁴ The Chinese side had resisted this kind of arrangement as an unfair constraint on its export opportunities for the following year. It finally made a compromise and accepted a burden-sharing solution, but warned that “the deal remains a short-term fix to a long-term problem and that more lasting solutions are needed”.¹⁰⁵

Outbreak of the “Bra War”

The European Union was again divided on textiles. The ‘northern’ coalition of Denmark, Finland, Germany, the Netherlands and Sweden pushed for a quick release of the blocked garments, which was explained by their strong retail fashion industries and by the fact that their own T/C industries tended to occupy niche markets.¹⁰⁶ The ‘southern’ coalition of France, Greece, Italy, Portugal, Spain, supported by some new Member States like Poland and Lithuania, was strongly against expanding the quotas agreed in June. The textile blockage row did not end until a compromise deal was struck in Beijing on September 5, on the sideline of the annual EU–China Summit. The deal was then endorsed by the EU Member States on 7 September 2005, with only Lithuania abstaining.¹⁰⁷

An interesting *FT* columnist article, in the form of Tony Blair’s email to Peter Mandelson, revealed precisely the complexity of interests and pressures involved in this row:

As far as I understand it, millions of trousers, shirts and bras are piling up in warehouses because the EU has breached the ceiling on Chinese imports agreed by you in June to protect the European textiles industry [...] this is fast becoming a big problem. You’ve simply got to sort it out. I know you wouldn’t give Chinese garments wardrobe-room, but as one who does, let me tell you those stockpiles spell bad news.

Digby’s already been onto me about businesses going to the wall – he reckons the stock shortage is going to cost retailers millions in lost sales. And

the broader point is that for all our banging on about modernising Europe, the deal you did in June smacks just a little of old-fashioned protectionism. No wonder Jacques and Silvio have been keeping mum about the whole thing.

So here's what I think: I know that while we're hosting the EU presidency, we've got to observe the niceties of diplomacy blah blah, but really I think it's time to take on the French again.

We've got to be seen to be doing something. It's only a matter of time before the press realizes that you, I and all the ministers responsible have been topping up our tans rather than getting ourselves briefed up on this.

Anyway, final word: get this sorted within the fortnight. (Yes I might be sipping a banana daiquiri, but I haven't forgotten the joys of the impending EU-China summit. An ongoing spat over textiles is the last thing I need.)

When I wangled you the EU job a year ago, I knew I could rely on you. Don't prove me wrong, please.¹⁰⁸

That email, though surely not written by Tony Blair, revealed precisely the political background to the second EU-China Textile Dispute. Meanwhile, the retailers and importers stepped up efforts to call for relaxation of quantitative restrictions on Chinese textiles since dealers were experiencing a shortage of competitively-priced products. The trade ministers of the Netherlands, Germany and Sweden joined them and said in a joint statement that the best solution to the crisis was to "renounce protective trade measures".¹⁰⁹

We can say if the first phase of the Textile Dispute witnessed a heightened reaction from producers, the "Bra War" was mainly a show of retailers, whose interests were at grave risk. They called on the Commission to allow the textiles, most of which were ordered before the agreement was concluded and many of which had been paid for, to enter the EU. When Mandelson failed to give a timely response, European retailers even threatened legal action against European governments which would have brought Mandelson's role into sharp focus.¹¹⁰ On the 10th of August, the FTA, representing the interests of European importers and retailers, criticized Mandelson for holding the importers of textiles and clothing responsible for problems with the new quota system vis-à-vis China.

Jan Eggert, secretary general of the FTA, criticized Mandelson,

We are very surprised about the statement by the EU Trade Commissioner. He is distorting the facts to divert attention from bad political management by the European Commission and the inadequacy of the Shanghai Agreement [...] This sort of spin shows little regard for the problems now facing European importers. Our companies had placed their orders several months ago, now they are denied permission to import goods such as pullovers and trousers into the EU. Our companies must be able to rely on certain framework conditions to conduct their business. The fact that there is not enough flexibility in the new quota system leads to huge damages for our companies – for smaller companies this might even mean the end of their

business. If we are forced to accept the new quota system, said Jan Eggert, we need greater flexibility to allow our companies to fulfil their contracts with the Chinese suppliers. Otherwise the outcome will not only be losses for the companies but also a shortage of certain products and higher prices.¹¹¹

The situation became worse as time went by. On August 23, the FTA openly further criticized Commissioner Mandelson, “The short-sightedness of Commissioner Mandelson’s refusal to consider EU retailers’ point of view when considering the MOU has resulted in EU retailers’ worst fears being recognized”. The FTA president Ferry den Hoed stated in a letter to the Commissioner, “The situation for European Trade has worsened so dramatically that immediate action is required”. The FTA felt that it was of paramount importance that these goods were released immediately otherwise consumers would face empty shelves. The letter to the Commissioner went into detail on three points:

- “the retroactive effect of the MoU: the exhaustion of the quotas could only have started on July 12, with entry into force of the MoU or arguably on July 21 with the issuance of formal export licenses by the Chinese authorities.
- All goods ordered before the 21 July should be released.
- Full flexibility should be provided regarding the remaining quotas for 2005-2007.¹¹²

Commissioner Mandelson was also being strongly criticized at home. Sir Digby Jones, director-general of the Confederation of British Industries (CBI), who put together the delegation to accompany Tony Blair’s visit in Beijing on the 6th of September for the EU–China Summit, said that the blockade was a cause of deep anger and embarrassment for British businesses. “I’m furious [...] We’re not protectionist in Britain. We understand you offshore the production of low-value goods and that by doing so you’re creating incomes for people who can buy our high-value goods”. The blockade of 75 m garments was a symptom of “protectionist, hypocritical Europe”, Jones said, and had given the Chinese the “moral high ground”.¹¹³

In the “Bra War”, the consumers’ organization fought in the same trench as the importers and retailers. The BEUC, European consumer’s organization, called the blocking “ignoring the basic laws of economics” and warned: “The new quotas will lead to higher prices and less choice for European consumers when they try to buy trousers, pullovers, women’s blouses, brassieres and other textile products in the coming months”.¹¹⁴

In contrast to the free trade interests, the protectionist interests also made their voices loud and clear. On 30 August 2005, the European Apparel and Textile Organization (Euratex), representing the European textile producers’ interests, announced that it supported the 29th August statement of EU Trade Commissioner Peter Mandelson that “the primary shared interest and

determination is to preserve the original overall agreement (reached between Commissioner Mandelson and the Chinese authorities on June 10th 2005 in Shanghai)".¹¹⁵

Speaking in Brussels, the Euratex president Filiep Libeert stressed that the fundamentals of the situation which had led to the bilateral agreement between the two sides had not changed in the three-month period since the quantitative limits for the ten product categories had been agreed. Commenting on the volumes of goods blocked at EU borders, Mr Libeert noted that there had been an unprecedented acceleration in licences granted or pending over the period since June 11th. He indicated that the European industry would be prepared to examine carefully any workable proposals which might be made to alleviate the situation of those who had placed orders for such goods in good faith but he stressed that any solution must remain within the framework of the original overall agreement reached with the Chinese authorities on the 10th of June and must not further damage the interests of EU manufacturers of textiles and clothing.¹¹⁶ On the 31st of August, Libeert expressed grave concern that the proposals tabled by the EU Commission on the same day did not conform to either of industry's requirements, to the extent that they granted substantial additional volumes to Chinese exporters and EU importers beyond the limits agreed on the 10th of June and that in so doing they failed to take into account the *raison d'être* of the 10th June agreement, namely to avoid unnecessary company closures and job losses in the EU and the more vulnerable developing nations.

As the current proposals stand, Europe's textile and clothing industry will again be the major victim of the free gifts bestowed upon China, since there is little or no likelihood of compensation being found for them in the ongoing negotiations with the Chinese authorities. In their present form therefore we find the Commission's proposals to be unacceptable and are confident that member-states will find more palatable alternative solutions.¹¹⁷

To summarize, the European interests were divided along the lines of protectionist and free trade forces as in the first phase of the textile crisis. This division was also manifest among the Member States on how to handle the textile blockage. The Scandinavian countries, Germany, UK and the Netherlands were said to have been keen to allow all blocked goods in, while France, Italy, Greece, Portugal, Poland and Lithuania were resolutely against such action unless China could provide meaningful concessions.

When Commissioner Mandelson returned from holidays on the 29th of August, he found himself having to accomplish three tasks at the same time: to defend himself, preserve the original overall agreement and help out retailers. In response to the sharp criticism against him, Commissioner Mandelson answered thus:

The situation resulted from the fact that it took a month to enact the regulation enforcing the agreement. During this period, Member States were

having to continue licensing imports in excess of the agreed quota. The Chinese authorities were also slow in putting their administrative machinery in place [...] The Commission, the Member States and the Chinese all bear some responsibility for this situation, but nobody in particular is to blame. The problems could not have been fully anticipated nor could they have been avoided, at any point in the textile trading cycle. We are dealing with unprecedented circumstances in the global textiles market given the dramatic surge of Chinese exports to which we had to respond.¹¹⁸

The problem we have experienced is not with the agreement itself but in managing the conditions surrounding its implementation. Given the strong desire of Member States to take this route, there is never an ideal moment and time to intervene in the free movement of goods. Second, I have never disguised the inherent difficulties in introducing restrictions to trade. My caution was well known. Member States went into the agreement with their eyes open. In retrospect, given the difficulties of management, I am only glad that we are operating our overall policy in co-operation with the Chinese authorities rather than unilaterally and by ourselves. Lastly, there are those who think that practicing such restrictions can never be justified or can never be achieved successfully in modern-day trading conditions. I reject this view, despite my doubts. But clearly there are practical lessons to be digested and they need to be thought about in the implementation of policy in the future.¹¹⁹

As there seemed to be a majority of Member States in favour of the quotas, which were introduced under pressure from EU-based textile manufacturers, a renegotiation of the curbs was unlikely.¹²⁰ The Commission decided to keep the original MOU. Mandelson emphasized the importance of the original MOU:

Our primary, shared interest and determination is to preserve the original overall agreement. There is no better alternative to the agreement we have, given Member States' desire for temporary restrictions to be placed on the import of Chinese textile goods.¹²¹

Facing tremendous pressure and criticism from European importers and retailers, Commissioner Mandelson decided to start to unblock the goods. He said, "In these circumstances, I cannot accept that EU retail businesses should be penalized unfairly by the introduction of the agreement we made with China. I have therefore set in motion procedures to unblock the goods".¹²²

On the 24th of August, the Commission delegation went to Beijing to hold talks with the Chinese Ministry of Commerce. The negotiations were extremely difficult. Mandelson called on the Chinese side to accept the "moral and political obligation" to help find a solution to a problem all sides were responsible for.¹²³ European negotiators in Beijing proposed a combination of three solutions on how to treat goods ordered by retailers that exceed import quotas:

- * Exclude some blocked goods from this year's quotas on the grounds they were ordered in good faith before the quota system was fully operational.
- * Transfer some oversubscribed goods, such as pullovers or bras, to undersubscribed quotas for items such as cotton fabrics.
- * Deduct some blocked goods from next year's Chinese quota.

This proposal was opposed by both some EU Member States and the Chinese side. For example, Poland said Mr Mandelson's proposals were unsatisfactory and Spain was demanding that China should share some of the pain of the crisis, which had prevented retailers selling up to 80 million unlicensed trousers, pullovers and bras.¹²⁴ Chinese negotiators opposed the third option of the above-mentioned proposal because it would lead to substantially less growth for Chinese textile manufacturers in 2006. They also argued there was little scope to use the second option since most quotas for the ten textile categories covered by the 10th of June deal were full. Releasing blocked textiles by removing them from this year's quotas could trigger a backlash from EU textile producers. But Mr Mandelson was backed by free trade Member States Sweden and Denmark and by countries including the UK and Germany where retailers had a stronger voice than textile producers.¹²⁵

Every day that passed placed greater pressure on Mr Mandelson to sort out the "serious glitch" that had undermined his "win-win" trade deal agreed with China in Shanghai on June 10. Talks at the commerce ministry in Beijing ground to a halt; EU officials grimly described the deadlocked negotiations as "frank". One of Mr Mandelson's allies admitted, "In a sense it's primarily a European problem because we are talking about stuff we want in our market".¹²⁶

As the UK newspaper *Financial Times* commented, the Chinese negotiators – long portrayed as soft in their dealings with foreigners – had most of the cards and appeared intent on using them. China knew Mr Mandelson was desperate to clear the backlog of goods ordered by retailers before the new quota system was fully introduced but that exceeded the limits set on the 10th of June. In an ideal world Beijing would like to see those goods simply excluded from the 2005 quotas – at a stroke sharply increasing the agreed level of exports. But Mr Mandelson's team argued that China had an interest in taking its share of the burden "to maintain the spirit and tone" of the June 10th agreement. That meant Beijing should accept that some of the unlicensed goods should be deducted from next year's quotas, or switched to another quota that is not yet full.¹²⁷

On 2 September, Commissioner Mandelson flew to Beijing for discussions with China. As a Commission official commented,

Mandelson invited himself to Beijing. That was a delicate situation. Basically, the Commission's proposal was not supported by the Member States. Some Member even opposed that. Others asked Mandelson to go to Beijing and press China to accept burden-sharing. For Mandelson, the only way was to negotiate a deal better than his proposal to Member States.¹²⁸

The following section focuses on the European Commission's negotiations with China and internal bargaining during the "Bra War", in particular during Commissioner Mandelson's visit in China and afterwards.

The EU's linkage strategies in the second phase of the Textile Dispute

Unlike the first phase of the Textile Dispute, the European Union started at a disadvantage this time. During the first phase, China was asking the EU to allow its textiles to be imported into the European market, whereas during the second phase the ball was on the other foot. Domestically, the Commission had come under severe criticism for being technically careless and not having taken sufficient care of the interests of importers and retailers. The Member States were again divided and the Commission now needed to request and convince the Chinese side to share the burden of 70 million pieces of textile and clothing goods, which were piling up at European ports. The Commission therefore had to find innovative ways of overcoming its disadvantages. We argue that once again, the Commission resorted to linkages.

The negotiations to find a mutually acceptable solution did not go well. Although starting from a disadvantageous position, the Commission finally managed to strike a deal with China, which was broadly welcomed at home.

Contextual linkage – politics at the 8th EU–China Summit

In this case, the Commission linked the textile blockage issue with the overall EU–China relationship. It was a typical case of contextual linkage.

The timing of this linkage was good since it so happened that the 8th EU–China Summit was just one month away. Therefore, it was inevitable that the textiles issue was high on the agenda for the Summit preparations. The UK, holding the presidency in the second half of 2005, attached great importance to this event. As a UK official revealed,

Prime Minister Blair did not want to see the textile issue dominate the Summit. He wanted to ensure a successful EU–China Summit. The UK sees the UK–China relationship as extremely important. Blair looked at a wide range of issues in the interest of both sides, including UK industry and services. He did not want the textile case to strain the bilateral relationship. This strong message had gone to Commissioner Mandelson. The UK wanted to see a quick solution.¹²⁹

Considering the close relations between Commissioner Mandelson and his long-time ally Tony Blair, Mandelson saw it as a responsibility to solve this issue. On the other hand, "Mandelson must have made his calculations. He knew he could count on Barroso, and especially Tony Blair". As a matter of fact,

Blair helped him a lot. Part of the reason was that Blair could not bypass this most pressing trade issue between the EU and China. Pressure helped a lot.

Also, if the matter could be successfully resolved, Blair, Barroso and Premier Wen Jiabao's photo would appear in the newspaper, under the headline: EU-China: Textile crisis solved.¹³⁰

A UK official confirmed,

I don't believe that this was a coincidence (that the negotiations were arranged just on the eve of the 8th EU-China Summit). After all, we spent a very long period looking for a solution at the technical level. But we didn't manage it. It had to wait until the last few days in the run-up to the Summit.¹³¹

Although the British prime minister was not involved in the detailed talks, over which the Commission had "sole competence", Mr Blair admitted that the trade dispute had been discussed in general terms during his meeting with Mr Wen.¹³²

Bo Xilai, Chinese Minister of Commerce, remarked in an interview after the signature of the textile deal,

In the textiles consultation, both sides exercised a wise attitude, acknowledged the importance of the China-EU strategic cooperative partnership and reached a fair and equitable compromise, which was acceptable to both sides [...] as a responsible trading power, China remained reasonable and refrained from standing by and doing nothing. This was because Sino-EU economic and trade partnership is long-term and comprehensive, not an on-and-off deal. Those blocked goods belong to the EU side, but the origin is China. Both sides reached a deal after serious consultations and the goods could be unblocked. This has shown that both sides have created a good mechanism to resolve trade problems. Therefore, in the high-level meetings between Tony Blair, Barroso and Premier Wen, all parties commended the consensus on textiles.¹³³

Mandelson's team also believed that China had an interest in maintaining good relations with the EU, and its liberal trade commissioner.¹³⁴

This was a typical example of the EU profiting from its status as a potential great power, the newly established EU-China comprehensive strategic partnership and an asymmetrical interdependence between the EU and China on trade in textiles.

According to Barry Buzan, a British political scientist, what distinguishes great powers from merely regional ones is that they are responded to by others, including regional ones, on the basis of system-level calculations about the present and near future distribution of power. Usually, this implies that a great power is treated in the calculations of other major powers as if it has the clear economic, military and political potential to bid for superpower status in the short or medium term. A state may be awarded great power status by successfully trading on its potential as well as its actual capability.¹³⁵ During the negotiations, the Chinese authorities, consistently put the textile issue in the overall context of

maintaining a strategic partnership with the EU, and therefore sought to solve the textile issue in a mutually beneficial and acceptable manner. In addition, there existed a distinct asymmetrical interdependence between the EU and China on trade in textiles. Whether China liked or not, Europe remained China's largest textile export market. Having a trade war and seeking a short-term benefit by rejecting the burden-sharing formula proposed by the EU side was not in China's long-term interest.

Moreover, the summitry diplomacy played a role. Witnessed and blessed by the top leaders on both sides, the textile issue was resolved in the context of an overall EU–China relationship.

Chinese Premier Wen Jiabao called it a “fair and equitable deal” and was anxious to play down the row in the context of wider trade with the EU. Tony Blair, at the press conference with Wen in the Great Hall of the People overlooking Tiananmen Square, shrugged off normal protocol and said that they did not expect the textile issue would be a problem, and was sure that the deal would go through.

There are bound to be disagreements over trade, partly because of the strength of the Chinese economic performance and where there are disagreements we have got to resolve them as we have fortunately been able to do in respect of textiles. But the big picture is one of increasing trade between China and the EU. Whenever disagreements occur, the key thing is the direction is one way and that's always greater economic cooperation and trade and that's good for our people and good for our countries.¹³⁶

The European Commission president, José Manuel Barroso, who was also in Beijing, said it was important to show the world that the two sides could resolve the row. “It is important for the world to understand that the European Union and China are able to solve the problem in a constructive and positive way [...] I can assure you the result is fair and equitable”.¹³⁷

Wen said:

(throughout the negotiation process) we both have adopted a positive attitude in seeking a solution to share the burden instead of just letting the commodities pile up in these ports [...] It is acceptable to both sides and conducive to both the business communities and the consumers.¹³⁸

On 5 September, the Commission managed to reach an agreement with Beijing, which Commissioner Mandelson qualified as “satisfactory and equitable”.

Linking with China – “I’ve signed a deal. Take it or leave it!”

Caught between the interests of European retailers and producers, it had been impossible to please all parties, as Commissioner Mandelson said.¹³⁹ He had to ally with China at a certain moment to sell a deal at home, which had originally been opposed by the European producing interests. The Commission applied the linkage with China to diffuse the pressure from the US and some doubting Member States.

On the 29th of August, the Commission put forward a proposal to release the blocked textiles. Mandelson had to persuade producers to accept a one-off deal where goods ordered before the 12th of July was excluded from the new quota. His plan needed a qualified majority among Member States.¹⁴⁰ In other words, he would have to win over at least two of France, Italy and Spain for a compromise solution if he was to break the “blocking minority” of protectionist-minded countries.¹⁴¹ He acknowledged that his proposal, which would particularly anger manufacturers in France, Spain and Italy, was aimed at balancing the need to protect the EU from being swamped with cheap imports against prevention of further damage to retailers caused by stock shortages. However, this proposal immediately came under fire from some EU textile producers, including Poland and Spain. The European Union was so divided that a compromise seemed remote because of internal resistance. On the 2nd of September, the Commissioner announced his decision to fly to Beijing to seek a compromise with the Chinese side.

Arguably, the Commission invited itself into the EU’s domestic bargaining process, and played linkage strategy with a third party. China was linked in order to overcome the EU’s internal divisions. After the Commission reached a deal with China, Commissioner Mandelson submitted it to Member States, implying “take it or leave it”. Immediately after the signature, Mandelson told BBC Radio 4’s Today programme,

I am confident because the initial discussions have indicated that Member States are giving (it) a warm welcome. That may not be universal, but I hope that they will consider on its merits what I have agreed, partly because it’s good for Europe and good for China, and that’s what I wanted to achieve, but also because there’s no alternative to what I’m proposing [...] We need to satisfy the needs, not only of European textile producers, but European retailers as well. Because, at the end of the day, Member State governments must put the consumer first.¹⁴²

Mandelson’s tactic, arguably, paid off. France and Italy, previously opposed, finally backed the deal. EU Commission spokeswoman Pia Ahrenkilde confirmed “The first signals that we have received from Member States appear to be positive”.¹⁴³ A Commission official explained,

Politically, there was no alternative to that deal signed between Commissioner and Beijing. The Member States were realistic. Also, even France, Italy and other textile manufacturing Member States have had their goods blocked in ports. They also faced pressure domestically. That is why at the end of the day, nearly all Member States backed the agreement, with only one Member State abstaining.¹⁴⁴

This linkage revealed a hard Commission negotiating strategy when domestic division was hard to repair. Different from synergistic linkage, this type of linkage

was not expanding the win set in a two-level game. Instead, this linkage was made to bring back home the external pressure, and present the divided domestic interests with a political choice – “take it or leave it”. In this sense, *this type of linkage can be compared with synergistic linkage*. Instead of bringing a policy option into the domestic bargaining, the Commission brought in a third party. Instead of expanding the win set, the Commission stuck to the original win set, and forced the Member States to accept its offer by bringing in the pressure from the third party.

That said, the effectiveness of this type of linkage required high skills on the part of the Commission and solidarity among the Member States. If the Commission pressed too hard, it might have caused a backlash. If there was no significant level of solidarity among Member States, the deal would not be accepted at home. Therefore, this deal showed the EU’s bargaining power, which was not only manifested vis-à-vis the third party, but also manifested by domestic solidarity.

Synergistic linkage – a deal between the Commission and South European Member States?

The substance of synergistic linkage is to introduce a new policy option/incentive into a domestic bargaining arena. This new policy option/incentive can be found from the negotiated outcome in international negotiations or from another domestic issue-area. In this case, the Commission was rumoured to have struck a deal with the South European Member States on establishing new anti-dumping cases against China, as a quid-pro-quo. It remained a question whether the Commission played a log-rolling game with South European Member States. The rumour was that the South European Member States accepted the Beijing deal provided the Commission agreed to launch new anti-dumping cases against several specific Chinese products.

As the UK newspaper *The Times* revealed, after the Commission struck a deal with Beijing, EU officials were nervous that the agreement might be blocked by a handful of mainly southern European countries with important textile interests: France, Italy, Spain, Portugal, Greece, Poland and Lithuania.¹⁴⁵ Under the Agreement, the EU would unconditionally accept about 24 million pullovers, 6 million bras and 9 million trousers from the stockpiles now growing at European ports.¹⁴⁶ As a UK official admitted, “I myself have serious doubts whether the textile producing Member States would accept this deal. The discussions intensified even after the Beijing deal was signed between the Chinese government and the Commission”.¹⁴⁷ As Brussels officials suggested, the South European states were expecting to push for new trade protection measures in return for their support for Mr Mandelson’s plan. Mandelson himself qualified the Southern Member States’ blockage of the Commission’s proposal as “a matter of tactics, not principles”.¹⁴⁸

However, there were rumours that some internal trade-off was made between the Commission and the South European Member States. According to the

Times, one possible concession could see the continuing dumping investigation into leather footwear imports from China being speeded up so that additional import tariffs might be imposed that year. The sources also said that these states were likely to push for measures such as the introduction of compulsory labelling of country of origin for clothing and new anti-dumping investigations into other merchandise such as shirts from China.¹⁴⁹

France and Italy, two of the EU's main textile producers, on the 6th of September, signalled they were prepared to accept the deal, but there were likely to be caveats. French diplomats said Paris was seeking a political declaration that the "EU should monitor the level of imports" from China, a signal of continuing unease. Italy meanwhile was concerned about low-cost shoe imports from China, and wanted Mr Mandelson to accelerate an inquiry into alleged dumping on the European market.¹⁵⁰ There were unconfirmed reports that Italian negotiators were demanding that, in exchange for agreement on textiles, Mandelson must bring forward an investigation into the possibility of quotas on the number of plastic bags, DVDs and CDs allowed into Europe.¹⁵¹

A UK official revealed, "Commissioner Mandelson lobbied hard the ministers of Member States like Italy. I suspect that maybe there was some element of trade-off".¹⁵²

It is difficult to prove that this linkage existed. However, the fact is that the Commission later launched anti-dumping investigations into the Chinese exports of plastic bags, DVDs and CDs and leather shoes. On this paradox, I tend to argue that there existed an implicit and deferred linkage between the textile deal and the later anti-dumping cases against Chinese exports. Although the Commission may not have made any explicit commitment to South European Member States, protectionist forces were significantly reinforced and the pressure mounted upon the Commission to take concrete actions to protect domestic industries. I therefore rate the effectiveness of this type of linkage as "marginal", given the ambiguity of the evidence of the existence of this linkage.

Chapter conclusion

The EU-China Textile Dispute was the first case where the EU witnessed China's genuine commercial power and massive build-up of its exporting capabilities, and felt the full impact of tensions among European consumers, producers, importers and retailers, as well as Member States representing different interests.

The Textile Dispute was divided into two phases. In the first one (January–June 2005), the Commission managed to sign a deal with China, which agreed to exercise voluntary restriction on its textile exports to the EU market. In the second one (July–September 2005), the Commission convinced China to accept a burden-sharing solution, under which the EU allowed part of the blocked goods to enter free of quota and the Chinese side agreed to use part of its 2006 quota in 2005. This compromise solution led to the full release of millions of tonnes of textiles products blocked in European ports.

Table 6.1 is a summary of the EU's linkage strategies and their effectiveness during the first phase of the Textile Dispute. I find that various types of linkages all played a considerable role in contributing to the EU's linkage power. Their effects during the first phase combined to make the EU's overall linkage effects "significant" (5 points).

Table 6.2 summarizes the EU's linkage strategies and their effectiveness during the second phase of the Textile Dispute. I find that various types of linkages all played a considerable role in contributing to the EU's linkage power. For the second phase, the EU's three linkage strategies were all rated "considerable". I, therefore, rate the EU's linkage effectiveness during the second phase of the Textile Dispute as "Considerable" (3 points).

To arrive at a combined score for the two phases, the effectiveness for the whole period was rated "4 points".

Table 6.1 Effectiveness of linkages in the first phase of Textile Dispute (2005)

<i>Linkage type</i>	<i>First phase of Textile Dispute</i>	<i>Effectiveness</i>
Contextual linkage	Linking the EU–China overall relationship with a sectoral issue	Considerable
Linkage with the US	Linking with the US to win China's favour	Considerable
Issue linkage (economics & economics)	Reciprocal opening of textile markets on both sides	Marginal
Cognitive linkage	Linking development and trade	Considerable
Synergistic linkage	French initiative to link its referendum and the textile issue to win German support	Considerable
Overall effectiveness		Significant 5'

Table 6.2 Effectiveness of linkages in second phase of the Textile Dispute

<i>Linkage type</i>	<i>Second phase of Textile Dispute</i>	<i>Effectiveness</i>
Contextual linkage	Linking the 8th EU–China Summit with a specific trade issue – the textile blockage crisis	Considerable
Linkage with China	Introducing external pressure into the EU's domestic bargaining table	Considerable
Synergistic linkage	A type of synergistic linkage – introducing the negotiated outcome at the domestic bargaining table to the external bargaining (signing Beijing deal for burden-sharing)	Marginal
Overall effectiveness		Considerable 3'

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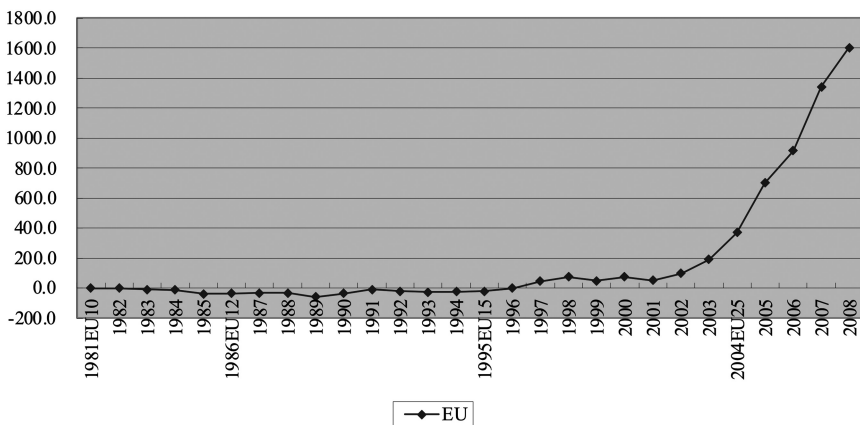
7 The EU's offensive for market access in China (2006–2008)

After 15 years of rapidly developing ties, there were some indications of new strains emerging in the EU–China relationship. “The China honeymoon is over”, claimed the American scholar David Shambaugh.¹ The 2005 Textile Disputes rang a loud warning bell that the EU–China trade relationship had entered into a difficult period. Two years after the Barroso Commission came into office, a new Commission Communication on China was released in October 2006, which had a markedly more sober and assertive tone than its predecessors in a variety of policy areas: trade and investment, energy and environment, human rights, military transparency, non-proliferation, aid programmes in Africa, relations with Taiwan and global governance. We were witnessing that the linkages underpinning the previous partnerships during the 1993–2004 period were still there, but with new challenges and difficulties mainly manifested in political and economic areas.

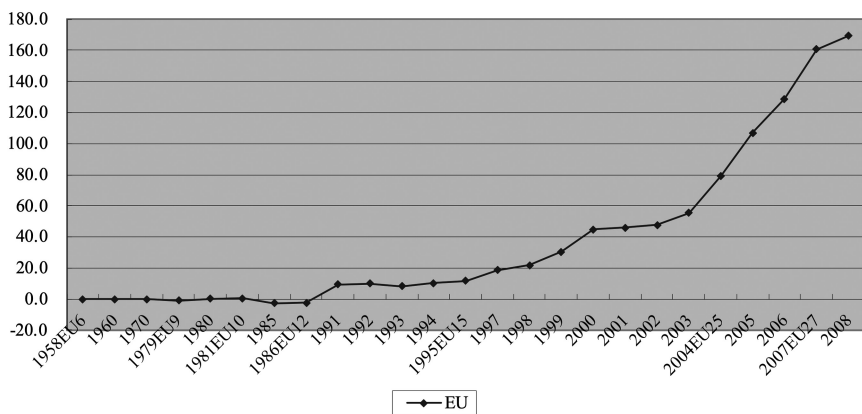
Politically, the Tibet issue turned out to be a flash point in the EU–China relationship. On 23 September 2007, German Chancellor Angela Merkel met with the Dalai Lama, who has long been perceived by Beijing as a separatist. On 8 December 2008, French President Nicholas Sarkozy in the capacity of the EU presidency also met him, which prompted the Chinese government’s decision to cancel the 11th EU–China Summit. The arms embargo issue remained unresolved. Although the EU and China were politically interdependent on a wide range of issues during this period, the EU–China relationship showed visible signs of strains.

Economically, while trade was booming – EUR254 billion in 2006 and over EUR300 billion in 2007 – the burgeoning deficit and growing concerns over market access had agitated EU governments and the EU trade commissioner, Peter Mandelson, who criticized China’s protectionist practices with increasing vigour.

If the buzzword of the EU–China trade relationship in 2005 was *textile*, that in 2006 and 2007 should be *trade deficit*. A fast upward trend of deficit had started to become visible since 2002 after China joined the World Trade Organization by the end of 2001, and hit a record high in 2008 (see the Graph 7.1 and 7.2). China’s exports to the EU grew much faster than European exports to China. According to the Eurostat (Statistical Office of the European Communities),



Graph 7.1 The EU trade deficit vis-à-vis China (1958–2008) (US dollar 100 mio).
Data source: the Chinese Customs Yearbook (1975–1998) and the Ministry of Commerce (1999–2008).



Graph 7.2 The EU trade deficit vis-à-vis China (1958–2008) (ECU/EUR mio).
Source: Eurostat External and Intra-EU trade – statistical yearbook – data 1958–2007 and DG Trade Website for the statistics of 2008.

European trade deficit vis-à-vis China grew from EUR128.8 billion in 2006 to EUR160.7 billion in 2007, increased by 24.8%.

The trade deficit was so big that it quickly became politicized. As Peter Mandelson, EU trade commissioner claimed, he accepted that part of this deficit might be the natural result of market forces, but EU export potential was being hampered by barriers in the Chinese market – that an important part of the current trade balance was artificial. Mandelson concluded that the deficit was

“a product of politics, not economics, and it can be addressed by politics”.² A Commission-funded study even calculated that due to China’s barriers to EU–China trade – about EUR20 billion business opportunities annually lost, equal to 30% of EU exports to China.³ Indeed, the enormous trade deficit posed a grave challenge to the Commission – how to keep the balance between maintaining a good political relationship with China, and avoid China’s export capacity becoming counterproductive and incurring a protectionist reflex within the Union. The Commission decided to pre-empt and go on the offensive to further open Chinese markets.

This Chapter first explains the EU’s trade deficit issue with China in general terms, and then focuses on the EU’s linkage strategies during the 2006–2008 period.

The EC/EU–China trade deficit issue

The EU–China textile row was, to some extent, the watershed of the EU’s attitudes towards globalization and the EU–China trade relationship. The Commission started to systematically reflect upon its trade policy towards China in 2006. As Commissioner Mandelson said,

Globalization confronts us with the reality that we can no longer take economic growth for granted. Competitive pressure from the emerging economies of Asia is forcing us to compete much harder both for our home markets and export markets.⁴

“China is turning our picture of what constitutes European production, or even the European economic interest, on its head”. Commissioner Mandelson perceived China as both a challenge and an opportunity:

China is the single greatest challenge to European trade policy: diplomatically, politically, and commercially. It is the fastest changing part of a fast changing world. It is a source of anxiety, but it has also set alight Europe’s commercial imagination, and re-energised its spirit of enterprise [...] China is reshaping the global economy.⁵

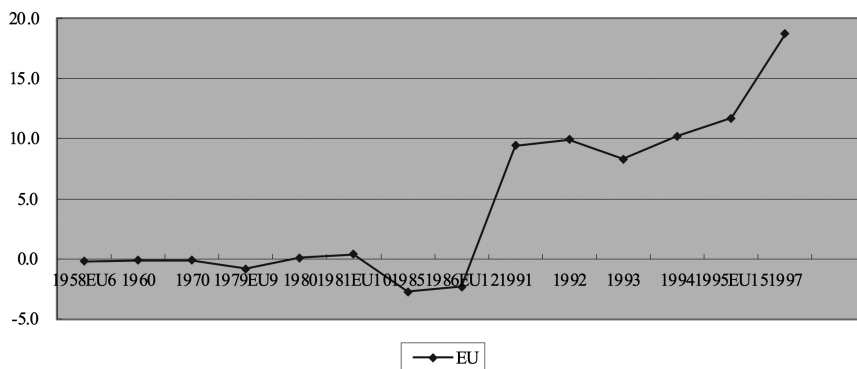
On the basis of the above analysis, the Commission, for the first time, issued a separate Communication on the EU–China trade and investment relationship, designed for Europe to adapt to the rapidly changing global economic landscape, in particular the rapid rise of China on deficit.

In this section, I review the EC/EU–China trade deficit issue since the very beginning when the EEC and China established diplomatic relations in 1975. I further divide the history of the deficit issue into three phases – before 2006, 2006 and 2007–2008. The reason that I selected 2006 as a critical juncture was that 2006 represented a watershed between a soft and a tough EU approach towards China.

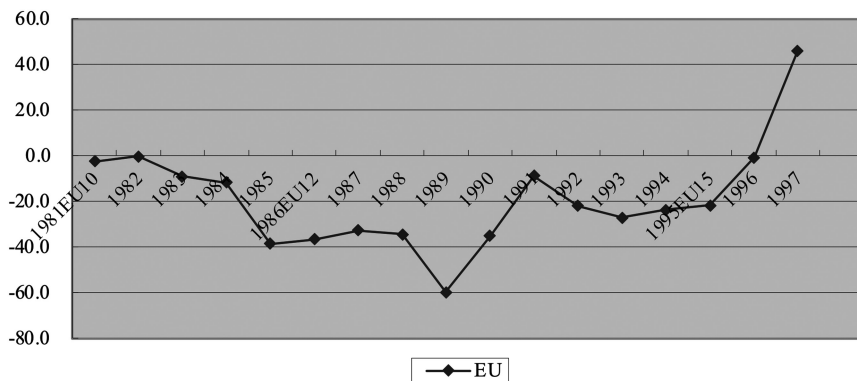
The EC/EU–China trade deficit issue (before 2006)

Since the establishment of EEC–China diplomatic relationship, the trade balances had been volatile. As Eurostat statistics show, Europe remained on the surplus side in most years until 1987, whereas the Chinese Customs statistics show that the surplus lasted until 1997 (see the graphs 7.3 and 7.4). The trade balance had not been taken as a conflictual issue, since the deficit was not significant enough to attract political attention on either side. That said, it remained an issue, discussed from time to time in bilateral trade meetings.

In the 1970s and much of the 1980s, the EC had a trade surplus vis-à-vis China. When the EEC and China negotiated the 1978 Trade Agreement, China insisted on obtaining a trade balance clause (Article 3), that would “foster the harmonious expansion of their reciprocal trade” and that would help to attain ‘a balance in such trade’.⁶ The economic reform launched by DENG Xiaoping



Graph 7.3 EU's trade deficit towards China (1958–1997) (ECU/EUR mio).
Source: Eurostat External and Intra-EU trade – statistical yearbook – data 1958–2007.



Graph 7.4 EU's trade deficit towards China (1975–1997) (US dollar 100 mio). Data source: the Chinese Customs Yearbook (1975–1998).

following the Third Plenum of the Chinese Communist Party's 11th Congress in December 1978, as well as the 1978 and 1985 EC–China trade agreements, had contributed to the expansion of the EC–China trade. In parallel with China's booming economy, the bilateral trade flows also surged. Total bilateral trade in 1978 was only 2.4 billion ECU (EU-9), but by 1993 this had risen to 30.8 billion ECU (EU-12). The EC–China trade increased almost thirteen-fold since the beginning of reform in China.

1992 marked a turning point in China's recent history. In this year the reformers regained dominance over more conservative forces and brought new momentum to China's transformation towards a market economy. The intention further to open China to the world economy was underlined by the start of serious GATT-membership negotiations. Only with this resumption of the reform process could European economies once again realize significant increases in their export volumes (towards China).⁷ In contrast to the comparatively moderate and quite volatile development of exports, the Western European economies' imports from China clearly showed a more dynamic growth. Since 1986 their imports from China had grown steadily, thereby ending the generally equal volume of export and import flows in the late 1970s and 1980s. In the 1990s, the West European economies had all built up massive trade deficits with China. According to Taube, there were several reasons for the import surge and the balance of trade developments.⁸

- The developments reflected the consistent implementation of an export-oriented foreign trade strategy and a rapid catching-up process of the Chinese economy.
- European investment projects in China made an important contribution. As more ventures began production during the 1990s, they not only became important suppliers for European imports but also increasingly substituted European exports to China as they entered the local market.
- The rise of export processing businesses in China led to a redirection of European import flows in China's favour as production facilities were moved from Hong Kong, Macao, Taiwan and South-East Asia in general.
- The surge in imports was also considerably boosted by EU assistance measures. China was included in the EC's System of Generalized Tariff Preferences (GSP) in 1980, becoming one of its greatest beneficiaries.
- While China promoted an export-driven growth process in various areas, it also took recourse to extensive protection of domestic industries.⁹

Generally speaking, Europe was soft on the trade deficit issue in the 1990s. European Commission President Santer (1995–1999) made little fuss over the sharp increase in Chinese exports to Europe, although the United States adopted a stronger stance on its growing and larger trade deficit with China. Santer said, "Europe is ready to continue to absorb these Chinese exports if we can get an assurance that China will steadily and resolutely open its markets to our investors and exporters".¹⁰

During the tenure of Commissioner Pascal Lamy (1999–2004), the trade deficit was already an issue, but not so acute, as Commissioner Lamy put it, “the pot is cooking well, but there are no signs of boiling over”.¹¹ According to the EU statistics, the EU’s trade deficit vis-à-vis China amounted to EUR55 billion in 2003. Commissioner Lamy mentioned the deficit issue on many occasions. But he did not follow the American approach to politicize it due to the following reasons, elaborated by Lamy himself in a speech in 2003 and reiterated in another in 2004:

First, because the EU has perhaps less of a mercantilist vision which demands at least a balance of trade, and preferably a positive balance, with each of its partners. Secondly, however, the EU has an overall balance of trade, more or less: obviously a deficit with China, but a surplus elsewhere. Thirdly, there is quite a degree of understanding as to the unique circumstances behind China’s extraordinary competitive position at the moment. For example, the advantage coming from the annual graduation of more than 550,000 engineers cannot be overlooked. The combination of very high levels of foreign investment, cheap but well-trained labour, and a middle class which while growing fast is not yet sucking in the same level of imports as developed economies is hard to overstate. Finally, because – unlike in the US – there is a much lesser sense of geopolitical challenge to Europe from China. Partly that is because Europe is not yet a political superpower herself. But partly it is because we are happy to see a future in which at the same time as we safeguard a strong transatlantic alliance, we see a greater diffusion of power, a more multi-polar world, developing.¹²

Lamy was not free from pressure. Every time when he raised the trade deficit issue in the meeting with the Chinese government, he hinted by saying that

let’s not be too relaxed about this. There is clearly pressure mounting [...] It would be good for once if you were to recognize just how open the European economy is, the absence of structural barriers in the European Union to trade.

He also said, “To hear continued complaint about discrimination against Chinese firms on trade defence instruments, for instance, or about the threat posed by enlargement, is fairly irrelevant in this context”. It seemed that Lamy used the trade deficit as a pawn or bargaining chip.

It is noteworthy that Lamy was consistent in perceiving China more as an opportunity than a threat. He said,

Of course China is exporting a lot and we have a important trade deficit, but China is also importing a lot, and if China, with its huge size and huge potential, keeps its 8 to 10 percent growth a year, then this is a very big

opportunity for many in the European economy, provided of course that the Chinese market opens, which it has been doing since the reforms.¹³

Commissioner Mandelson (2006) – “Dialogue first”

In the whole 1990s and early 2000s, the Commission accepted having a ballooning trade deficit vis-à-vis China. It did not see the deficit as an acute issue, although there was clear pressure from protectionist interests. The best tool to resist domestic protectionist pressure was to keep on opening China market. After Commissioner Mandelson came into office in 2004, he basically inherited his predecessors’ trade policy – to maintain an open EU market and further pry open the markets of third countries. The only difference was that he had to handle a trade deficit, which was much larger and politically sensitive. He therefore had to take a more proactive way. But he waited over one year before he unveiled a new Communication on trade in October 2006, partially due to the textile issue, which took away most of his time and energy in 2005. The successful handling of the textile dispute with China gave the Commission renewed confidence in properly handling trade relations with China and the rest of the world. This document titled “Global Europe: Competing in the World” was subtitled “A Contribution to the EU’s Growth and Jobs Strategy”, indicating the linkages sought and contribution of the EU’s external trade policy to the Barroso Commission’s overall economic policy objectives, in particular supporting the renewed Lisbon Strategy.¹⁴ The Communication identified the following seven pillars as being important components of the EU’s future external trade policy:

- Maintain our commitment to the Doha trade round and the WTO as the best way of opening and managing world trade.
- Make proposals on priorities in trade and investment relations with China as part of a broad strategy to build a beneficial and equal partnership.
- Launch a second phase of the EU IPR enforcement strategy.
- Make proposals for a new generation of carefully selected and prioritized FTAs.
- Make proposals for a renewed and reinforced market access strategy.
- Propose measures to open procurement markets abroad.
- Conduct a review of the effectiveness of our trade defence instruments.¹⁵

Simon Evenett, a Switzerland-based professor of economics, argued that

the “Global Europe” communication reflected an evolution rather than a revolution in the Commission’s thinking about the EU’s external trade policy. The prominence given to market access, non-tariff barriers, and other economic considerations (such as jobs and economic growth) indicated a shift in the Commission’s thinking back to 1996 [...] Also implicit in this communication is an apparent differentiation between Europe’s poorer

trading partners. The developing country label is no longer enough to get an EU trading partner an undemanding non-reciprocal package of access to the EU market. Large, faster-growing, and relatively richer developing countries can in the future, it seems, expect to be treated in a manner similar to industrialized countries.¹⁶

Against this background, China was singled out as one of the top priorities of EU's new trade policy in 2006. To accompany the EU's Communication "Global Europe", a Communication entitled "*EU-China Trade and Investment: Competition and Partnership*" was issued. This document was also part of a new broad strategy to build a beneficial and equal partnership with China. The EU committed itself to adapting to the new reality after the transitional period of China's enforcement of its WTO commitments, and shifted its major policy goals. Specifically, the EU demanded from China to continue to implement its WTO commitments, and further increase market access, in services, investment, public procurement and other areas, strengthen the protection of intellectual property rights and play a more proactive leadership role.

The change in the Commission's new Communication was also driven by the desire to quell protectionist sentiment at home and strengthen Europe's hand when it renegotiated a trade agreement with China. There was a bargain to be struck in which Europe committed to maintaining its own openness even in the face of the toughest competition, and China should act to ensure that that competition was fair and that EU businesses would get a fair shot in the Chinese market. European business lobbies such as UNICE, which represents 2.2 million businesses, complained that they had not got a fair deal with China.¹⁷

In terms of the way of handling the EU's trade relations with China, the Commission firstly took a "dialogue first" approach, meaning "where trade irritants arise between China and the EU, the EU will always seek to resolve them through dialogue and negotiation".¹⁸ Commissioner Mandelson sought to take this approach based on the following considerations: (1) benefiting from the bonus resulting from a successful resolution of the Textile Dispute; (2) considering himself as a friend of China; and (3) hoping to strike a grand bargain with China, which cannot be realized except through dialogue and negotiation.

Commissioner Mandelson also attempted to change Europeans' perception of China's imports in Europe. In fact, he was consistent in this. Even in 2007 when tensions mounted high between Europe and China, he consistently argued that "it is important to recall the basic fact that openness to China's growing economy is in general a good thing for us – it's a brake on inflation, a competitiveness check and a huge market for our goods and services".¹⁹

Although the pressure was mounting high on the trade deficit issue, it seemed that Commissioner Mandelson tried to avoid mentioning it. I went through all the speeches Commissioner Mandelson delivered from 2004 to 2006 and found that he never mentioned trade deficit. It might be a deliberate move to avoid politicizing this issue within the EU and keep distance from the US's China-bashing policy. The only place where deficit was mentioned was

in the EU's first Communication on trade and investment relationship with China, which said,

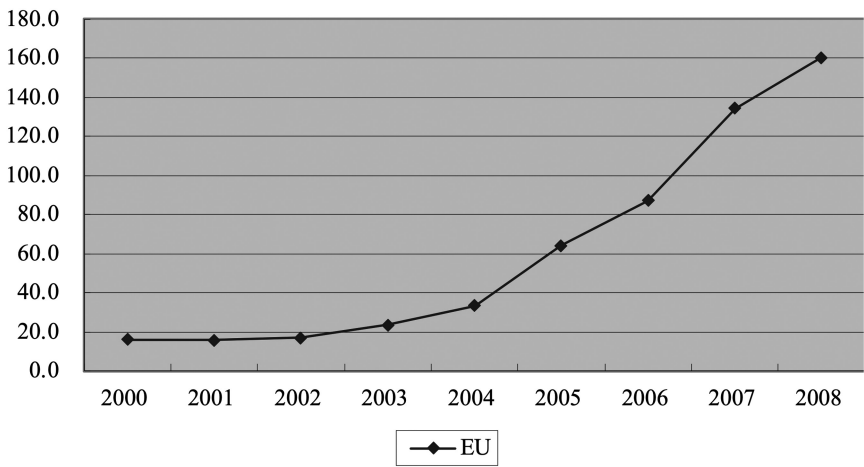
Europe runs a steep trade deficit with China: in 2005, Chinese exports to the EU reached €158 billion and EU exports to China €52 billion, resulting in a trade deficit of €106 billion. However, approaching the EU-China trade deficit in isolation is misleading. Asia's share of EU imports has remained relatively stable at 20-25% over the last decade. The trade deficit with China hides to some extent the fact that its exports have partly replaced exports from other Asian countries.²⁰

Commissioner Mandelson emphasized reciprocity in handling trade deficit issue with China, as he claimed,

While the Chinese competitive challenge needs to be put clearly in perspective, it is unquestionably real and has important consequences for companies and individual workers in Europe. This is why securing reciprocal free and fair market in access in China is crucial. Here, a range of obstacles to market access, and skewed conditions of competition need urgent attention.²¹

Mandelson (2007–2008) – “business as usual”

Graph 7.5 showed that the EU's trade deficit vis-à-vis China started to soar in 2004 and kept on growing fast in 2005–2008. The EU's trade deficit with China reached USD134.2 billion in 2007, increasing by 46.4%. The former EU trade



Graph 7.5 EU's trade deficit towards China (2000–2008) (US\$ mio). Source: Ministry of Commerce, P.R. China.

commissioner Pascal Lamy's metaphor became a reality. Indeed, "the pot boiled over".²²

The European perception of China was changing fast. As Erixon and Messerlin said, "Obsessed by the EU's trade deficit with China, European leaders have become shrill and confrontational in their approach".²³ A report issued by the Centre for European Reform (CER) summarized well the implications of the deficit problem,

Europeans complain that trade relations are becoming unbalanced, and perhaps even harmful. They blame the burgeoning bilateral deficit on China's protectionism, industrial policy and exchange-rate peg. They are calling for reciprocity and a level playing field. Some no longer see China's economic boom as a benign miracle, but as a threat to the world's climate, and as the epitome of the kind of cut-throat capitalism that Europe is proud to have moved beyond.²⁴

Several other factors explained why the EU-China economic tensions had become so acute recently. Firstly, enlargement obscured globalization.²⁵ Before and immediately after 2004, the EU's attention was mainly on its enlargement and assuaging the negative implications thereof. Only after 2005, especially after the EU-China Textile Dispute, the Union started to feel the serious pressure of globalization and China's economic rise.

Secondly, liberalism was under tremendous pressure. French President Sarkozy called for a "genuine European industrial policy" and urged European governments to get tough on economic rivals such as China. He attacked Commissioner Mandelson's approach to trade policy, "I want Europe to stop being naïve [...] Naivety is over. Reciprocity is starting".²⁶ Sarkozy criticized the EU's trade policy for being excessively liberal and suggested that Peter Mandelson, the British trade commissioner, should be stripped of this responsibility [...] that such an important dossier should be entrusted to the president of the European Commission, José Manuel Barroso.²⁷

Thirdly, some big Member States changed their attitudes towards China. Part of the reasons for the mounting pressure on the Commission's China trade policy could be attributed to the changes of British, French and German leaders. As David Shambaugh said, "Gone were the China-fawning Tony Blair, Jacques Chirac and Gerhard Schroeder, replaced by the more China-sceptical Gordon Brown, Angela Merkel and Nicolas Sarkozy".²⁸

Perhaps most worrying for the Chinese was the shifting mood in Germany. Germany alone accounted for around 40% of all EU exports to China. In recent years, however, the rising euro made German goods more expensive outside the eurozone. The main reason why German exports continued to boom regardless was that German industrial wages had been flat or even falling in real terms. So Germany's continued export success had helped its companies but hurt some of its workers. As a result, German domestic demand was too low and German workers became more and more fearful of globalization. In 2008, as the euro

continued to rise and global growth slowed, such concerns mounted. Germany's trade deficit with China had more than doubled since 2000 at EUR25 billion, it was Germany's biggest bilateral deficit in 2007 (although it paled into insignificance compared with Germany's overall trade surplus of almost EUR200 billion that year).²⁹ Germany and France even ganged up in a Joint Declaration on 10 September 2007 in the Franco-German informal Summit, which targeted implicitly at China's fierce, but alleged unfair competition, and called for reciprocity:

The opening of markets can only produce its full effects if transparent rules promote fair competition in a spirit of reciprocity. This requires presenting a united front, especially when it comes to developing strategies to convince third countries to reduce the obstacles that disadvantage European companies.³⁰

Last but not least, Commissioner Mandelson's frustration and disappointment contributed to the drastic change of the Commission's attitude towards China. One Commission official said,

Commissioner Mandelson considered himself a friend of China. But he was frustrated by and angry with China's lack of sensitivity. He asked himself how an emerging power could seem so insensitive.³¹

Another Commission official shared the above opinion, saying,

Commissioner Mandelson did not expect that China would be so realistic and such a tough bargainer. This is a hard game. There is nothing but give and take.³²

There were, in particular, two factors, which drained the Commission's patience. One was the long-lasting and difficult negotiations on the terms of reference of the update of 1985 Trade and Economic Cooperation Agreement. The other was the difficulty in advancing the negotiation on China's accession to the Government Procurement Agreement (GPA).

As a result, the EU was disenchanted with China. The European Commission, as the chief trade negotiator representing the European Union, ran out of patience. Different from the previous approach emphasizing cooperation, the Commission took a '*business as usual*' approach towards China, meaning that the EU treats China as a normal trading partner and no longer feels it necessary to be sensitive to China's specifics. The EU-China honeymoon is over.

From mid-2007, the Commission's rhetoric became notably tougher and less conciliatory. The symbol was Commissioner Mandelson's speech in the European Parliament on 10 June 2007. He warned that the trading relationship between the EU and China was at "a crossroads" and that a backlash in Europe against open trade with China was likely if China did not act faster to meet its WTO obligations and remove unfair barriers to EU exports.³³ EU's negotiators complained of being "taken for a ride", as their Chinese counterparts offered belated

promises to change things without delivering much in practice. More importantly, the Commission was concerned not to become too far out of step with changing attitudes in the Member States. As a result, the Commission decided to take a more proactive (the Chinese would say aggressive) stance on the issues that most worried the Europeans: Chinese exports and protectionism in the Chinese market; the impact of the RMB's peg to the dollar; and the spectre of China using its newly accumulated wealth to buy 'strategic' companies in Europe.³⁴

Before moving onto the EU's offensive actions vis-à-vis China, I first analyze the EU's eroded power resources.

The EU's eroded power resources

The effectiveness of the EU's linkages requires power resources. When the Commission decided to take action on the market access issue, it suddenly found that there were insufficient power ammunitions in stock, which had a negative impact on the EU's linkage power.

Politically, the EU and China were as interdependent as before, if not more. The context of the EU-China political relationship was two-fold: China's revival and a more acute need by the EU to tackle key global challenges than ever before. Since 1980 China had enjoyed 9% annual average growth and saw its share of world GDP expand tenfold to reach 5% of global GDP.³⁵ China's economic growth also significantly increased its confidence and expanded its global interests. China saw an increased interest in getting involved in world affairs and various issue-areas such as climate change, environment, trade and investment and security. That fitted the EU's global agenda. The EU's expectations on China were growing. On human rights, "The EU's expectations (on the human rights dialogue) – which have increased in line with the quality of our partnership – are increasingly not being met".³⁶ On secure and sustainable energy supplies, the EU's priority was to ensure China's integration into world energy markets and multilateral governance mechanisms and institutions, and to encourage China to become an active and responsible energy partner.³⁷ The EU also relied on China to combat climate change and improve the environment and the coordination on international development, particularly in Africa. Moreover, China became a source of growth for the EU and the world.³⁸ The 2006 EU Communication on China – *EU-China: Closer Partners, Growing Responsibilities*, stated,

China has re-emerged as a major power in the last decade. It has become the world's fourth economy and third exporter, but also an increasingly important political power [...] Europe needs to respond effectively to China's renewed strength. To tackle the key challenges facing Europe today – including climate change, employment, migration, security – we need to leverage the potential of a dynamic relationship with China based on our values.³⁹

I argue that the EU's high expectations of China and its increasingly interdependent relationship with China considerably decreased the asymmetry of

the EU–China relationship. Both sides felt a stronger urge to coordinate internationally. That brought bilateral relationship on a more equal footing than before.

During this period, the EU was divided internally in the face of globalization and the rise of China. Firstly, not all the Member States supported the free trade policy any longer. A South European camp led by France advocated for more protection than further market opening. They strongly criticized the Commission's "naïve" trade policy towards China. The Textile Dispute had left a deep scar within the EU. Secondly, the Member States were divided in how to handle China politically. The *Economist* claimed that China had a clear understanding of EU institutions, and even exploited the EU's internal divisions. Following an unprecedented meeting in September 2007 between German chancellor, Angela Merkel and Tibet's exiled leader, the Dalai Lama, China vented its rage by cancelling a number of engagements with Germany, its largest export market in the EU. By contrast it gave a warm welcome to France's president, Nicolas Sarkozy, who visited China just before the EU–China Summit, conspicuously neglecting to bring his human rights minister along. Mr Sarkozy oversaw the signing of a deal worth USD11.9 billion for the sale of two French nuclear reactors to China and another for the sale of USD17 billion-worth of Airbus aircraft.⁴⁰

In the meanwhile, two factors eroded the EU's credibility with China.

Firstly, the "No votes" to the European Constitutional Treaty in France and the Netherlands were serious setbacks to the European integration and had a negative impact on the EU's global role. As analyzed before, the EU was a unique international entity, whose power partially came from its potential status as a great power. The setbacks in its integration process cast big doubts among other great powers including China, about the EU's future. A common consensus among Chinese scholars was that the European integration process was not necessarily reversible, but the way towards that goal would be extremely long.

Secondly, China's attitude towards the EU gradually turned from "positive" to "disappointed". As the *Economist* revealed,

Once hopeful that the EU might act as a counterbalance to American power, China's expectations receded as more pro-American leaders took over in Germany and France. The EU was China's biggest trading partner, but it ranked far lower in China's political calculations. A report from Chatham House said that China believed Europe lacked strategic vision and suffered from internal discord, impeding its credibility [...] Neither did the EU's handling of the arms embargo nor the Market Economy Status (MES)⁴¹ issue do any good to the EU's credibility with China. The US intervention, which blocked the EU from lifting the arms embargo against China, cast doubts on the EU's capability to deliver upon its promise.⁴²

As Chris Pattern, then commissioner for external relations, admitted in his memoir, "In the course of this policy ramble, Europe has lost face with China, America and Asia".⁴³ No progress had been made since 2005 on lifting the arms embargo.

On the MES issue, the Chinese side made its initial request in 2003 and since then the EU's response remained that "we welcome the progress, but ..." In June 2004, the European Commission published its preliminary assessment report of China's market economy, claiming that China only fulfilled the second of the five technical criteria. In November 2004, both parties agreed to establish a working group on the MES. Since then, the Chinese side provided the Commission with a large amount of information concerning the development of China's market economy. The Commission updated the assessment report respectively in 2007 and 2008. Its conclusions were that the Chinese side had made significant progress, but had not yet met the four remaining criteria. Although the EU side emphasized the technical nature of MES, its position seemed inconsistent. Firstly, the EU granted Russia the market economy status in 2002, whose market economy conditions were allegedly less advanced than China's. Secondly, the Commission seemed not just interested in the technical aspects. Rather, it was concerned with a wider scope of issues in China's economic regime, ranging from its governmental intervention, corporate governance, legal and financial systems, etc. In other words, to fulfil all the five technical criteria would require a significant overhaul of China's economic regime. Thirdly, the Commission established another working group with China in 2006, focused on market access. That ran counter to the Commission's position that the technical criteria are necessary and sufficient conditions for granting China the MES.

As a result, the Chinese side started to believe that the Commission had done nothing but paid lip service.

Moreover, from an institutional perspective, lifting the arms embargo requires unanimity of Member States and the MES a qualified majority. In both cases, neither the Commission nor the Member States could make a decision. The Chinese side was often told by the Member States to contact Brussels, whereas Brussels told Beijing that Member States decided. Such a back-and-forth ball-kicking exercise again undermined the EU's credibility and left China with an impression that nobody in the EU had a final say.

Although the political relations were more or less balanced, the EU-China economic and trade relationship still had a distinctive asymmetry. The following tables (7.1 and 7.2) show that the EU's exports to China accounted for 5.5% in 2006 and 6.0% in 2008 in the EU's total exports, while China's exports to the

Table 7.1 China's position in the EU's external trade relations (%)

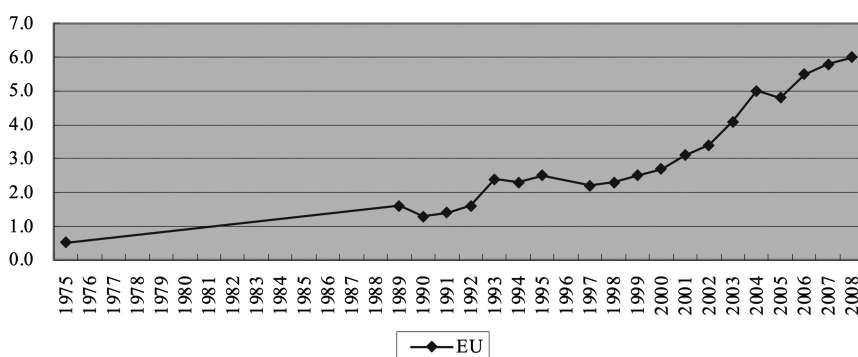
	2005	2006	2007	2008
EU export to China in its total exports	4.8	5.5	5.8	6.0
EU import from China in its total imports	13.6	14.4	16.2	16.0

Data source: Eurostat website.

Table 7.2 The EU's position in China's external trade relationship (%)

	2005	2006	2007
EU export to China in China's total imports	12.6	12.8	13.0
EU import from China in China's total exports	19.3	19.2	20.5

Data source: Eurostat Yearbook 1958–2007.



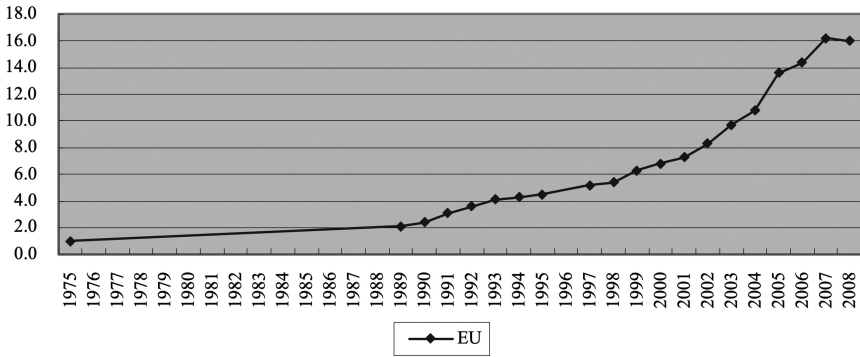
Graph 7.6 Share of EU's exports to China in EU's total export (1975–2008) (%).

Data source: EUROSTAT 1993, Eurostat website, Eurostat Yearbook 1958–2001, Eurostat Yearbook 1958–2006, Eurostat Yearbook 1958–2007 compiled.

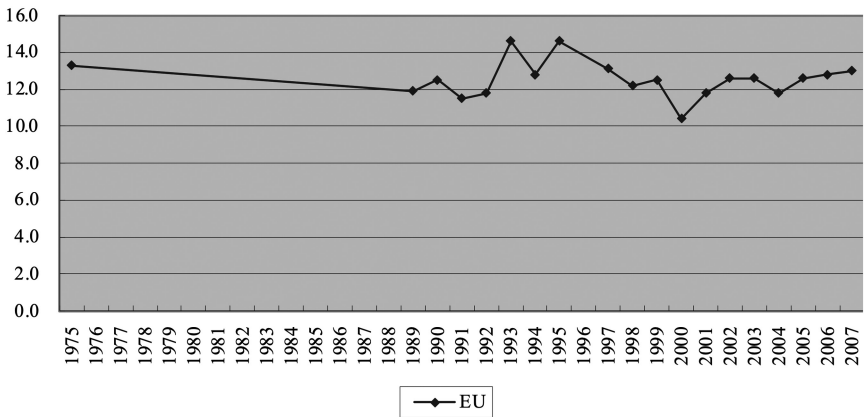
EU accounted for around 20% in its total export. That asymmetry made China depend more on the EU than the other way round.

That said, we witnessed a gradual and stable increase in the share of EU's exports to China in its total exports (see Graphs 7.6–7.9). In the meanwhile, China was taking an increasingly important position as the EU's major import supplier. China replaced the United States to become Europe's biggest supplier of manufactured goods in 2006 and had remained in that top position since then, accounting for 14.4% in 2006 and 16.2% in 2007 in the EU's total manufactured imports. We argue that China started to acquire a strategic position vis-à-vis the EU in a bilateral trade relationship. In other words, the EU could not live without China since China had already taken an essential position in the EU's production and supply chain. That considerably strengthened China's relative market position vis-à-vis the EU.

Although the EU was increasingly relying on China both as an export destination and import supplier, the asymmetry in favour of the EU in the EU–China trade relations had yet to be changed substantively. This was mainly



Graph 7.7 Share of EU's imports from China in EU's total imports (1975–2008) (%). Data source: EUROSTAT 1993, Eurostat website, Eurostat Yearbook 1958–2001, Eurostat Yearbook 1958–2006, Eurostat Yearbook 1958–2007 compiled.

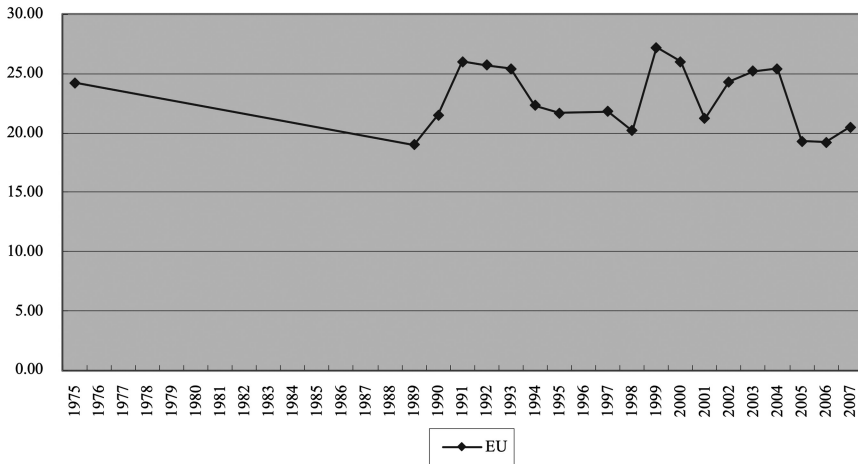


Graph 7.8 Share of Chinese imports from EU in China's total imports (1975–2007) (%). Data source: EUROSTAT 1993, Eurostat website, Eurostat Yearbook 1958–2001, Eurostat Yearbook 1958–2006, Eurostat Yearbook 1958–2007 compiled.

because China still heavily relied on the EU to absorb its enormous export capacity.

In addition, the EU's investment in China and its technology transfer and development assistance to China remained at a high level during this period.

The EU's bargaining power was reduced also because of lack of institutional levers. As a commissioner official commented, "the EU has no levers. Unlike China or even the US, the EU can not regulate. It is unthinkable for the EU



Graph 7.9 Share of Chinese exports to EU in China's total exports (1975–2007) (%).
Data source: EUROSTAT 1993, Eurostat website, Eurostat Yearbook 1958–2001, Eurostat Yearbook 1958–2006, Eurostat Yearbook 1958–2007 compiled.

to regulate (in trade policy)". The EU is bound by the Treaty and "half of its Member States are even against anti-dumping measures, not to mention safeguards [...]. The EU probably has some leverage, but people here believe that they are dangerous for the EU. Therefore, the EU has no teeth".⁴⁴

It seemed that the EU was caught in an expectation-capabilities gap, even in the trade policy area, where it has strong competence. This was partially because its instruments had been reduced. The EU's new market access strategy in 2007 clearly mentioned this gap. On the one hand, the EU set an ambitious goal: further open third country markets. "The reasons for focusing on market access are as valid today as they were in 1996, if not more so". On the other, "the scope for using accession negotiations to secure greater market access is diminishing, as some of the most important trading countries such as China have now joined the WTO".⁴⁵ It implied that the EC had lost an important, probably the most important commercial instrument – the negotiation on China's WTO accession. That being said, the EU also obtained new institutional resources following China's WTO accession – the WTO Dispute Settlement. For the first five years of China's WTO membership, China and other major players exercised mutual restraint in taking China-related cases to court. China viewed dispute settlement as a political-diplomatic mechanism to resolve differences through compromise and conciliation, before adversarial legal procedures kicked in. The USA, EU and others also generally refrained from testing China in court. In three cases – VAT-integrated Circuits, EU-Coke Exports and Anti-dumping Kraft Linerboards⁴⁶ – China made major concessions and settled during the consultation phase, i.e., out of court.⁴⁷

The EU's restraint in using the WTO dispute settlement mechanism (DSB) came to an end in 2006. The Commission decided to activate the DSB mechanism as a policy tool. As the new EU trade Communication towards China stated,

Where trade irritants arise between China and the EU, the EU will always seek to resolve them through dialogue and negotiation. However, where this fails, the Commission will use the WTO dispute settlement system to resolve trade issues with China and to ensure compliance with multilaterally agreed rules and obligations. This is not a question of replacing cooperation with confrontation but of creating a sound relationship based on objective application of agreed multilateral rules.⁴⁸

The EU took the lead in launching a case against China on automotive parts in 2006, targeted at China's automotive industrial policy, containing the provisions to encourage domestic production of auto parts. One measure stipulated that if the number or value of imported parts in an assembled vehicle exceeded specified thresholds, tariffs charged on imported parts should be equal to the tariff on completed automobiles (typically 25%) rather than the tariff applicable to auto parts (typically 10%). The complainants, including the US and Canada, argued that this violated National Treatment and constituted a prohibited local-content measure. In 2007, the Commission filed a new case on China's restrictions on financial-information service providers from dealing directly with Chinese clients (which were not applicable to domestic financial-information service providers).

That being said, on the use of the WTO dispute settlement mechanism, the EU tended to portray itself as a more reasonable and prudent user than the United States. Although both of them started an increased use of the mechanism, the EU, for example, kept some distance from the United States. One typical example was the IPR (intellectual property rights) cases, which were filed by the US in 2007 relating to IPR enforcement in China, and to market-access restrictions on copyright-intensive products such as films, DVDs, music, books and journals. Although the Commission was under pressure in co-launching the case, Commissioner Mandelson exercised restraint in doing so. However, as the Chinese side gradually became used to the dispute settlement mechanism, its deterrent effects diminished. Given the technicalities and prolonged process, the DSB was not always a handy instrument. The Commission often preferred cooperation and dialogues.

The EU also acquired the product-specific safeguard mechanism and an annual policy review mechanism following China's WTO accession, and further developed cooperation with China to address barriers of common concern through the launch of PCA (the EU-China Partnership and Cooperation Agreement) negotiations with an update of the 1985 Trade and Economic Cooperation Agreement, as well as the establishment of a High-Level Economic and Trade Dialogue in 2007, roughly copying the US-China Strategic Economic Dialogue.

In the face of eroded power resources and a more daunting task to deal with a much larger trade deficit with China, the EU again resorted to linkage strategies. But the questions remained: how did the EU use linkages and what were the results? The objectives were two-fold: to convince the Chinese side to further open markets; and to contain domestic protectionist forces and keep European markets open. Did the Commission succeed in striking a grand bargain with China based on reciprocity, as Commissioner Mandelson suggested? The following sections give preliminary answers through its research into three cases.

The EU–China grand bargain for reciprocal market opening

Similar to his compatriot, Sir Leon Brittan, Commissioner Peter Mandelson focused his trade policy towards China on reciprocal market opening. But he had to face much intensified domestic pressure and make more arduous efforts to tackle the challenges posed by globalization and the rise of China. During the first year of his tenure as trade commissioner, he had to, above all, live through the textile crisis. Once the textile issue dropped off the agenda in the end of 2005, he immediately focused his attention on market access.

Mandelson tried systematically to strike a grand bargain with China, the essence of which was a reciprocal market opening. As he said in a speech in July 2006, “China must continue to work to meet its WTO obligations and it must commit to playing by the rules. In return Europe must accept the Chinese challenge to adapt and compete. That is the *grand bargain*”.⁴⁹

The 6th EU Communication on China, issued in October 2006, was consistent in highlighting the central position of the grand bargain in the EU–China trade relationship:

Both the EU and China stand to gain from our trade and economic partnership. If we are to recognise its full potential, closing Europe’s doors to Chinese competition is not the answer. But to build and maintain political support for openness towards China, the benefits of engagement must be fully realised in Europe. China should open its own markets and ensure conditions of fair market competition. Adjusting to the competitive challenge and driving a fair bargain with China will be the central challenge of EU trade policy in the decade to come. This key bilateral challenge provides a litmus test for our partnership.⁵⁰

The grand bargain was a typical case of issue linkage, in which two economic issues – China’s market opening and the EU’s were tied.

On 12 June 2007, just before chairing the 22nd EU–China Joint Committee together with Bo Xilai, the Chinese Commerce Minister, Commissioner Mandelson, hinted that the EU was on the point of adopting the tough tactics of the United States, which had already demanded World Trade Organization proceedings to settle a number of disputes.⁵¹ He said,

The EU-China trade relationship is vital to both sides [...] But we are at a crossroads. The policy of dialogue and cooperation is only credible if it delivers and will change unless EU Member States are convinced this is a two-way street [...] In my view this [trade] deficit is neither tolerable nor inevitable.⁵²

The tone was further accentuated in July 2007. Commissioner Mandelson said,

The EU-China trade relationship has become badly imbalanced. While China dominates our import markets, our businesses are losing out in China because of counterfeiting and market access barriers, amounting to 55 million Euros a day in lost business opportunities. Our spiralling trade deficit reflects both of those things.⁵³

In October 2007, in a private letter to Commission President Barroso (later leaked), Mr Mandelson went even further by saying:

The development of China's governance and its economy are simply out of sync. For example, they have relevant laws but not the enforcement capacity or structures to ensure product safety or protection of intellectual property rights. To some extent the Chinese juggernaut is out of control.⁵⁴

Although he dismissed any move towards a "systematic combativeness", which he believed would be counterproductive, Commissioner Mandelson did suggest that China could no longer expect to be treated leniently by claiming it was poor and underdeveloped. He argued that the EU should treat China as a normal country; then it could more easily use trade defences, or drag China in front of the WTO dispute settlement mechanism, if it failed to honour pledges on market opening, reducing red tape or protecting IPR.⁵⁵ "We will be faced with calls for a different approach", said Peter Power, EU spokesperson for external trade, "that different approach would clearly be a more protectionist approach". He added that the latter approach was considered as neither desirable nor appropriate by Commissioner Mandelson.⁵⁶

After the Joint Committee meeting, the second, also a more important opportunity for the Commission to exercise linkage of reciprocity was the 10th EU-China Summit on 28 November 2007. One day before, Commissioner Mandelson called for a "positive reciprocity" at the EU-China Business Summit in Beijing. He saw the EU-China trade deficit as "a measure of our untapped potential".⁵⁷ He urged EU and Chinese businesses to support a shared agenda of tackling counterfeiting and improving accessibility and transparency for trade and investment. He said that even contentious issues like currency revaluation were rooted in a joint interest in strengthening Chinese domestic demand and reducing Chinese dependence on export-led growth. He concluded:

Europe is committed to China's success. That success depends in large measure on Europe's continued openness to China's goods and, in time,

to China's reinvested surpluses. But China needs to do its bit to sustain that openness, by opening more to Europe's goods and services, and to our investment.⁵⁸

President Barroso also highlighted the trade deficit issue, making it a top priority of this EU-China Summit:

One issue, however, deserves sustained political attention from leaders on both sides: the growing trade deficit between the EU and China. The current situation is not sustainable. We need to work together in a spirit of reciprocity, to eliminate obstacles preventing the access, in many sectors, of European goods and services to the Chinese market.⁵⁹

As to the effectiveness of the EU-China grand bargain during this period, we may check whether the EU's market opening requests were fulfilled. In the EU's Communication entitled "EU-China Trade and Investment: Competition and Partnership", the Commission listed the following areas, in which deliverables should be made through its negotiations with China:

- Tariffs.
- Non-tariff barriers.
- Government procurement.
- New policies discriminating foreign operators.
- Investment restrictions.
- IPR protection.
- Subsidies.
- Flexible exchange rate.
- Excessive saving depresses demand for imports.
- Environmental, social and safety conditions.
- Distorting the market for global trade in natural resources.

After going through the checklist, I however found that the EU's specific market opening requests were basically refused, except for one item – the environmental, social and safety conditions. The following table (Table 7.3) is an illustration of EU requests and China's responses, with an assessment of results graded from "positive" to "negative". "Positive" means that the EU's request had been accepted. "Negative" means that the EU's request was rejected.

As the above table shows, the results of the EU's market access requests were generally negative, which was largely attributable to the following factors:

Firstly, as some European scholars argued, China's domestic climate for further trade and investment liberalization was clearly more inclement than it had been before WTO accession; and there were signs of greater industrial-policy interventionism. These tendencies were reinforced by an external climate of liberalization slowdown, "reform fatigue", Washington-Consensus scepticism, and

Table 7.3 European market opening demands and China's responses

	<i>EU requests</i>	<i>China response</i>	<i>Result</i>
DDA	China should play a leading role		Negative
Tariffs	Removal of peak tariffs on textiles and clothing, leather and fur, footwear, ceramics, steel and vehicles	Should be discussed in the Doha round negotiations instead of bilateral channel	Negative
Non-tariff barriers	Product certification, labelling standards, import approval requirements, customs clearance	Dialogue and cooperation	Negative
Government procurement	EU wants China to accede to WTO Government Procurement Agreement	China has requested the accession to the GPA, and the bilateral accession negotiations have started	Negative
Investment restrictions	For example, joint ventures instead of full ownership. Special EU concerns: telecoms and financial services		Negative
IPR protection	Better enforcement and an end to forced technology transfer		Negative
Subsidies	Stronger disciplines		Negative
Flexible exchange rate	RMB appreciation	Denied. But agreed to set up a ministerial dialogue	Negative
Excessive saving depresses demand for imports			Negative
Environmental, social and safety conditions		Dialogue and cooperation	Positive
Distorting the market for global trade in natural resources			Negative
Overall assessment			Negative

the first signs of increasing protectionism in response to worsening global economic conditions.⁶⁰

Secondly, the EU had insufficient power resources, whether political, economic or institutional. The grand bargain was, to some extent, a lame duck. It was difficult to have a grand bargain only in trade. During the 1993–2004 period, the EU boasted a honeymoon-like relationship with China, which created an enabling environment for effective linkages across areas. But the honeymoon ended in 2006–2007. In other words, there was no more an enabling political environment for effective linkages.

Thirdly, the EU had not managed to deliver sufficiently on China's requests, which made the Chinese side feel the trade bargaining was unbalanced. The table below shows that most of Chinese requests ranging from the Market Economy Status issue, more stringent EU anti-dumping disciplines to removal of several tariff peaks were not satisfied.

Fourthly, the EU's institutional structure and the competing interests among the Commission and Member States handicapped the EU's external actions. For the grand bargain, we witnessed an expanding trade agenda compared with that during China's WTO accession negotiation. Many trade issues fell out of the exclusive competence of the European Communities (marked in Table 7.4 as "Commission + MS"). Rather, Member States either shared trade competences or had exclusive competence in some specific trade issues. In this context, the Commission was handicapped in delivering on China's requests. This was largely due to the EU's division of competences in trade policy. To put it in a simple way, the EU had one single chief trade negotiator with all kinds of market access requests from Member States, whereas it had 27 decision-makers who were divided on whether to accept China's market access requests. Such a dichotomy between the negotiating agent and decision-makers did not help resolve the deadlock of the EU's trade negotiations with China.

The Commission's implicit linkage strategy – less anti-dumping, more market access

To implement the grand bargain with China for mutual market opening, the EU had to keep its own market open. The trade defence instruments (TDIs) were designed to protect its own industries when suffering unfair competition. For many years, China had been the biggest target of the EU's trade defence instruments. One of China's major requests to the EU was that the EU exercise more stringent TDI rules. As part of the EU's new trade policy titled "*Global Europe – Competing in the World*", the Commission started a reviewing exercise of TDI in late 2006. During the review period, lasting until September 2007, no single new anti-dumping case was launched. Rumour went that it was part of Commissioner Mandelson's grand bargain with China as a trade-off for China's further market opening.

The plans for TDI reform had been in place since the December 2006 publication of a *Green Paper* requesting stakeholder input on several potential areas

Table 7.4 What the EU and China want from each other in trade policy areas⁶¹

<i>What Europe wants from China</i>	<i>Competences within EU</i>	<i>What China wants from Europe</i>	<i>Competence within EU</i>	<i>Result</i>
Anti-dumping and safeguards				
		Recognition of Market Economy Status	Commission+ Member States (MS)	Negative
		Anti-dumping and safeguard measures	Commission+ MS	Negative
		Stronger EU disciplines		
Tariffs				
Removal of peak tariffs on textiles and clothing, leather and fur, footwear, ceramics, steel and vehicles	Commission + MS	Removal of peak tariffs on garments, leather goods and other manufactured exports	Commission+ MS	Negative
Investment and innovation				
Intellectual property	Split Commission/Member States	Agricultural tariffs	Commission MS	Negative
Better enforcement and an end to forced technology transfer		Lowering of tariffs for certain agricultural produce		
Foreign investment restrictions	Overwhelmingly Member State competency			
Subsidies	Commission			
EU wants stronger disciplines		Chinese investments	Member States	Mixed
		More openness on Chinese M&A and SWF		

Non-tariff barriers				
Product certification, labelling standards, import approval requirements, customs clearance	Commission	Sanitary and Phyto-sanitary (SPS) rules, Technical barriers to trade (TBT)	Commission	Mixed
		Render EU measures less trade restrictive		
Rules and regulations				
Government procurement	Commission			
China accedes to GPA	Commission			
Competition	Commission			
Trade facilitation				
Other				
		Reduction of agricultural subsidies	Commission+ MS	Negative
Exchange rate	Eurogroup and ECB only			

for change. The Green Paper suggested that changes might be appropriate in several key areas, including: the use of the anti-subsidy instrument in transition economies where individual companies qualify for market economy status (MES); greater flexibility in downwardly adjusting anti-dumping duties based on potential harm to European consumers from high import duties; changes to the Community interest test to take account of, among other things, the increase in EU companies outsourcing manufacturing to transition economies; and strengthening the measures available to prevent the circumvention of anti-dumping duties. The reform also suggested extension of the anti-subsidy instrument to cover transition economies. The extension would follow similar recent changes to US trade defence practices, but could be more limited in that it might only apply to individual undertakings granted MES rather than to whole industries under investigation.⁶²

It is still unclear whether it was a coincidence or a planned attempt that, between 2006 and 2007, the Commission had not initiated any new anti-dumping case against any third country since the TDI Review started. The EU TDI moratorium induced strong anger among several European industries, who claimed, "European companies are being exposed to cut-price dumping by foreign rivals because of a secret change in trade policy in Brussels".⁶³ The allegations were made in a letter from industry bodies representing ten of the European industries most exposed to global competition, including textiles, chemicals, metals, mining and fertilizers, to José Manuel Barroso – European Commission president and Mr Mandelson's boss. They claimed that

the trade chief has changed his handling of anti-dumping cases behind the backs of Member States. Brussels instigated 36 anti-dumping measures last year – including controversial cases involving Chinese shoes, plastic bags and bicycle parts – but, there has been none this year [...] The Commission's changed practice is more and more widely perceived as an anti-industry policy bias.⁶⁴

The ten industry bodies suspected Mr Mandelson had already made up his mind and had tilted implementation of anti-dumping rules away from European manufacturers even before the trade defence consultation was complete. "Facts demonstrate [...] that the Commission is already implementing a policy-line which not only disregards the outcome of the public consultation but also compromises the existing rule of law and flouts the right of defence".⁶⁵

However, Mr Mandelson's team flatly denied any change of policy, arguing that the absence of any new anti-dumping measures in 2007 was simply "the calm after the storm" of controversial cases in 2006. Mr Mandelson's officials also pointed out that their assessment of anti-dumping claims was closely governed by European law. They also said that Europe's improved economic outlook meant EU companies were less likely to suffer harm from low-cost imports. A spokesman for Mr Barroso insisted that the Commission was sticking strictly to the law.⁶⁶

I argue that the TDI Review was part of the grand bargain since it was an integral part of the EU's new trade strategy – “*Global Europe: Competing in the World*”. The TDI Review aimed at realizing greater flexibility in downwardly adjusting anti-dumping duties based on potential harm to European consumers from high import duties; changes to the Community interest test to take account of, among other things, the increase in EU companies outsourcing manufacturing to transition economies. These possible changes in the EU's TDI policy were potentially favourable to the imports from third countries, particularly China, since China is the EU's largest import supplier, accounting for 16.2% of the EU's total imports in 2007, and re-exported to the EU a large amount of manufactured goods made by European-invested companies in China. The Commission's trade-off was arguably to allow more imports from third countries to enter, but set one precondition – the third countries must pay back with more market openings for the EU exports. This linkage was implicit, but indispensable for the success of the EU's new trade strategy.

However, the TDI reform ended up being disastrous for Commissioner Mandelson. He finally had to postpone indefinitely the TDI reform, after several forced delays due to criticism within the Commission and from the Member States. Mandelson announced on 14 January 2008: “Consensus does not yet exist. It will take more time to build agreement on the draft proposals. We cannot force people to reach agreement, and we do not want to entrench disagreement”.⁶⁷

It was widely believed that the decision to shelve the TDI reform proposal was the result of pressure from several large Member States such as France, Germany and Italy, which all favoured stronger defences against the importation of below-cost goods from emerging economies. In the meanwhile, EU industry and associations were mobilized to impose pressure on the Commission, suggesting that Mandelson's proposals would dilute Europe's ability to protect its manufacturers from unfair trade practices, a charge which Mandelson had consistently denied. In his meeting with the other Commissioners, Mandelson reiterated that he did not believe that trade defences should be “relaxed”, but rather that they should be made more efficient and updated to reflect the significant changes to global trade which had occurred since the last amendments to the TDI in 1994.⁶⁸

Also, the European Trade Union Confederation (ETUC) expressed strong concerns and misgivings. At the conference on 8 November 2007 organized jointly by European industry and unions, the ETUC and its industrial federations stated that trade defence instruments needed to be strengthened rather than weakened, because they protected not only growth and jobs, but also social progress worldwide. The Commission's proposals – apart from the fact that they did not sufficiently take account of the results of the public consultation – were in danger of accentuating social and environmental dumping by weakening procedures. ETUC Confederal Secretary Joel Decaillon urged the European Commission to involve unions more closely in anti-dumping and anti-subsidy procedures than it had done in the past. The ETUC also observed a certain leeway in the treatment of cases in recent months and called on the Commission to

review anti-dumping cases with new diligence, whilst respecting procedures and rules in force.⁶⁹

The European Parliament joined the opposition camp. In a report on the EU's external aspects of competitiveness, it agreed with the view that "there is no visible nor urgent need at present to review or alter the Community's existing TDIs".⁷⁰ The European Parliament endorsed the idea of adapting those instruments to the new realities of the global economy, but warned of the danger of unilaterally disarming the EU to such an extent that it would be unable to counter unfair trading practices in an international context marked by the proliferation of such practices and the intensive, and often abusive, use of trade defence measures by third countries against imports from the EU.⁷¹

On the other side of the debate, Member States such as the UK and Sweden argued that reform was necessary, both because anti-dumping duties had harmed European consumers and because they saw protectionist policies as harming European industries which sourced an increasing share of their supply chain from emerging economies. Mandelson stated that he hoped to continue to gain support for his plan, particularly when specific trade cases would force the Member States to confront the problems with the existing regime later that year. However, it was unlikely that the reform would progress in the short term, due to France, a major opponent of the proposal, taking over the rotating EU presidency later in 2007.⁷²

Apart from the sensitivity of the TDI reform itself, the lack of visible improvement of market access in China was also a contributory factor. If the rumour was right, the key for the success of Commissioner Mandelson's trade-off with China was China's further opening up. However, the evidence did not show a visible progress on the Chinese side in 2007. On the contrary, it was argued that after five years of WTO commitments implementation, China started to have a "reform fatigue" and put up new trade barriers. This idea was widely accepted among South European Member States and many Commission officials.

Linkage with the United States – competing with the US for the equal treatment

Led by French President Sarkozy, who criticized the EU's trade policy "being naïve",⁷³ many Europeans started to believe that the European Commission was not effective and too soft vis-à-vis China. They believed that the Americans had done a much better job of expressing their discontent at China's trade tactics and currency regime. Continual rumblings from Congress, the establishment of the twice-yearly Strategic Economic Dialogue (SED) and an aggressive use of the WTO complaints system meant that China at least took US concerns seriously (although whether China decided to do anything about them was another matter). In contrast, Europe's lack of genuine political leverage, its softly-softly approach and its internal divisions have failed to garner Beijing's respect.⁷⁴

This sentiment was quickly spread to the European Commission, who believed that China took the US more seriously and felt somewhat humiliated. In the

face of increasing domestic pressure, the Commission started to react, scolding Beijing's bias towards the US and asked for equal treatment from China. The Commission applied a *party linkage* in this case, in which, the United States was introduced as an intervening factor into the bilateral bargain for market access between the EU and China. The core in this episode of market access bargain was the Commission's efforts to persuade China to agree to the establishment of a High-Level Economic and Trade Dialogue Mechanism, which largely copied the China-US SED. The SED, established in 2006, had brought some visible deliverables to the US, ranging from market access to RMB appreciation. In mid-2007, the Commission launched a low-key but fierce lobbying campaign vis-à-vis China, asking for an equal treatment. By deliberately and tactically linking with the US, the Commission tried to gain more bargaining weight.

Starting with a tone toughening, the Commission expressed its strong dissatisfaction about being treated less favourably by the Chinese side than the Americans. Early in April 2007, Commissioner Mandelson expressed his strong frustration and dissatisfaction about China taking the EU for granted, in a lunch with Chinese Ambassador. "At the end of the day, power matters", Commissioner Mandelson concluded.⁷⁵ In his letter to President Barroso, Mr Mandelson felt he had been taken for a ride and argued, "I guess the Chinese calculate that it is more important politically for them to give some relief to the Americans than to the Europeans". Suggesting that China "failed to respond to a policy of cooperation and dialogue", Mandelson said it was less desirable or necessary than in the past "to distinguish European policy from American policy". "To some extent the Chinese juggernaut is out of control", and that the European Union was

sitting on a policy time bomb [...] I believe that there is greater scope for discussion and collaboration with the United States. The US Strategic Economic Dialogue with China – led by Hank Paulson – has had mixed reviews, to an extent depending on people's various expectations. We need more information on what it is really delivering. It would be useful to engage more systematically with the Americans in discussion of this, perhaps through the Transatlantic Economic Council.⁷⁶

Although Commissioner Mandelson did not make it public in any of his speeches or Commission Communications that a high-level EU-China economic and trade dialogue mechanism was desired, this message was arguably conveyed through a Commission-funded study, issued on 15 February 2007, and understood by the Chinese side. This study, titled "*Future opportunities and challenges in EU-China Trade and Investment Relations (2006-2010)*", recommended the establishment of an economic working group at the Commissioner/Vice Premier level, bringing together various DGs and ministries under the European Commission and the Chinese government.⁷⁷

At the 10th EU-China Summit on 28 November 2007, the Chinese government and the European Commission agreed to establish the High-Level

Economic and Trade Dialogue Mechanism (HED),⁷⁸ and launched it in Beijing in April 2008. According to the Joint Statement of the 2007 EU–China Summit,

Both sides agreed to establish by the end of March 2008 a High Level Economic and Trade Dialogue between the European Commission and the State Council of China at the level of Vice-Premier which will discuss strategies in EU-China trade, investment and economic cooperation and coordinate bilateral projects, studies and develop plans in priority sectors. It will cover issues affecting the trade imbalance, including inter alia effective market access, intellectual property rights, environment, high technology and energy in order to find concrete means to increase trade in a balanced way.⁷⁹

I conclude that the EU's linkage with the United States paid off. As Commissioner Mandelson revealed to the European Parliament after the 1st HED session was held in Beijing,

We prompted a recalculation by State authorities in China on the importance of addressing some of our concerns and this resulted directly in the creation of the High Level Mechanism which was launched in April and which establishes a similar high level trade channel for the EU and China to the US' SED.⁸⁰

The Chinese side also made a positive response. Mr GUAN Chengyuan, China's then Ambassador to the European Union said, the launch of the Dialogue Mechanism demonstrated the positive gesture on the Chinese side and its intent to gradually balance China-EU trade.⁸¹ As Commissioner Mandelson recalled,

At the Summit the Premier, Wen Jiabao, appeared to hear and understand our strong concern and offered to create a high level strategic mechanism with the EU to focus on rebalancing our trade deficit with China.⁸²

In April 2008, the president of the European Commission, José Manuel Barroso led a big delegation consisting of nine Commissioners to Beijing and launched the High-Level Economic and Trade Dialogue Mechanism with Chinese Premier, Wen Jiabao.⁸³ President Barroso said in Beijing,

We agreed with Premier Wen that this new dialogue mechanism should deliver concrete results in order to demonstrate to the European and Chinese people that co-operation and partnership work effectively for them. As Premier Wen said, bilateral trade volumes are impressive and are increasing every year by 20-25%. But there are major imbalances and we both agree on the necessity to rebalance our bilateral trade.⁸⁴

Synergistic linkage – a liberal Commission vs. protectionist South European Member States

In mid-2007, the South European Member States, together with several industries, started to embark on a campaign against the EU's liberal trade policy and Commissioner Mandelson himself. This was partially due to ineffective deliveries of market opening in third countries, particularly in China, and the Commission's assertive reviewing process of its TDIs, which allegedly put the EU's commercial defensive shield at risk. On the other hand, Nordic countries, the UK and the Netherlands continued to call for maintaining liberal trade and market opening. The Commission to some extent sided with the liberal trade camp, at least at policy level. Therefore, the Commission believed it necessary to strike a bargain with protectionist Southern Europe, so as to secure liberal trade and free competition within the Union. I witnessed a typical example of Putnam's two-level game. The domestic deadlock between a liberal trade camp and a protectionist one needs to be resolved through external market opening negotiations. Whether the Commission was able to wring market concessions from newly emerging economies such as China was essential for the Commission's bargain with Southern Europe.

I qualify this bargain as a *synergistic linkage*. A "synergistic linkage", in Putnam's term, refers to the linkage between one policy option at Level I (international level) with another at Level II (domestic level). This strategy works not by changing the preferences of any domestic constituents, but rather by creating a new policy option (such as faster export growth) that was previously beyond domestic control. Hence, Putnam refers to this type of issue linkage at Level I that alters the feasible outcomes at Level II as *synergistic linkage*.

The fuse of the tension between a liberal Commission and protectionist Southern Europe was French President Sarkozy's removal of a key commitment to "free and undistorted competition" from the European Union's Reform Treaty (Treaty of Lisbon). The EU trade commissioner Mandelson immediately attacked the government of France on its doorstep with a ringing defence of the free market. Peter Mandelson told the Paris Chamber of Commerce and Industry that competition was not a "dirty word" in a line-by-line rebuttal of the views of Nicolas Sarkozy. "Competition should indeed not be some sort of dogma or religion. Nor is it a dirty word", he said. Mandelson also rebuffed Mr Sarkozy's claim that trade "reciprocity" required greater EU protectionism. He said he would defend European companies from unfair competition, but "The response to a fortress Europe is a fortress US, or a fortress China and India. We need reciprocal openness, not reciprocal barriers". Mandelson even said the French government was using tough rhetoric to disguise its domestic reform agenda and the tactic could backfire.

As we reform at home, let's recognize it is not sustainable to blame outsiders – "Brussels" – for forcing reform on unwilling governments. Reform is justified on its own merits. It is equally not sustainable to pursue ambitious reform at home while arguing for protection from fair competition abroad – as if being tough with foreigners provides cover for change at home.⁸⁵

This debate between Commissioner Mandelson and French President Sarkozy reflected an episode of wider tensions between the free trade and protectionist camps. The Union's traditional advocates of free-market policies were going through a period of weakness. At the EU Summit in June 2007, British prime minister found it hard to fight for economic principles as long as domestic political pressures demand they expended all their energy on preventing any further transfer of power to Brussels. The Netherlands, meanwhile, was hampered by the fact that Dutch voters had rejected the draft EU constitution in a referendum two years before. And Ms Merkel, though an economic liberal by instinct, was boxed in by the unwieldy coalition she presided over in Berlin. Her Social Democrat partners were wary of antagonising their core supporters and increasingly tacking to the left to fend off a challenge from a new leftwing party. "Lots of countries want to hide behind someone like Mr Sarkozy. It's been my view for some time that in reality, many countries give lip-service to open and free competition", Charlie McCreevy, the EU internal market commissioner, told Reuters. However, in an interview with the *Financial Times*, Mr Sarkozy argued that by rejecting the constitution French voters showed they were ahead of European public opinion rather than behind it. Fears that the EU was acting as a "Trojan horse" of unfair globalisation, moreover, could provoke a similar backlash elsewhere in Europe.⁸⁶

Facing huge domestic pressure, the Commission had to fight to maintain its existing trade policy through obtaining concrete results of market opening in third countries. In other words, the Commission was searching for a new policy option in its external trade negotiations, which was essential for the above mentioned synergistic linkage to resolve domestic bargaining deadlock. Commissioner Mandelson thereby stepped up his lobbying efforts towards China with a claim that the growing trade deficit was "artificial", sustained by Beijing's protectionism and an undervalued currency. But the situation turned out to be less promising than what the Commission had expected and hoped for. Evidence did not show a distinctive market opening undertaken by the Chinese side during this period (2006–2008). The breakdown in the Doha round of global trade talks in mid-2007 put even more pressure on Peter Mandelson.

Politics before launching the EU–China High-Level Economic and Trade Dialogue

As stated in the Joint Statement of the 10th EU–China Summit, it was agreed to launch the High-Level Economic and Trade Dialogue in April 2008. Commission President Barroso decided to pay a visit in China on 25 April to launch the HED and discuss with the Chinese side the issues of common interests. The HED sought to rival the Strategic Economic Dialogue, which was established in September 2006 between China and the United States. "For the mechanism to work, China will have to seriously engage", the EU trade commissioner Mandelson told a conference of the China-Britain Business Council in

London. "If they do not, they risk a lot more exhausted patience in Europe. And that patience, in some political markets, is already pretty thin".⁸⁷

However, new political strains appeared in the EU-China relationship just before President Barroso's visit in China. After the Lhasa Riots of 14 March 2008,⁸⁸ the European Parliament passed a resolution, urging EU leaders to boycott the Beijing Olympic Games opening ceremony unless China opened up dialogue with the Tibetan spiritual leader the Dalai Lama. The Sino-French relations became worsened after the Paris leg of the Olympic relay on April 7, which saw pro-Tibet protesters succeed in interrupting the ceremony, and by President Nicolas Sarkozy's threats to shun the Beijing Games opening ceremony in August.

The toughest task went to European Commission President Barroso, who was to pay a visit in China in April. As the German magazine *Spiegel* commented, what was high on the HED agenda and should be put in the perspective was "something of a conundrum: How to improve economic ties with Beijing while also tackling the regime over its human rights record, particularly in Tibet".⁸⁹ President Barroso was expected to raise "matters concerning human rights and freedom of expression", as his spokesman confirmed. Tibet would be at the forefront of his discussions with Chinese leadership, particularly after the European Parliament urged EU leaders to boycott the Olympic Games opening ceremony unless China opened up dialogue with the Tibetan spiritual leader the Dalai Lama. EU External Relations Commissioner Benita Ferrero-Waldner told reporters that the Tibet would definitely be "high" on the agenda. "Of course we understand the sensitivity on sovereignty in China", she said. "But I think it is also fair to ask to respect the Tibetans' culture and also their traditions".⁹⁰

The Chinese were said to be highly concerned at how the tide of European opinion had turned in recent months. Beijing was disappointed "to see the disappearance of a European stance whose principal merit was opposing the United States by taking up positions more favourable to Chinese interests", Valerie Niquet of French Institute of International Relations (IFRI) told the AFP news agency. "Now it is in Europe that public opinion is becoming less and less favourable to China".⁹¹

President Barroso faced a dilemma. On the one hand, he had to discuss with the Chinese side a wide range of issues of global importance. As he explained later at the Joint Press Conference with Chinese Premier Wen Jiabao on 25 April,

Indeed, when I consider the global challenges we are confronted with today, none of them is likely to see a constructive solution without strong cooperation between the EU and China. Just consider the list: climate change, sustainable development, macroeconomic imbalances, international security, financial turmoil, exchange rate fluctuations, energy prices, food prices, raw materials, development of Africa. All these issues call for a joint response by EU and China.⁹²

In other words, the Commission needed China's cooperation in tackling a wide range of global challenges. At this moment, the EU surely would not seek an open confrontation with China. But on the other hand, Barroso and his team faced the difficult task of trying to improve the overall climate of EU–China relations at a time when important pressure groups, including in the European Parliament, were calling for a boycott of the Olympic Games in Beijing – or at least of their opening ceremony, and also planning to invite the spiritual leader of Tibet, the Dalai Lama, to one of its plenary sessions.

The Commission resorted to linkages to walk away from the difficult situation. Contrary to the EP and French linkages between boycotting the Olympic Games opening ceremony and the Tibet issue (in particular, opening up dialogue with the Tibetan spiritual leader the Dalai Lama), the Commission delinked them. By declaring himself against the boycott of the opening ceremony, President Barroso obtained for himself some leverage with his Chinese counterparts. According to the *EurActive*, President Barroso planned to use this leverage to talk about the Olympics and show the contradiction between the “greatest festivals of youth in the world” and repression and human rights violations.⁹³ It should be noted that the de-linkage made by the Commission simultaneously produced a new linkage, which was linking the Olympic row with the HED – an economic and trade issue. Commissioner Mandelson, as the co-chair of the HED, played a major role to build this linkage.

As the UK newspaper the *Times* commented, Peter Mandelson had found the shrewdest use so far of the Olympic row to put pressure on China. On the verge of the European Commission's largest trade mission to China (for the HED), the trade commissioner delivered an eloquent speech, all China could have asked for, in telling countries not to humiliate it by boycotting the Olympics, and calling the threats a “political gimmick”.⁹⁴ He made the Olympic row part of a bargain. In the same breath, he asked China for precise and rapid concessions on its trade tariffs, as part of the Doha round of trade talks, and urged China to do more to show that it fully accepted its part within international laws. He also called on China to do more immediately to curb greenhouse gases.

Commissioner Mandelson said at China-Britain Business Council one week before President Barroso's visit in China, in which, he clearly opposed boycotting the opening ceremony of Beijing Olympic Games:

Inevitably, people will ask how our trade relationship should sit in our wider political relationship with China. I do not think that it is possible or desirable to wall off trade from the rest of our ties with China – including the issue of human rights, where we have legitimate influence to exert on China. It is to be expected that some on both sides of an issue like Tibet will call for boycotts of one kind or another. I do not support these because, while it is easy to see how they would hurt the interests of ordinary Europeans and Chinese, it is not possible to see how they would help. What we know for absolutely certain is that if we really want to shape the twenty-first century, we have to shape it with, not against, China. There is no getting away from that. And

our policies, and our behaviour, and China's too, need to be conditioned by that reality.⁹⁵

"Our concerns, our protest must go hand in hand with a strategy for ensuring that China continues to look outward, to pursue internationalism", said Peter Mandelson.⁹⁶

But Commissioner Mandelson's political utterance was conditioned on commercial interests. He made it clear by claiming that the success of the new body (HED) depended on Beijing addressing worries about Chinese trade barriers, currency levels, protection of intellectual property rights and climate change policies.⁹⁷ As he had already warned against openly confronting China on Tibet, Mandelson also urged Beijing to make it clear it opposed calls for boycotts of European goods. Speaking in Tokyo before departing for China, he said that threats from either side "deepen differences, create massive resentment and make dialogue much harder".⁹⁸

President Barroso echoed Commissioner Mandelson's position against boycotting the Olympic Games,

Concerning the Olympics, I have already said in Europe – and I repeat it in China – that the Olympics must be a celebration for the youth of the world and that it must be a success. That is why I am against the boycott. I think that these Olympics must be celebrated in a peaceful atmosphere.⁹⁹

I find that this linkage strategy paid off. Basically, President Barroso's visit in China was seen as a success, both politically and economically.

Economically, Barroso and Premier Wen Jiabao successfully launched the EU–China High-Level Economic and Trade Dialogue. Proposed by the Chinese authorities and approved at the 10th EU–China Beijing Summit in November 2007, this mechanism would provide a new tool for dealing with the problems confronting European companies trying to establish themselves in China, especially in the fields of investment, market access and protection of intellectual property rights. China's Vice Premier WANG Qishan, the HED co-chair on the Chinese side, said at the opening ceremony,

The leaders on both sides, starting from the overall situation of developing the China-EU relationship, decided to establish the High-level Economic and Trade Dialogue Mechanism, which injects new dynamism in the China-EU comprehensive strategic partnership.¹⁰⁰

Politically, President Barroso had an "open and frank" exchange of views on Tibet, where he reiterated the EU position on this matter. This successfully showed the EU's engagement with China on the Tibet issue, which was highly sensitive for China. This, at least, showed that the Commission had certain influence upon China on this matter. Also, it might not be a pure coincidence that on 28 April 2008, Beijing announced its intention to start contacts with the

Dalai Lama's personal representative just two days after President Barroso's visit. Barroso immediately expressed his satisfaction and felt encouraged by this latest development.

Negotiations on the EU–China Partnership and Cooperation Agreement and the Update of the 1985 EEC–China Trade and Economic Cooperation Agreement

For a long time, a fundamental and legally binding document in EU–China relations was the EEC–China Trade and Economic Cooperation Agreement, signed in 1985 (the “1985 Agreement”).¹⁰¹ Unfortunately, China and Europe had not been able to conclude the negotiation on the update of the 1985 Agreement. In fact, the negotiation largely lost steam around 2010 on both sides. It faded from the public eye before it could yield any concrete results, with very little concern. In hindsight, many lessons can be learned, and the big question is whether a “grand bargain”, a quid pro quo of interests between China and Europe is feasible. If so, how should it be handled? And if not, why?

In early 1999, Angelos Pangratis, a tall Greek, and Head of China Division in the Directorate General for External Relations of the European Commission, approached the Commercial Section of the Chinese mission to the EU. He proposed that a new trade and economic cooperation agreement be negotiated, since the 1985 Agreement was over 20 years old and EU–China trade and economic relations had progressed considerably. Pangratis said that the EU's new guidelines for negotiating free trade agreements (FTAs) would require that human rights and labour rights be included in future FTAs. The position of the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) at the time was that since it was about updating the ECC-China Trade Agreement of 1978, the new trade and economic cooperation agreement should not go beyond the scope of trade and economic relations or be subject to other interferences. Pangratis also reached out to the Chinese Ministry of Foreign Affairs and proposed to update the clearly outdated bilateral trade and economic cooperation agreement and to use partnership to cover the much broader and diverse bilateral cooperation, i.e., to negotiate a Partnership and Cooperation Agreement (PCA) with China. China had misgivings about this proposal because since the 1990s it has been a custom that a third-generation partnership agreement between the EU and a partner must, without exception, include a political statement on respect for human rights – otherwise the European Parliament would not pass it. China was concerned about the potential constraints from this and preferred that the parties separately publish policy papers to state their respective positions on these non-trade matters, rather than signing binding agreements.

It is thus clear that the EU–China PCA negotiations date back to early 1999, if not earlier, and that the EU initiated the process. There were two choices for the agreement framework before China and the EU: a next-generation trade and economic cooperation agreement, or a PCA covering the comprehensive EU–China relations. For the EU, both instruments would need to contain language

on human rights and labour rights, etc. China, which was in the midst of its WTO accession negotiations, agreed with the EU's assessment that it was time to update the trade and economic cooperation agreement to conform to new trends and do justice to the rapid development of bilateral relations; however, at that time, China was unwilling to accept the EU's demand for bringing human rights and labour rights issues into the deal.

When Pascal Lamy was the EU trade commissioner (13 September 1999–22 November 2004), discussions between Europe and China on the update of the 1985 Agreement seemed to have stopped, likely because Lamy was preoccupied with multilateral trade negotiations and decided not to launch any new bilateral FTA negotiations. The EU's method of realizing its trade and economic interests vis-à-vis China was mainly through China's WTO accession negotiations. However, the EU did not give up the idea of signing a PCA with China. Pangratis, during his tenure as Head of the China Unit of the Directorate General for External Relations from 1998 to 2003, stayed closely engaged with the Chinese Mission to the EU to drive the idea of negotiating a PCA between the EU and China. This was at a time when EU–China relations were developing rapidly. In 2003, the EU and China reached a consensus on the establishment of a comprehensive strategic partnership. Against this backdrop, China became more positive on the proposed PCA. In the joint statement of the seventh EU–China Summit on 9 December 2004, the two sides affirmed that, “due to the continuous development of China-EU relations in recent years, China and the EU will actively explore the feasibility of concluding a new China-EU framework agreement”.¹⁰² Then, the joint statement of the 8th EU–China Summit on 5 September 2005 read,

The two sides agreed to move towards early negotiations on a new China-EU Framework Agreement. The leaders instructed their respective services to expedite preparatory work with a view to concluding at an early date an agreement that will reflect the full breadth and depth of the strategic partnership between China and the EU.¹⁰³

A turning point in EU–China trade and economic relations came in 2005–2006 in the important context of frustrating progress on the Doha round negotiations and the intention of the new EU Trade Commissioner Peter Mandelson to replace Lamy's trade policy of relying solely on multilateral negotiations with one focusing on both multilateral and bilateral processes. In addition, the EU–China textile trade dispute between in 2005 made Mandelson more aware of the importance of dealing with China. Already in 2005 at the height of the EU–China textile trade dispute, Mandelson instructed the Directorate General for Trade to prepare a separate trade policy paper on China, an unprecedented move. This policy paper on China published in November 2006 stated that,

At the heart of that partnership will be the new Partnership and Cooperation Agreement (PCA) with China. This Agreement will include a specific focus

on trade and investment issues. A key objective of the PCA will be building on China's WTO commitments to remove restrictions on investment and foreign ownership in China, obtain better protection of intellectual property and negotiate mutual recognition of geographical indications.¹⁰⁴

Clearly, the EU's trade policy towards China had entered the "post-accession period", and its trade and economic interests vis-à-vis China had advanced beyond China's WTO accession commitments. Since 2005, China has also been reflecting on its response to EU's shifting China policy. On the diplomatic front, the Chinese Foreign Ministry showed a positive stance towards the EU's proposal of a comprehensive partnership agreement. On the trade and economic fronts, the Chinese Ministry of Commerce (MOFCOM) began to evaluate if and how to negotiate with the EU to update the 1985 Agreement.

In the face of the EU's shifting trade policy and its desire to negotiate a PCA with China, the Chinese government began to conceptualize the format of a specific agreement internally. Around the second half of 2005, China began to study the various EU external agreements. It realized that there are diverse forms of EU external agreements, including the Association Agreement (AA), the European Neighborhood Policy (ENP), the Partnership and Cooperation Agreement, and some general trade and economic agreements. Among them, the AA, the ENP, and some generic trade and economic agreements all fall within the scope of FTA agreements, while the PCA differs from an FTA agreement. Chinese trade and economic policymakers held two views at the time: one was to negotiate a general trade and economic agreement with the EU; the other was to negotiate a more ambitious FTA agreement with the EU. In the end, the former view prevailed. Part of the rationale was that around 2005–2006, the EU industrial economy was more competitive than China's, and China as a newly acceded WTO member (since 2001) was still in the learning and "ramp-up" stage of fulfilling its WTO commitments. As such, to negotiate an FTA with the EU would put tremendous pressure on opening the domestic market. The other part of the rationale can be described as the debate between multilateralism and bilateralism. Multilateralists argued that the Doha round should be prioritized, while bilateralist officials advocated advancing bilateral, trilateral and regional FTAs between China and major economies. Multilateralists feared that a "spaghetti bowl" of FTAs between the major economies and the additional "spaghetti bowls" it would induce would likely derail the Doha round. The "spaghetti bowl" phenomenon refers to the different preferential treatments and rules of origin under different bilateral FTAs and regional trade agreements (RTAs), which are entangled together like spaghetti in a bowl, difficult to sort or separate. The bilateralists and regionalists, on the other hand, wanted to achieve an EU–China FTA at an early date in the context of China's strategic economic relations and overall bilateral relations with major economies such as the US, the EU and ASEAN.¹⁰⁵ In an internal debate among Chinese policymakers in 2006, the multilateralists eventually prevailed. Important to the multilateralists' victory was the fact that the EU

also preferred not to negotiate an FTA agreement. In the Global Europe trade strategy announced by Commissioner Mandelson, the EU set out the key economic criteria for choosing new FTA partners as “market potential (economic size and growth) and the level of protection against EU export interests (tariffs and non-tariff barriers)”, and that,

We should also take account of our potential partners’ negotiations with EU competitors, the likely impact of this on EU markets and economies, as well as the risk that the preferential access to EU markets currently enjoyed by our neighboring and developing country partners may be eroded.¹⁰⁶

This Global Europe trade strategy specifically mentioned China, arguing that “China also meets many of these criteria, but requires special attention because of the opportunities and risks it presents”.¹⁰⁷ This statement about China showed the EU’s internal contradiction. China’s huge market potential was a great temptation for the EU, but China’s strong competitiveness may have a huge impact on the EU market, which deterred the EU from negotiating an FTA with China. Still, the EU used ambiguous language, “requires special attention”, to give itself sufficient latitude. Perhaps when the time is right, the EU will conclude a more ambitious FTA with China with greater concern and effort. But in 2006, the EU concluded it was in its interest and more realistic to sign a less ambitious PCA with China.

With the benefit of hindsight, the bilateralists may have been right, as the Doha round was ultimately inconclusive, and the Chinese government eventually proposed to conduct a feasibility study on an EU–China FTA in 2012.¹⁰⁸ But after the missed opportunity in 2006, the world has since entered a prolonged period of deglobalization and populism that will likely last until 2030, and it has become much more difficult for the EU to contemplate an FTA with China at this time. With that historical opportunity missed, it would be difficult to start over.

China and the EU have been jointly promoting the PCA negotiations since 2006. Following the 9th EU–China Summit on 10 September 2006, the two sides further decided,

In order to reflect the full breadth and depth of today’s comprehensive strategic partnership between the EU and China, the two sides agreed to launch negotiations on a new Partnership and Co-operation Agreement which will encompass the full scope of their bilateral relationship, including enhanced cooperation in political matters. These negotiations will also update the 1985 EEC-China Trade and Economic Co-operation Agreement, which will be administered in a relatively independent manner, taking into consideration the global objectives of the EU-China strategic partnership.¹⁰⁹

At this point, the two sides had largely agreed on the form of the new agreement, i.e., the “1 + 1” model. (The first “1” refers to the PCA, and the second

“1” refers to the update of the 1985 Agreement.) On 17 January 2007, then-Chinese Foreign Minister Li Zhaoxing met with visiting EU External Relations Commissioner Benita Ferrero-Waldner and jointly announced the launch of substantive negotiations of the PCA. On 12 June 2007, at the 22nd session of the EU–China Joint Trade and Economic Committee, after nearly 12 months and 12 rounds of technical discussions at the working level, the two sides finally agreed on the terms of reference (ToR) for the negotiations on the update of the 1985 Agreement and subsequently announced the launch of negotiations on the improvement of the 1985 Agreement. On 18 October, Director General Sun Yongfu of the European Affairs Department of MOFCOM and Director General Petriccione of the European Commission’s Directorate General for Trade started the first round of substantive negotiations on the update of the 1985 Agreement in Beijing.

Negotiations for a “grand bargain” have taken place between China and the EU since 2007. This large-scale attempt at *quid pro quo* started in 2007 and lost steam around 2010; it was a regrettable development in the process of institutionalizing bilateral relations between China and the EU. After all, from 1999, when the EU proposed the idea to China, to 2007 when China and the EU finally launched the negotiations on the PCA and the update of the 1985 Agreement, to 2010 after negotiators from both sides had worked for nearly three years, it was disappointing to see the process end without results. Of course, the two sides never announced the termination or failure of the negotiations on any official occasion, but clearly, some new developments have resulted in the negotiations being taken off EU–China policymakers’ agenda. The PCA negotiations were rarely mentioned after French President Sarkozy received the Dalai Lama in 2008 during France’s EU presidency. The negotiations to update the 1985 Agreement seem to have gradually been squeezed out of the picture after the EU proposed the idea of a bilateral investment treaty (BIT) with China in 2010. What happened? Why did the negotiations on the PCA and the improvement of the 1985 Agreement end without success?

There are three main reasons for the lack of progress on the negotiations to improve the 1985 Agreement. First, after the adoption of the Lisbon Treaty, the EU’s interest increasingly shifted to negotiating a BIT with China, and all of its investment liberalization offers in the negotiations to update the 1985 Agreement were transferred to the BIT track. Politically, a stand-alone BIT with China is of great significance, as it is a *de facto* legal confirmation of the EU’s competence for negotiating investment issues at the EU level. In other words, the EU’s interest and realistic gain shifted from the 1985 Agreement negotiations to the BIT negotiations. In fact, the EU and China were nearly halfway through the chapters of the 1985 Agreement before the BIT negotiations took over, but the other half was frankly much more challenging. Second, the EU made excessive market access demands in the negotiations to update the 1985 Agreement. Third, the EU included the so-called “sustainability clause” in the PCA and the 1985 Agreement update negotiations that contained environmental and labour rights issues – an addition that was unacceptable to China.

The lack of progress in the PCA negotiations was mainly due to two reasons. First, the political climate between China and Europe started to deteriorate in the second half of 2007. On 23 September 2007, German Chancellor Angela Merkel received the Dalai Lama, which seriously affected Sino-German relations. On 7 April 2008, the Beijing Olympic torch relay to Paris was interfered with by “Tibetan separatists”. On 8 December 2008, French President Sarkozy, then-President of the European Union, also received the Dalai Lama, which led to the postponement of the 11th EU–China Summit. By then, EU–China relations were showing signs of tension. American scholar David Shambaugh simply argued that, “the EU–China honeymoon is over”.¹¹⁰ With such damages to EU–China political relations, the momentum to advance the PCA negotiations disappeared.

The second reason is the inability of the two sides to achieve a meaningful *quid pro quo*. China expected the EU to recognize its full market economy status and to lift the ban on arms sales. However, the EU was unable to meet China’s demands and sought for China to open its market to nearly that of a free trade area and for the inclusion of values-related components, such as democracy, human rights, rule of law and good governance in the PCA. In the negotiations, the EU was asking too much and giving too little. EU officials argued that they had given a lot, i.e., a large, open market, but this large, open market was already a *fait accompli* before the negotiations, rather than a new offer for China in the negotiations. The EU was unable to meet China’s demand for MES and the lifting of the ban on arms sales because it would require a unanimous vote (for unbaning arms sales) or qualified majority (for granting the MES) among the Member States.

To the question at the beginning of this section, is a “grand bargain” of a *quid pro quo* between China and Europe possible? The experience with the negotiations on the PCA and to update the 1985 Agreement suggests that it is very difficult to achieve a “grand bargain” between China and the EU. There are four main reasons. First, the “timing” was unfavourable. The key to successful negotiations is the timing of the launch and conclusion of the negotiations. In this case, they started too late. They started in 2007 when the golden period of globalization between the 1980s and the beginning of the 21st century had already lapsed. From the perspective of long cycles of the world economy, the late 1980s to the outbreak of the Global Financial Crisis in 2008 was a period of rapid growth, during which China regained its GATT membership and acceded to the WTO; the US, Canada and Mexico formed NAFTA; the Asia-Pacific region established APEC; and the EU experienced rapid advances on integration. After 2008, the world economy entered a prolonged recession, coinciding with the negotiations on the PCA and the update of the 1985 Agreement – at this point, the best window of opportunity was already missed. In academic terms, the negotiations encountered structural constraints at the systemic level. EU–China trade frictions intensified, and the EU became more offensive on trade policy by emphasizing “reciprocity”. But the EU’s offensive on market access demands have not been met with new large-scale market access concessions from China. Second, popular

support was missing. Some EU Member States repeatedly stepped on China's bottom line. French President Sarkozy met with the Dalai Lama during his EU presidency, damaging Sino-French relations as well as EU-China relations and forcing the cancellation of the 2008 EU-China Summit. Third, the decision-making mechanism was a constraint. The EU's decision-making mechanism was such that the Commission in a negotiating position was bent on making demands but unable to make concessions to China's core concerns such as MES and the lifting of the ban on arms sales. This means a quid pro quo was impossible in the negotiations. Although China intended for the negotiations to move forward, it was also challenging to coordinate the positions of different departments.

Table 7.5 The effectiveness of the EU's linkage strategies (2006–2008)

<i>Linkage type</i>	<i>EU-China grand bargain</i>	<i>Establishing the HED and 1st HED</i>	<i>Partnership and Cooperation Agreement and Update of 1985 Trade Agreement</i>
Linkage with the US		Linkage with the US – Ménage à trios	
Issue linkage (politics & economics)		Considerable politics before the 1st EU-China High-Level Economic and Trade Dialogue	Nil
Issue linkage (economics & economics)	The third EU-China grand bargain – “pushing for reciprocal market opening”	Considerable	Nil
Issue linkage (economics & economics)	Marginal The Commission's implicit linkage strategy – less anti-dumping, more market access		
Synergistic linkage	Marginal A liberal Commission vs. protectionist South European Member States		
Effectiveness for each case	Marginal 1'	Considerable 3'	Nil 0'
Overall assessment of effectiveness	Marginal 2'		

Fourth, there were ideological differences. The EU made the values of human rights, democracy and labour rights into standard clauses and embedded them in the latest partnership agreements and FTAs, with the aim of urging the other party to change its political system through economic incentives. This reflects the EU's "normative power politics" since the 1990s. Such ideologically-charged economic diplomacy was difficult for China to accept. The EU-China comprehensive strategic partnership is meant to transcend rather than be constrained by differences in social systems and ideologies. However, the EU's partnership agreements and FTAs are contradictory to the original intent of the EU-China partnership in terms of institutional design.

It is not impossible to have a "grand bargain" between China and Europe, but it must meet the conditions of timing and popular support and be able to seek common ground, while respecting differences in social systems and ideologies.

Chapter conclusion

During this period, the EU played as an offensive power as it did in 1989. The difference was that in 1989, the EU launched a political offensive imposing economic and other sanctions for the sake of human rights, while this period featured a commercial offensive with a much broader and more difficult economic and trade issues than before. This time, the EU's linkage strategies achieved mixed results. The EU convinced China to agree to establish a High-Level Economic and Trade Dialogue, intended mainly for market access in China. But the EU failed to achieve concrete market access results. Table 7.5 summarizes the EU's linkage during this period.

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8 The EU's pursuit of reciprocity (2009–2019)

The outbreak of the European debt crisis in 2009 was indeed a surprise, and there are multiple theories to explain the crisis.¹ One of the more popular views is that the EU's governance system is flawed, particularly the uncoordinated monetary and fiscal policies. The eurozone has a unified monetary policy, yet decentralized fiscal policies.² The crisis points to two primary contradictions in the process of European integration: between national interests and supranational structures, and between its breadth and depth.³

The second view that explains the underlying causes of the European debt crisis is based on the primary contradictions of capitalism, i.e., the view that the financial crisis in the United States and the sovereign debt crisis in Europe are the manifestation of intensified primary contradictions within capitalism – the socialization of production and the private appropriation of the capitalist means of production – which is an inevitable result of financial capitalism, an advanced stage of capitalism.⁴ In the stage of financial capitalism, economic crises take on new characteristics: worsening deindustrialization and industrial hollowing-out, diminishing industrial competitiveness, a highly financialized economy, a serious dislocation between the virtual economy and the real economy, serious fiscal indebtedness and frequent debt crises and increased polarization and social antagonism.⁵ From the perspective of the primary contradictions of capitalism, the euro debt crisis, like the subprime mortgage crisis, was an acute externalization of the inherent contradictions of capitalism in this new stage.⁶ This view is informed by a historical materialist perspective. It places the current euro debt crisis in Europe in the context of the evolution of European society and considers the crisis to be the inevitable product of late-stage capitalism.

Notwithstanding the exact cause of the European debt crisis, the growth of the EU economy has seriously declined since 2008. After 3.1% real GDP growth in 2007, real GDP growth in the 28 EU states fell to 0.4% in 2008, with many Member States experiencing negative growth. By 2009, the EU (as a whole) saw negative growth of 4.4%. The year 2010 saw a return to 2.1% growth, and 2011 reached 1.7%. However, by 2012, there was again negative growth of 0.5%. The EU economy only gradually stabilized after 2012.

From the perspective of long world economic cycles, the period from 2008 to 2025/2030 is likely to be the B or downward stage of the Kondratieff Long

Wave VI (see Graph 2.1). Post-2008 EU–China relations must be examined in the context of this longer historical period of approximately 20 years. Phase B of this longer cycle began in 2008/2009 and was marked by the global financial crisis (GFC) and the European debt crisis. Around the globe, there were tensions in political and economic relations and a return to geopolitics, as evidenced by the trade war between the US and China, along with other trade wars. Such tensions appear to be growing. EU–China trade relations must be viewed in this broader context.

Indeed, after 2008, the EU entered an eventful period. Crises came from all directions, with flashpoints everywhere. To the northwest, the Brexit referendum in 2016 marked the beginning of the historic process of the UK’s departure from the EU; to the east, geopolitical crises in Ukraine, with NATO and the EU on one side and Russia on the other, have seriously strained Russian–EU relations; and to the south, there has been an influx of refugees, terrorism and the banking crisis. The so-called “Arab Spring” that started in 2011 has wreaked havoc in the EU’s geopolitical environment and exported millions of refugees to the EU. All these crises are interlinked and mutually reinforcing, with broad consequences. The situation is so dire that, in the words of Federica Mogherini, the former EU High Representative for the Common Foreign and Security Policy, “the purpose, even existence, of our Union is being questioned”.⁷ Against this backdrop, the European Union Global Strategy of 2016 set out to mobilize its unparalleled networks, economic weight and all the tools at its disposal and to apply these power resources in a coherent and coordinated manner to achieve its foreign and security policy priorities.⁸ To this end, the EU must establish itself as a credible, responsive and cohesive union.⁹ Unlike previous security strategies, the EU explicitly rejects the positioning of a “civilian power” and chooses to project itself as a comprehensive military force, encompassing both security and defence capabilities.¹⁰

This period saw the gradual build-up of tensions surrounding EU–China trade relations. At the confluence of crises, what changes have occurred in the EU’s power resources? What trade strategies and negotiation tactics did the EU adopt to cope with the new issues and challenges in EU–China trade relations? What are the new components of China’s statecraft towards Europe? This chapter will examine these questions.

The relative decline of the EU’s power

During the decade of 2009–2019, Europe faced multiple crises. The onslaught of complex crises has overwhelmed the EU, dealt a major blow to the process of European integration and undermined the EU’s overall strength. Next, I will examine the changes in Europe’s power in three dimensions: political, economic and institutional.

The EU’s political-strategic sources of power

First, multiple crises such as the European debt crisis and Brexit dealt a heavy blow to the EU’s political-strategic power. Some observers argue that these crises

may be a precursor to the disintegration of the EU and the eurozone. In his book *The Truth of the European Debt Crisis*, Shi Hanbing argues that in the absence of strong-hand statesmen in Europe who can drive Europe towards a political union, the breakup of the eurozone is nearly the only endgame.¹¹ When asked, “Will the rollout of Europe’s version of QE3 help ease the euro debt crisis?”, Shi provides an apt analogy by quoting the story of *The Romance of Three Kingdoms*, a 14th-century historical novel in China. In the Battle of the Red Cliff, Cao Cao had the war ships chained together to steady the ships for his seasick soldiers. It provided a temporary solution, but Cao’s troops then faced a more deadly blow! The entire army was wiped out by Sun Quan and Liu Bei’s allied forces, who set fire to the ships.¹² Indeed, at the height of the Greek crisis in 2015, both German and Greek leaders considered the option of a Greek exit from the eurozone. Ahead of the 5 July 2015 referendum on whether Greece should accept an international bailout plan, Prime Minister Alexis Tsipras called on the Greek people to reject “blackmail” and vote no in the referendum. Earlier, European leaders warned that voting no could mean Greece would exit the eurozone.¹³ In the end, Greek voters overwhelmingly rejected the international bailout package, with 61.3% of the votes against and 38.7% in favour.¹⁴ On 16 July 2015, German Finance Minister Wolfgang Schäuble said that a temporary exit from the eurozone would give Greece the flexibility to work over the debt issue. Schäuble stressed that to discount or forgive Greece’s massive public debt of more than EUR300 billion was not in line with eurozone membership. He hinted that the best way for Greece to receive significant debt relief may be to give up its eurozone membership.¹⁵ In the 2017 French election, Marine Le Pen, leader of the French far-right party National Front, argued that France should leave the EU like the UK, saying that, if elected president, she would lead France out of the eurozone (Frexit). This shows that since the euro debt crisis, European integration has faced serious headwinds. Some Member States exiting the eurozone, or even the EU, has become a plausible policy option. This is clearly to the detriment of the EU’s international status.

Second, the EU was deeply divided internally and unable to reach consensus on several key economic, political and environmental policy reforms during this period. In terms of economic policy, there was heated debate within the EU. Since the euro debt crisis, Germany had advocated austerity across Europe. This policy lasted until around 2013, when it began to meet widespread criticism. Germany and its allies pushed for the continuation of harsh austerity measures to address the fiscal deficits of Member States and to prevent a repeat of the debt crisis. Some Member States, led by France and Italy, on the other hand, proposed ending austerity and restoring economic growth through increased spending. After all, the economic conditions and political constraints vary significantly from state to state. After French President François Hollande took office in May 2012, a pivot to economic growth rather than austerity increasingly began to dominate France’s European policy. In the process, France has gradually formed an alliance with Italy and the European Central Bank to promote economic growth and stimulus programmes.¹⁶ Merkel, on the other

hand, was isolated.¹⁷ In terms of climate and energy policy, the divergence in emissions reduction within the EU intensified due to the “East–West” political game. Specifically, the European Commission advocated more ambitious emissions reduction targets, and Western European countries tended to support the Commission’s proposition, whereas Central and Eastern European (CEE) countries, led by Poland, had serious misgivings about the EU’s reformulation of a more ambitious emissions reduction plan for 2030 due to their dependence on conventional energy sources. On the issue of accepting refugees, there were significant differences between Western European countries and Central and Eastern European countries. For political, economic and religious reasons, Central and Eastern European countries such as Hungary, the Czech Republic, Slovakia and Poland opposed the compulsory solidarity plan proposed by the EC on the issue of refugee resettlement.¹⁸

Lastly, controversy over the transparency of EU trade policy has intensified among the European public, and even representatives of Member States in Brussels are questioning the EC negotiators for backroom deals with foreign countries.¹⁹ In particular, the US–EU Transatlantic Trade and Investment Partnership (TTIP) negotiations have sparked fresh debates related to trade policy, including the democratic deficit, environmental protection and data privacy. European public protests against the TTIP continued, such as the September 2014 protest in Brussels by Europeans from different walks of life against the continuation of negotiations. The public is concerned that the EU and the US have different implementation standards in many areas, such as genetically modified foods and the auto industry, and that once the TTIP agreement is reached, European environmental, health and safety standards will yield to US standards, which will ultimately harm the public interest in Europe. In response to public concerns and controversies, the EC has tried to issue various papers and measures to gain public support for their policy in recent years. Opposition to trade within the EU is growing, as EU trade policy becomes increasingly controversial. Consumers, workers and small business owners have expressed increasingly vocal grievances against EU trade policy.

Although the EU was mired in multiple crises for more than a decade (2008–2018), China’s official strategic position towards the EU did not seem to have changed fundamentally. In the second Chinese policy paper on the EU, released in 2014, China stated that, “the EU is an important strategic partner for China in pursuing peaceful development and promoting multipolarity in the world, and is an important collaborator for China’s achievement of the New Four Modernizations and the Two Centenaries”. Strengthening and developing EU–China relations is an important part of China’s efforts to promote the establishment of a new type of major power relations with long-term stability and healthy development and is one of China’s foreign policy priorities. The Chinese government values the status and role of the EU and is committed to working with the EU and its Member States to fully implement the EU–China 2020 Strategic Agenda for Cooperation, form a partnership of “peace, growth, reform, and civilization”, and further enhance the global influence of EU–China relations

in the process of China's comprehensive deepening reforms and Europe's economic recovery.²⁰

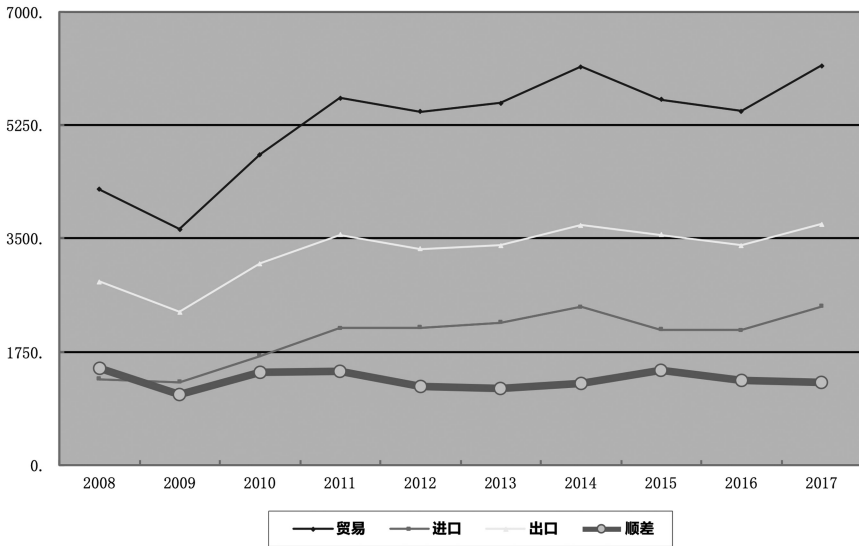
Nevertheless, in recent years, with the increase in EU–China trade frictions, the end of their “honeymoon period” and the European debt crisis, there have been changes in domestic views towards Europe's power within China. One view holds that a split of the EU or the eurozone is inevitable.²¹ The other, perhaps more popular view, is that while the EU remains important, China should also focus on developing relations with Member States, especially big Member States such as Germany, Great Britain and France.²² This in fact confirms China's “two-tier diplomacy” with the EU – the diplomacy with EU institutions and with Member States.²³ This “two-tier diplomacy” stems in part from the challenges that have arisen at the level of China's relations with the EU. In September 2012, when former Chinese Premier Wen Jiabao attended his last EU–China Summit, he lamented that, “we have been trying for ten years to get the EU to lift the ban on arms sales to China and to recognize China's full market economy status (MES), but regrettably these issues remain difficult to resolve”.²⁴ Premier Wen's regret reflected the frustration of Chinese policymakers over some of the prolonged, outstanding issues in EU–China relations, which in turn undermined the EU's credibility in the minds of Chinese politicians.

The economic sources of EU's power

According to Eurostat, the EU's economic aggregate plummeted from first place in 2006 (accounting for 30% of world GDP) to 22% in 2016, behind the US at 25%. Europe's ranking in the world economy was overtaken by the US, retreating to second place. China's economy, on the other hand, rose rapidly from 5% of the world economy in 2006 to 15% in 2016.²⁵ There has been an important shift in the comparative economic power of Europe vis-à-vis China.

In terms of trade (including trade in goods and services), the share of EU exports in the world is largely stable, at 18.4% in 2006 and 17.9% in 2016. However, the share of total EU imports in the world fell from 19.9% in 2006 to 16.2% in 2016, a decrease of 3.7 percentage points.²⁶ This means that the EU's market power is in decline. In contrast, China's share of world imports has grown very rapidly, from 7.1% in 2006 to 12% in 2016, an increase of 4.9 percentage points.

However, in terms of bilateral trade and economic relations between China and the EU, the situation is a bit more complicated. In terms of bilateral trade, the EU had remained China's top trading partner for ten consecutive years, since 2004. China had maintained a large trade surplus with the EU (see Graph 8.1), and from 2008 to 2017, China's trade surplus with the EU remained in the USD100–150 billion range, suggesting that China needs the EU market more than the EU needs the Chinese market, giving the EU additional leverage. In terms of investment relations, the heavily skewed two-way investment between China and Europe had improved appreciably. With EU Member States' rising demand for extra-territorial funding following the 2009 eurozone debt crisis and



Graph 8.1 EU–China trade (2008–2017). In USD billion. Source: Ministry of Commerce of the People’s Republic of China.

the acceleration of China’s outward investment, Chinese foreign direct investment (FDI) in the EU has seen rapid growth since 2009. As at December 2016, China’s cumulative FDI in the EU had reached USD69.83 billion, a 21-fold increase from that of 2008, and more than half of the USD110.336 billion cumulative FDI in China was from EU countries. This was a significant improvement from 2008 when the ratio of the two was 1:19.2.²⁷ Also, in terms of investment flows, a report by research firm Rhodium Group and Berlin-based think tank Mercator Institute for China Studies estimated that Chinese FDI in the EU surged 76% to EUR35.1 billion in 2016. By contrast, EU merger and acquisition deals in China fell for the second year in a row to EUR7.7 billion. This means that Chinese investors spent four times more on M&A in the EU than European companies did in China in 2016.²⁸ In 2017, Chinese investment flows to the EU remained strong, at EUR30 billion.²⁹ In other words, there has been a fundamental shift in the investment relationship between China and Europe, from China’s unilateral dependence on EU investment to mutual dependence on each other’s investment. Trend analysis suggests that Chinese investment flows to the EU will likely exceed EU investment flows to China.

In terms of aid to China, Chinese goods no longer enjoy the Generalized System of Preferences (GSP) treatment from the EU, and after 2008, development aid to China from the EU and its Member States diminished until it was phased out. To a certain extent, this has also reduced the EU’s economic influence on China.

In the financial sector, cooperation between China and the EU has intensified. In the second policy paper on Europe issued by China in 2014, China expressed its consistent support for EU members and the eurozone to maintain financial stability and for EU institutions and the European Central Bank to take financial stability measures and respond to the European debt issues. China indicated its willingness to provide necessary support by various means to Europe for maintaining financial stability.³⁰ This statement was intriguing because historically, developing countries have rarely played a part in bailing out developed countries. However, during the GFC of 2008 and the subsequent European debt crisis, Chinese leadership intended to bail out Europe, but the position was divided at home. Due to domestic pressure to rescue “Wenzhou before Europe”,³¹ Chinese leaders eventually acted on the side of caution.

In the monetary field, there was a very special, yet not truly successful, cooperation between China and Europe. In 2009, the then PBoC Governor, Zhou Xiaochuan, published articles on the central bank’s official website for two consecutive days advocating the conversion of the IMF’s Special Drawing Rights (SDRs) into a super-sovereign reserve currency to gradually replace the existing reserve currency, the US dollar.³² As the rotating president of the G20 in 2011, France made the reform of the international monetary system central to its agenda. France was so keen on the reform of the international monetary system because the euro was one of the major currencies that could realistically compete with the dollar, and this was a topic France had been contemplating for a long time. On 19 June 2007, when Governor Zhou Xiaochuan first proposed the idea of a super-sovereign currency, France immediately called for “a new Bretton Woods system”. At that time, the EU wanted to seize the opportunity to reform the international monetary system to check the dominant position of the US dollar and raise the euro’s influence. At the first preparatory meeting for the G20 Summit in December 2010 convened by France, French President Sarkozy proposed to reduce reliance on the dollar by expanding the scope of the SDRs. However, after the European debt crisis of 2010, the euro’s attempts to challenge the dollar supremacy as the international reserve currency suffered major setbacks, as Member States saw their government bond ratings downgraded time and again. Sarkozy intended to enlist China, which had a vision of a super-sovereign currency, as his ally. Against this backdrop, a high-level seminar on the international monetary system was held in Nanjing on 31 March 2011. In his opening speech, Sarkozy made several references to the idea of including the RMB in the SDR basket of currencies. It is interesting to note that although the seminar took place in Nanjing, China was not the organizer. According to the Chinese Foreign Ministry, France was the organizer of the Nanjing seminar and China merely provided the venue.³³ Behind the cautious approach to the SDR is reportedly China’s concern about the conditions attached to the proposal. ECB President Jean-Claude Trichet said in the seminar that, “a number of conditions are probably necessary for the RMB or any new currency to enter into the basket. And these conditions, I think, would be full convertibility and free-floating”. This condition was apparently difficult for the Chinese government to

accept. Xia Bin, a member of the PBoC's Monetary Policy Committee, believes that the reform of the international monetary system will take a long time. He hopes that the exchange rates of major currencies will remain largely stable, that capital flows could be reasonably regulated, and free convertibility of the yuan should not be used as a bargaining chip for negotiating the yuan's inclusion in the SDR.

In summary, the EU's economic power over China was in relative decline, which inevitably and noticeably weakened the EU's negotiating position with China. With diminished sources of power, the EU was also forced to consider adopting more proactive negotiation strategies, including various new linkage strategies.

The sources of Europe's institutional power

In the period between 2009 and 2019, the most defining event with the greatest impact on Europe's institutional power was the formal ratification of the Lisbon Treaty in December 2009. The Lisbon Treaty introduced new changes to the EU's external trade negotiations. On foreign policy, after the adoption of the Lisbon Treaty (at least in form), the three decision-making pillars were merged under a single institutional framework, and qualified majority voting was uniformly adopted. Under the Lisbon Treaty, the EU established the new EU presidency and the European External Action Service (EEAS) and developed a unified set of objectives and decision-making processes for all EU external policies. The Lisbon Treaty created a "dual-hatted" position of High Representative of the Union for Foreign Affairs and Security who is also vice president of the Commission, primarily to ensure greater coordination between the EEAS and the Commission and with the Member States. The Lisbon Treaty made investment an area of competence for the EU, while giving the European Parliament co-decisional powers in the field of trade legislation, which significantly increased the powers of the European Parliament.

What is the state of unity within the EU in this eventful period between 2009 and 2019? The 2016 EU Global Strategy for Foreign and Security Policy stressed that, "never has our unity been so challenged".³⁴ Within the EU, conflicts of interest between Member States and EU institutions (especially the European Commission) and between the European public and the EU have intensified. Coupled with the relative decline of the EU's political-strategic and economic power resources, the EU was increasingly overwhelmed in its external action and is facing a deep sense of crisis. But it was also under this sense of crisis that the EU placed greater emphasis on collaboration, integration, and linkage between power resources within the EU in an attempt to enhance the EU's cohesiveness as a strategic actor.

In the area of trade policy, the EU placed greater emphasis on the nexus between trade policy and foreign policy. In the new trade strategy launched by the Commission in 2015, "Trade for All: Towards a More Responsible Trade and Investment Policy", the Commission articulated the concept of "economic

diplomacy” for the first time, proposing a more harmonized and integrated approach, using all its diplomatic resources to advance trade interests.³⁵

Concerning the institutionalization of EU–China bilateral relations, after 2009, a series of attempts were made to establish new mechanisms between China and the EU. In 2010, the High-Level Strategic Dialogue, an important platform for in-depth communication on macro-strategic issues between China and the EU, was established. China was represented by a State Councillor and the EU by the High Representative for Foreign Affairs and Security Policy. On 21 November 2013, Premier Li Keqiang co-chaired the 16th EU–China Summit with European Council President Van Rompuy and European Commission President José Manuel Barroso. The two sides jointly formulated the EU–China 2020 Strategic Agenda for Cooperation. This comprehensive strategic plan set out the common goals of strengthening EU–China cooperation in areas such as peace and security, prosperity, sustainable development and people-to-people exchanges, and it aimed to promote the further development of the EU–China comprehensive strategic partnership in the coming years. At the meeting of the Chinese leaders, the two sides also jointly announced the launch of negotiations on the EU–China investment treaty and actively explored the feasibility of a free trade area.

In summary, the EU’s overall power was significantly reduced, mainly in connection with the sources of its economic power and political-strategic power. While the EU’s power was eroded, its institutional power did not decline significantly. On the contrary, thanks to the implementation of the Lisbon Treaty, the EU’s institutional power has been consolidated to some extent. In the subsequent section of this chapter, I will explore what linkage strategies the EU has adopted in the context of diminished sources of overall power and to what extent the EU’s institutional power has been able to maintain the EU’s influence and negotiating position vis-à-vis China in the face of declining political, economic and strategic power resources.

The power of a smile – Commissioner Ashton’s period (October 2008–January 2010)

From 2009 to 2019, the EU went through two terms of the European Commission and four trade commissioners.

Catherine Ashton, a British national, succeeded Peter Mandelson as EU Trade Commissioner from October 2008 to January 2010. She was subsequently appointed EU High Representative for Foreign Affairs and Security Policy, and she also held the position of vice president of the European Commission. Ashton joined the UK House of Lords in 1999 and served as the Under-Secretary in the Department of Constitutional Affairs and Justice before becoming Leader of the House of Lords in 2007. In this role, she helped steer the Lisbon Treaty through the parliament’s upper chamber.

Ashton, like Mandelson, comes from the Labour Party. She largely supported Mandelson’s policy and position on free trade, fair competition and globalization,

while at the same time emphasizing the need to protect the European social model. This may have to do with Ashton's upbringing. She was born in Lancashire, England, once the centre of the British textile industry. She had seen first-hand how an industry flourished and declined, and how people's lives were changed as a result. Ashton believed it was vital to protect the EU's social model in a changing world, but she also believed that the EU must remain open and advance globalization, even if new political dilemmas arose in the process. Opening up the EU means reducing poverty for many countries and regions, and it means spreading opportunities around the world. Trade, according to Ashton, is only a means to an end, not an end in itself. Trade must contribute to the achievement of the UN Millennium Development Goals. It should not cause environmental damage or other social problems, but rather create a prosperous, stable and equitable world.

Acting as EU Trade Commissioner for just over a year, Ashton inherited the trade strategy of the Mandelson years – Global Europe. The EU continued to advance the Doha Round of WTO negotiations. At the same time, Ashton was concerned with labour conditions.

In transatlantic relations, Ashton focused on advancing the work of the Transatlantic Economic Council, reducing existing regulatory barriers in the US, strengthening cooperation with the US in fighting piracy, and jointly advancing the negotiation and enforcement of the Anti-Counterfeiting Trade Agreement (ACTA).

On trade relations with China, Ashton agreed with Mandelson's assessment that China is the single largest challenge for the EU's trade policy, and that the relationship between Europe and China is very important, suggesting that the focus of the policy towards China is to establish a constructive bilateral economic and trade relationship that addresses market access issues in an open and candid manner. Such a relationship recognizes the huge interdependence and common strategic interests of the European and Chinese economies. If Commissioner Mandelson's tone had been "serious and deep", Commissioner Ashton's was "smiling and soft", with a touch of humour. Both Commissioner Mandelson and Commissioner Ashton contributed to EU–China trade and economic relations. They steered the EU trade policy in the direction of free trade from 2005 to 2009, when there were vacillations in EU–China trade and the world was hit by the GFC.

I first met Commissioner Ashton at a luncheon between her and the Chinese Ambassador to the EU. The starting line in the talking points I prepared for the ambassador was, "Ashton is the first British woman to become an EU commissioner and the first female EU trade commissioner". Her previous position was leader of the ruling party in the UK House of Lords, and she held the peerage title, Baroness. So before meeting her, I pictured her to be a graceful, aristocratic lady. But when I met her, I found her very approachable, unpretentious and understated. She smiled courteously the entire time, and she spoke in a measured, yet friendly, manner. Near the end of the luncheon, I noticed that the European Commission Trade Director-General O'Sullivan quietly handed her a

note. She pushed the note back a little theatrically, waved her sleeve, winked at O'Sullivan 'mischievously' and smiled at the Chinese Ambassador. Her colleague told me afterwards that the note O'Sullivan handed her was asking her to raise a few European concerns, but her impromptu move left her deputies more than a little baffled. Then again, it was well understood if you think like the Chinese. Why talk about technical, offensive trade issues when it's the first meeting at a relaxed luncheon. The purpose was to make acquaintance and friendship, so those charged trade issues on this occasion would be counterproductive, ruining the good appetite and defeating the purpose of making friends.

Gradually, it became clear to me that Ashton's demeanour at the luncheon was not a momentary act, but rather her unique style as a female politician – believing in the power of smiles and communication. Ashton is a people person and knows how to make a charm offensive. For example, she prefers face-to-face meetings to cold conference calls. At the beginning of her tenure, she expressed desire to meet with the Chinese commerce minister. Since they both had unusually tight schedules, China suggested a teleconference. But Ashton's aides insisted on an in-person meeting, even if it had to wait. This shows that the role of individuals in EU–China trade and economic relations cannot be underestimated, and the EU Trade Commissioner is a key player in this process.

The most important event in EU–China trade relations during Commissioner Ashton's short tenure was the second EU–China High-Level Economic Dialogue (HED) held in Brussels on 7–8 May 2009, chaired by Commissioner Ashton for the EU and Wang Qishan, then-Vice Premier of the State Council, for China. The second HED took place in a rather special context. After three decades of reform and opening up, China and the world had become increasingly intertwined. The financial crisis led to sluggish external demand, and boosting domestic demand will not be able to compensate for the loss of external demand in the near future. The Chinese government proposed stabilization and the growth of foreign trade. To this end, China required a stable external environment. The EU, China's No. 1 trading partner, naturally played a key part in China's stabilization plan. That was the strategic significance of the dialogue. In the EU, the financial crisis had hit the bloc hard, and protectionism was rapidly rising among some Member States. Therefore, it was also in the EC's interest to resist protectionism and strengthen EU–China trade relations. I still remember that on the evening of 6 May 2009, Vice Premier Wang Qishan, the Chinese chair of the HED, came to the Chinese Mission to the EU for a group photo. He was quite spirited despite the long flight. He spoke for 40 minutes, rather than his 20-minute allotted time. Instead of reading from a script, he improvised, speaking to the challenges and his reflections, the core issue being how to "turn a crisis into an opportunity" in the aftermath of the financial crisis.

The HED was held over 2 days, with 12 Chinese ministers and senior officials from 19 ministries meeting face-to-face with 11 EU commissioners to deepen their mutual impressions, hear each other's concerns, learn from each other and send a positive message to the outside world about the EU–China partnership and about opposing protectionism and revitalizing the world economy. During

the dialogue, Vice Premier Wang also spoke at a luncheon of the EU–China CEO Roundtable, and his words were well received. For Commissioner Ashton, the HED was the most important dialogue in EU–China trade relations that could provide leadership and political impetus to several trade-related dialogues between Europe and China. Furthermore, she believed that the HED was an opportunity to meet her Chinese counterparts, build mutual respect and understanding and form friendships.³⁶ The second HED turned out to be a success.

One of Commissioner Ashton's major policy concerns regarding EU–China trade and economic relations was the bilateral investment relationship. In her view, the bilateral investment relationship between Europe and China lags far behind trade relations and has great potential for growth. In her speech at the China International Fair for Investment and Trade (CIFIT) in Xiamen on 8 September 2009, she noted that,

China is fast becoming an active outbound investor [...] but there are some worrying signs in the bilateral investment relationship between the EU and China: the EU's FDI in China fell from EUR7.1 billion in 2007 to EUR4.5 billion by 2008. Chinese investment in Europe also fell by EUR500 million in 2008 from its 2007 level.³⁷

Commissioner Ashton argued that, “The EU welcomes foreign investment because it promotes innovation and growth. But the EU demands in return that EU investors receive the same access and equal treatment in China”.³⁸ It was clear that the EU remained in an offensive position on trade policy towards China, when the bloc was deep in a debt crisis in 2008–2010, the only difference being that the EU had begun to shift its focus from trade towards two-way investment. Those years coincided with the negotiation for the Partnership and Cooperation Agreement (PCA) and the update of the 1985 EEC–China Trade and Economic Cooperation Agreement. Investment was a central issue in the EU–China trade negotiations. Commissioner Ashton paid so much attention to investment issues because these concerned the EU's economic interests and (likely) the imminent entry into force of the Lisbon Treaty. The Lisbon Treaty, which entered into force on 1 December 2009, brought FDI within the exclusive jurisdiction of the EU,³⁹ which meant that the European Commission could negotiate bilateral investment treaties (BITs) on behalf of Member States. In the Commission's Communication “Towards a comprehensive European international investment policy”, published on 7 July 2010, the EU clearly identified China as the preferred candidate for negotiating a stand-alone BIT. The Communication suggested that,

In the short to medium term, the Union should also consider under which circumstances it may be desirable to pursue stand-alone investment agreements. China, which is characterized by a high proportion of greenfield investments, including from the EU, may be one candidate for a stand-alone investment agreement, in which the protection of all kinds of assets including

intellectual property rights should be covered. The Commission will explore the desirability and feasibility of such an investment agreement with China, and report to the Council and the European Parliament.⁴⁰

Subsequent history has shown that both Trade Commissioners De Gucht and Malmström, who followed Commissioner Ashton, made a BIT with China a top priority in their trade negotiations. This process began with the formal confirmation of the EU's exclusive jurisdiction over FDI. It is interesting to question why the EU started to consider a stand-alone BIT with China while the negotiations on updating the 1985 EEC–China Trade and Economic Cooperation Agreement were underway. Is it because the negotiations to update the 1985 agreement were unable to proceed, or because the EU politically needed a stand-alone BIT with a major power to demonstrate to Member States that it is beneficial to transfer FDI jurisdiction to the EU level? The answer is likely to be a combination of both.

Hardening of position with China – Commissioner De Gucht's period (February 2010–November 2014)

Belgian Karel De Gucht was EU Trade Commissioner from 9 February 2010 to 1 November 2014. De Gucht became president of the Flemish Liberal Students while studying at university, and in 1999, he became president of the Flemish Liberals and Democrats (VLD). To a large extent, his time as trade commissioner was characterized by the ideology of his party. This allowed him to support free trade while adhering to a politically liberal doctrine, which was evident in his effort to broker the EU–Ukraine Association Agreement that contributed to the consequential Ukrainian crisis. Additionally, his liberal philosophy made him a key advocate for the promotion of an EU–US transatlantic FTA.

In terms of personality, De Gucht appears headstrong. He rarely changes his mind when he is determined, even under pressure. He is very vocal and dares to speak his mind. Given such a temperament and personality, his career was destined to be a bumpy ride. As early as 2004, when he was the president of the VLD in Belgium, he was forced to resign from his post as president of the party because he publicly opposed giving voting rights to immigrants and fell out with then Belgian prime minister, Guy Verhofstadt, who was also a member of the VLD. Later, while serving as Belgium's foreign minister, he nearly broke off diplomatic relations with Congo after publicly criticizing the Congolese government for corruption. In 2005, he was forced to apologize for referring to the then-prime minister of the Netherlands, Jan Peter Balkenende, as Harry Potter.⁴¹

After taking up the post of EU Trade Commissioner in 2010, De Gucht launched a trade policy titled, "Trade, Growth, and World Affairs Trade Policy" as a core component of the EU's 2020 strategy at the end of that year. In that policy, De Gucht committed to free trade, largely in keeping with the trade policies of the former trade commissioners such as Sir Leo Brittan and Peter Mandelson, and the EU continued to insist on free trade and openness. However, to ensure that the EU's open trade policy would continue politically,

the EU required other countries to also open their markets to the EU through reciprocity and mutual benefit.⁴² In this trade policy paper, the EU committed to remaining open, but at the same time, indicated that it would not be naïve and would take all actions appropriate to counter unfair trade practices. It went on to stress that without fair market access to raw materials and government procurement, the European people will not support the EU's trade policy.⁴³ In fact, this was targeted towards China. Saying that the EU's trade policy will not be naïve was actually in response to French President Nicolas Sarkozy's criticism of EU trade policy as "being too naïve" and "too soft" during Commissioner Mandelson's time.

De Gucht's trade strategy looked to combine multilateral and bilateral approaches to opening up overseas markets. In the strategy paper, multilateral negotiations were given priority, despite major setbacks in multilateral trade negotiations. Bilaterally, the EU primarily advanced through FTA negotiations. This strategy paper also stressed the need for the EU to develop "strategic economic partnerships" with major powers such as the US, China, Japan and Russia. However, the EU did not articulate the scope or criteria of a "strategic economic partnership". It only vaguely pointed out the need for the EU to focus on "strategic economic partners".

Compared with Commissioner Mandelson, De Gucht's position towards China was rough and aggressive. People close to De Gucht told me that there are two main reasons for De Gucht's tough position on China: first, within the EU, Mandelson's policy towards China was widely criticized as being too naïve and idealistic; second, De Gucht believed that China adopts "state capitalism", which contradicts the EU system and his own ideology. The latter was directly reflected in the new EU trade policy paper issued by De Gucht. He argued that some of China's industrial and macroeconomic policies testify to the fact that China's policies are based on state capitalism.⁴⁴

Driven by this perception, De Gucht significantly revised Mandelson's policy towards China, projecting a much tougher stance than his predecessor. He began to wield the "stick" of trade defence measures, leading to multiple instances of trade tensions between China and the EU. In the words of *Financial Times*, De Gucht was addicted to trade remedy investigations against China, and the Chinese goods he probed into included steel, ceramics and raw materials, among others.⁴⁵ Additionally, in 2010, without recognizing China's market economy status, the EU began a countervailing duty investigation into Chinese wireless routers. In 2011, the EU imposed countervailing duties on Chinese exports of copperplate paper to Europe. In 2012, the EU initiated anti-dumping and countervailing duty investigations on Chinese solar panel exports to Europe, involving a trade value of more than USD20 billion, the largest anti-dumping and countervailing duty case since the establishment of diplomatic relations between China and Europe. Premier Li Keqiang took a series of economic diplomacy actions to exert political influence on German Chancellor Angela Merkel and European Commission President José Manuel Barroso and clearly stated China's intent of retaliatory measures against such EU measures. In the end, the anti-dumping

duty on solar panels was reduced from 47.6% in the preliminary determination to 11.8% in the final determination.

Despite De Gucht's hard-line position on China, during his term, EU–China negotiations on a BIT were launched. This was a watermark event with far-reaching implications for EU–China trade and economic relations. In the new trade strategy presented by De Gucht on 9 November 2010, the EU explicitly proposed to consider negotiating a stand-alone BIT with China, among other countries.⁴⁶ The negotiations were eventually launched at a summit of Chinese and European leaders on 21 November 2013. The launch reflected the willingness of both sides to further enhance the size and quality of their bilateral investment relationship and to further promote the strategic partnership through the new lever of two-way investment. In 2013, EU FDI in China accounted for only 2.1% of the EU's outward FDI, while Chinese investment in Europe, despite a significant increase since 2009, was still negligible in China's overall outward investment. Of course, the bilateral BIT negotiations were also motivated by the EU's political agenda, most notably the need for the EU to consolidate its newly acquired authority on FDI. After the adoption of the Lisbon Treaty in 2009, the EU took on the power from its Member States to externally negotiate investment treaties. The launch of the EU–China BIT negotiations marked the first mandate the EC received to externally negotiate a stand-alone BIT.⁴⁷ In addition, the EU could use the negotiations to advance the objectives and principles of its foreign policy, which include improving China's business climate, raising social and environmental standards, and enhancing corporate social responsibility and to establish appropriate structures to deal with disputes in these areas.⁴⁸

De Gucht is also a realist who plays geopolitics through economic tools. The EU relies, in particular, on the negotiation of FTAs or association agreements to achieve its geostrategic objectives. The most telling is the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and the former Soviet republics of Ukraine, Georgia and Moldova, as well as the Transatlantic Trade and Investment Partnership (TTIP), which the EU and the US had contemplated signing. Such agreements are highly geopolitical. The DCFTA with Ukraine was supposed to provide Ukraine with a framework for trade modernization, bringing the Ukrainian economy into line with EU standards through the gradual elimination of tariffs and quotas; market liberalization; and the development of uniform laws, standards and norms for all sectors of trade.⁴⁹ Although the EU was keen to avoid the term geopolitical, the DCFTA was still seen by many scholars as part of its geostrategy, providing support for stability in the regions neighbouring the EU and the EU's eastward enlargement strategy.⁵⁰ The EC's new trade strategy, presented on 9 November 2010, also made clear that the DCFTA negotiated between the EU and the Eastern Partnership and Mediterranean Partnership countries was a powerful agent for change in these countries, with regulatory harmonization and the elimination of tariff and non-tariff barriers between these countries and the EU. This was a steppingstone for economic integration into the European Single Market, which in turn, would serve the broader agenda of strengthening the EU's political ties with these countries.⁵¹ As Ukraine was

traditionally an ally and an important trading partner of Russia, the EU's DCFTA with Ukraine elicited strong discontentment⁵² and resistance from Russia. The delay in ratifying the DCFTA by former Ukrainian President Viktor Yanukovych directly led to a political crisis in Ukraine. Subsequent interventions by Russia and NATO culminated in the "Ukrainian crisis" and Russia's annexation of Crimea.

Looking back at the Ukrainian crisis, the EU wanted to rely on the FTA with Ukraine to achieve "peaceful evolution" of the country, but this turned out to be a botched attempt. Not only did a crisis break out in Ukraine, but the Ukrainian government had to seek NATO's protection to counter Russian military intervention. This shows that the linkage strategy of seeking political influence through economic power ultimately had to revert to military power. Therefore, going forward, the EU will rely further on NATO. But when the US strategically contracts, NATO will not provide adequate security protection and the EU will have to "remilitarize". This will have profound impact on the international political landscape.⁵³

Indeed, after the Ukrainian crisis, the EU has leaned more on NATO and advanced the transatlantic partnership through the US-EU TTIP. Beyond shared values and economic interests, the fundamental reason for the EU's reliance on the transatlantic relationship lies in the lack of military power and the need for security, while the US remains the only current military superpower. This determines the EU's softness, compromise and dependence on the US and a pro-US linkage strategy in regards to dealing with other traditional powers such as China and Russia. The EU's military dependence on the US will only be eased when the US military hegemony declines and the EU is "remilitarized", but this will likely be a long-term process.⁵⁴

If Mandelson had prioritized China, De Gucht's trade strategy put the US first, as evidenced by his relentless effort to launch and advance the TTIP. This has become the most important political legacy of De Gucht's tenure. On the one hand, in the face of a rising Asia, the TTIP will strengthen EU-US cooperation and create global trade rules outside the WTO. On the other hand, the EU has long depended on Russia for its natural gas imports, whereas the TTIP makes it possible for the US to export oil and gas to Europe,⁵⁵ greatly improving the EU's energy security. As such, the TTIP plays a critical geostrategic role.⁵⁶ However, Trump called off TTIP negotiations after taking office in 2016, frustrating the EU.

In summary, EU trade policy under De Gucht had strong geopolitical overtones. In the geopolitical game with Asia, the likes of De Gucht were typical institutional realists. Although they emphasized the role of institutions, institutions to them were merely means to achieve the expansion of the European empire. Tools such as the DCFTA and TTIP in trade regimes cannot escape the logic of the "security dilemma": the more they expand, the more insecure they feel, and the more insecure they feel, the more they want to expand, ultimately leading to a self-fulfilling prophecy of insecurity. Such institutional realism has motivated De Gucht to frequently wield the stick of trade remedies against China and repeatedly raise the term "negative reciprocity", that is, "if China does not open, the

EU won't open either". The logic of realist behaviour is power dynamics, and its end result also depends on power dynamics. De Gucht's push for realism against the backdrop of declining EU power backfired and left him fully exposed in handling major power relations with the US, Russia and China. This is also, to a large extent, a lamentable reflection on the EU's power. The EU's power ceiling through economic, diplomatic and strategic power (including the linkage strategy) alone, without the backing of strong military power, naturally has limits. This is a major limitation of the EU's linkage power.

Trust deficit – Commissioner Malmström's period (November 2014–November 2019)⁵⁷

EU–China trade relations in this period (2009–2019) appeared to be smooth, but in reality, there were many undercurrents. The mutual trust between officials on both sides seemed to be inexplicably eroding, with a growing sense of alienation. It is difficult to qualify the reason for this trust deficit, though it is most likely due to the build-up of frustrations from a prolonged failure to reach results on topics of their respective concerns. In September 2012, when Premier Wen Jiabao attended his last summit of Chinese and European leaders as premier, he could not help but lament, "For the last ten years, we've been trying to get the EU to lift the ban on arms sales to China and recognize China's full market economy status. I regret that these issues remain difficult to resolve".⁵⁸ For its part, the EU was strongly dissatisfied with the level of access to the Chinese market, which fell short of its expectations. Of course, the trust deficit may also have to do with China's meteoric rise, about which, the EU had mixed feelings. In short, this trust deficit was spreading, so much so that neither side was sure that the other could deliver on its promises. EU–China trade relations had reached a stage where, as each other's top-ranking trading partners, both sides were too big to move against the other, leaving negotiators on both sides feeling helpless, uninspired and frustrated.

One manifestation of the growing mistrust was the perception that whatever the other side did was ill-motivated and seeking a strategic objective detrimental to the other. For example, the "16+1" mechanism established by China and the Central and Eastern European countries (CEE) was seen by some in the EU institutions and Member States as a "divide and conquer" strategy. The EU and some Member States also began to tighten national security reviews and even restricted investments by Chinese state-owned enterprises.

China's Belt and Road Initiative (BRI) was never fully embraced by the EU. In September 2018, the EC released its EU–Asia Connectivity Strategy, which was interpreted by some as Europe's answer to China's BRI. A European think-tank analyst argued that,

this new strategy released by the EC will offer a different approach to that taken by Beijing with its flagship Belt and Road Initiative (BRI). But it was the massive infrastructure investments under BRI that raised the most

concerns in Brussels, as well as Washington, New Delhi, and other capitals, about the implications of China's approach [...] Geopolitical competition in Eurasia seems set to increase, with China, Russia, the United States, and the EU competing for influence. The connectivity strategy of the EU has set down a marker that the EU is part of the game.⁵⁹

Needless to say, this analyst's reading of the EU–Asia Connectivity Strategy was mainly through the lens of geopolitical competition, which inevitably led to the above conclusion. In fact, while this EU strategy paper emphasized advancing Eurasian connectivity based on its own experience, it also called for connectivity partnerships with countries and regions such as China to achieve synergies and resolve differences.⁶⁰ The Chinese Ministry of Foreign Affairs had a positive interpretation of this strategy,⁶¹ but as the EU's criticism of China grew in many respects, China became increasingly concerned that the EU would eventually lean towards the US in the US–China trade war, forming the “Big West”.

This strategic mutual distrust prompted new movement in EU policy towards China. First, there was a strong appeal to reciprocity: “I won't open if you don't” and “don't expect me to concede if you don't make concessions”. This may eventually develop into tit-for-tat retaliation. Second, negotiation strategy, especially the linkage strategy, gained greater importance. Among the many linkage strategies, the EU has increasingly emphasized the linkage and coupling of economic issues, of political and economic issues, and with the US negotiation strategy to strengthen its own negotiating position.

The mistrust between China and Europe in the trade area, and the mistrust more broadly, began under De Gucht. De Gucht was, on the whole, unfriendly towards China. Such unfriendliness stemmed from his own ideology and the lessons learned from Commissioner Mandelson. De Gucht believed that Mandelson's China-friendly stance and China-school label ultimately led to the failure of Mandelson's China policy. De Gucht had no intention of repeating Mandelson's mistake.

It was in such a climate of growing mistrust that Cecilia Malmström took office as the new EU Trade Commissioner in late 2014. A former professor of political science, she understood the rules of politics and applied the concept of power to EU trade policy. Carlos Moedas, the Commissioner for Research, Innovation and Science, who served concurrently with Malmström, described her as, “the perfect mix of analytic and emotional intelligence. She makes you feel good, she listens, but she's incredibly tough”.⁶² Her political belief reflected the ideology of her party, the Swedish Liberal People's Party. Her party traditionally values human rights, promotes mixed economic ownership and a market-based welfare state system, emphasizes both freedom and justice, is diplomatically pro-American and anti-communist, ardently supports EU integration and attaches great importance to external aid. In terms of dealing with China, Malmström began her term by saying, “China is the EU's strategic and most important trading partner. I hope to conclude a bilateral investment treaty between Europe and China during my term of office”.⁶³

On 14 October 2015, one year after taking office, Malmström published a new EU trade strategy titled “Trade for all: towards a more responsible trade and investment policy”.⁶⁴ Of the many adjustments to EU trade strategy since 1995, this was notable in six ways:

1. The tendency of politicization was on the rise. Against the background of profound changes in the political and economic landscape within the EU and around the world, as well as the European Parliament (EP)’s co-decision procedure on trade, the politicization of EU trade policy had risen rapidly. On the one hand, trade policy covered more and more areas and involved a large number of domestic regulations that affected daily life for Europeans, and therefore it had been met with more public opposition. On the other hand, with the EP gaining co-decision power over trade legislation, partisan politics found a conduit to influence EU trade decisions. Unlike the European Commission, which acts in the overall interests of the EU, the EP acts more in accordance with partisan politics and constituency interests, which forced EU trade policy to be linked to many non-trade issues, and this made it much more difficult for the EC to implement trade policy. In fact, the trade commissioner must frequently visit the EP for hearings and meetings with MPs to win the support of the EP.
2. Ideology was prominently featured. For the first time in its history, the new trade strategy explicitly stated that values informed the implementation of EU trade strategy. Values took up a large part of the document and were the most salient feature of the new EU trade strategy. The ideology underlying this strategy went beyond pure market economy and liberalism to include more social liberalism ideas, including an emphasis on human rights, the preservation of the European model of economic and social development, and the importance of individual rights. At the same time, it underscored the need for strong regulatory powers at the national and EU level to cope with all kinds of crises. When dealing with individual-state investment disputes, the EU emphasized the need to give states the right to regulate investment and to oppose the abuse of individual power. Trade should be used as an important lever to promote EU values worldwide, including sustainability, human rights, good governance, fair and ethical trade and anti-corruption.
3. Working with the US to build a Western liberal democratic alliance. This new trade strategy clearly reflected Western ideology and market interests, with no affinity for non-Western countries such as China. There was more moral preaching and strategic coupling, with the intention of changing the systems of non-Western nations. The EU committed to the principles of openness and inclusiveness in this strategy, saying that the US–EU TTIP was open to participation by other countries; however, in reality, its openness was mainly confined to the members of the Trans-Pacific Partnership (TPP) and allies of the US and Europe, as well as the so-called liberal democracies. If China wished to join, it would have to meet the high thresholds set by the US and Europe. The so-called “openness” proclaimed by the EU in FTA

negotiations was actually trade diplomacy of, “driving change through commerce”, whereby joining a trade deal dominated by the EU and the US was promised as a bait, with linked issues and preconditions as the strategy.

4. Reshaping the multilateral trade negotiation process. The EU’s trade policy generally adhered to multilateralism, but the EU wanted to reshape the multilateral trade negotiation process by “starting a new stove” within the WTO framework, ending the single undertaking model and vigorously promoting sub-issue negotiations and plurilateral agreements. This was a new type of trade multilateralism aimed to preserve the leadership of the West (especially the US and Europe) in world trade.
5. Trade issues were increasingly linked to other issues. The EU is currently facing a series of political challenges, such as the refugee crisis, turmoil in the Middle East, and the security of its neighbouring states, which requires trade policy to serve a series of non-trade objectives. As a core competency of the EU, trade policy is one of the main policy tools for the EU to exert external influence. However, trade is increasingly being dragged down by non-trade issues. In the case of the TTIP, for example, after the wiretapping scandal in which the US intelligence service targeted European dignitaries, the European public became disenchanted with the US approach and collectively boycotted the TTIP. In Germany, 80% of Germans previously supported TTIP, but now, the proportion has dropped to 50%. The TTIP has made little progress since the wiretapping incident. Because of this, the European Commission had to publish the full text of the TTIP negotiating mandate, a last-ditch move by the EC to regain public support. This shows that trade is no longer a pure issue: it has been entangle with political issues. A Commission official in charge of TTIP negotiations confessed that in TTIP negotiations, 80% of his energy was spent on “legitimacy building”, aimed to gain whole-of-society support for TTIP negotiations.
6. Vigorous implementation of economic diplomacy. In this strategy document, for the first time, the Commission explicitly used the term “economic diplomacy”, to mobilize all forms of diplomatic resources to promote the EU’s trade interests.

The China component of the new trade strategy is concentrated in, “A strategic engagement in Asia and the Pacific region” under Section 5.2, “Moving bilateral relationships forward”. China was featured prominently hereunder, and the objective of EU policy with China is stated as, “deepening and rebalancing our relationship with China in a mutually beneficial way”. Specifically, this goal is to be achieved in four ways: first, the conclusion of the EU–China BIT negotiations. The conclusion of this treaty would contribute to China’s reforms and help dovetail the BRI with the EC’s Investment Plan for Europe. The second is to advance the negotiations on the EU–China Agreement on Geographical Indications. The third is the EU–China FTA agreement proposed by China. The EU’s position is that it will only be ready to engage in the process with China once the right conditions are met. These conditions are related to a series of domestic economic

reforms and the establishment of a level playing field for foreign companies coming to China. Fourth, the EU should encourage and support China's growing role in the multilateral trading system and in plurilateral initiatives, including the Trade-in-Services Agreement (TiSA), the Information Technology Agreement, the Environmental Goods Agreement, the International Working Group on Export Credits and the GPA. In addition, the EU specifically mentioned that the EU would also explore launching negotiations on investment with Hong Kong and with Taiwan based on the relevant provisions of the EU–China BIT.

When this EU trade strategy was proposed in 2015, it did not foresee a “grey rhino event” five years later. As such, the EU's trade policy with China actually went through two stages. This grey rhino event was the arrival of populist US President Donald Trump. Trump's rise to power dramatically shifted US trade policy towards economic nationalism. The EU's trade policy with China was divided into two stages, with Trump's change to US trade policy as a watershed moment. Before Trump fundamentally changed US trade policy, the EU's trade policy towards China was mainly confined to China and Europe, with the EU focusing on negotiating a BIT, working to establish a national security review mechanism at the EU level, intensifying their review of Chinese investments⁶⁵ and dealing with the export of Chinese excess capacity. China was vigorously promoting the BRI and looking to align the BRI with the Investment Plan for Europe⁶⁶ so as to promote EU–China cooperation on manufacturing capacity. After Trump took office (after 2018), he launched two battle fronts, one front being the trade war with China beginning in February 2018, and the second front being the announcement on 2 March 2018 of a 25% and 10% levy on all imports of steel and aluminium from the EU, which instantly triggered an outcry from the EU, whose interests were severely injured. On 6 March, the EU pulled up its retaliation list, preparing to tax up to EUR2.8 billion (about USD3.5 billion) worth of US goods, including US exports of T-shirts, Levi's jeans, cosmetics, Harley-Davidson motorcycles, orange juice, bourbon, corn and other agricultural products, as well as steel and industrial products. On 22 June 2018, Trump again threatened to impose a 20% import tariff on all EU-assembled cars, again drawing a strong knee-jerk reaction from the EU. On 25 July 2018, the Commission President Juncker and Trump reached an abrupt rapprochement: the US and the EU would “work together toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods”, and would unanimously target China. At this point in Trump's presidency, the EU's trade policy with China was inevitably charged with American interests, and the EU's trade negotiations with China entered a new stage of trilateral strategic interactions among China, the US and Europe.

At this new stage of trilateral strategic interactions among China, the US and Europe, EU trade policymakers such as Commissioner Malmström and EC President Juncker faced difficult choices. If matters were mishandled and impulse decisions prevailed, the EU would likely be in the same situation as the US, fighting on two fronts, i.e., trade wars with the US and China at the same time. The likely result would be a world trade war that could seriously jeopardize the

multilateral trading system. In this context, EU trade policymakers had to attempt a delicate balancing act, finding ways to maintain a free multilateral trading system and avoid a full-blown trade war with the US while also using the US to pressure China in an attempt to achieve offensive interests in the Chinese market. At the same time, the EU and China had joined hands to promote WTO reform and preserve the multilateral trading system. As of 2019, EU trade policymakers still behaved traditionally and occupied a vantage position in the trilateral relations among China, the US and Europe. The EU was able to avoid direct conflict with China and the US while advancing the EU's own trade agenda with the help of the other two. The support of the US could help open the Chinese market and protect intellectual property rights and other trade interests. China's support was for promoting WTO reform and maintaining a multilateral trading system that is in the EU's interest. However, the political changes within the EU after 2019 will likely further narrow the room for manoeuvring of EU trade policymakers, forcing the EU's trade policy to gravitate towards compromise and concession with populists.

EU–China economic diplomacy in the aftermath of the global financial crisis (2009–2012)

The European debt crisis was a defining moment in the history of EU–China trade relations. It profoundly changed the course of EU–China trade relations, with the EU gradually turning from a driving force behind EU–China trade relations into a resistant force that is difficult to appease. This historical phase that started in 2009 has not yet run its course, and it may last until around 2030. As it stands, this 2009–2030 period can be divided into three sub-periods. The first is crisis response from 2009 to 2012, which is the focus of this section. The second is the EU's fight for reciprocity (2012–2019). The third is the “Fortress Europe” period, which presumably began in 2019 (changeover at EU institutions in 2019) and will last until around 2030. During this third sub-period, the EU may retreat to a protectionist, mercantilist “Fortress Europe”, where the liberal doctrine that once dominated EU trade policy for decades may give way to a mercantilist zeitgeist.⁶⁷

The narrative of this section begins with Premier Wen Jiabao's visit to the EU headquarters in 2009.

From 27 January to 3 February 2009, Premier Wen Jiabao made state visits to Switzerland, Germany, Spain, the UK and the EU headquarters and attended the 2009 Annual Meeting of the World Economic Forum. Brussels (EU headquarters) was the third stop of his trip. In Premier Wen's own words, it was a “continuous forced march”.

The context of his visit was complex. The sudden decision by French President Sarkozy to receive the Dalai Lama in Poland in November 2008 hurt China's core interests and angered Beijing. China subsequently decided on 26 November 2008 to postpone the next EU–China Summit.

The visit took place in the immediate aftermath of the GFC. Premier Wen said, “the crisis is still spreading, and we are facing serious challenges”. Against

the backdrop of the GFC, China's exports experienced negative growth for two consecutive months in November and December 2008. Premier Wen said frankly at the annual meeting of the WEF in Davos,

The main challenges (with China's economy) are: external demand has contracted significantly; there is overcapacity in some industries; businesses are having difficulties in production and operation; the urban unemployment number has increased; and the downward pressure on the economy has grown significantly.

Premier Wen arrived in Brussels the next evening after his speech in Davos. Upon his arrival, he posed for pictures with overseas Chinese and embassy staff and delivered a speech. His speech that night focused on confidence: "Crisis will not divide us, and threats will not undermine our ambition".

Premier Wen believed that, in globalization, no country can win alone, and that the era of self-serving at the expense of others and beggar-thy-neighbour is long gone. China must actively expand its imports. This is partly because China has tangible needs for Europe's high-tech products and services, and partly because it wants to help the EU resist rising trade and investment protectionism. Since September 2007, the EU has seen a sharp increase in the number of anti-dumping cases against China. China responded by saying that the EU's anti-dumping investigation (as a legitimate trade remedy measure permitted by the WTO) must be based on the premise of recognizing China's market economy status rather than on labour and raw material costs of surrogate countries such as Singapore, which would result in a significantly higher dumping and injury margin for Chinese enterprises and excessive anti-dumping duties. Three days before Premier Wen's visit, the first day of the Lunar New Year, the European Commission made the final determination on Chinese fastener products, slapping punitive tariffs on more than 60% of Chinese fastener manufacturers and effectively blocking access of Chinese fastener exports to Europe. China reportedly also launched an anti-dumping investigation into fasteners from the EU. The EU called it retaliation, and the EC "urged" China to keep the case in line with WTO rules. In retrospect, the Chinese government was in a difficult position at that time. On the one hand, there were 1,700 fastener enterprises and hundreds of thousands of jobs at stake, and on the other hand, starting a trade war might further injure the difficult export sector. In the context of the GFC, the EU was also facing mounting protectionist pressures, and the number of anti-dumping cases lodged by EU industries surged. Both the EC and the Chinese government wanted to defend free trade and open markets, and to signal such to the outside world. If a trade war were to start, it would be difficult for both sides to defend free trade, and protectionist policies would easily prevail. In fact, before the ink was dry on the statement to resist new trade protectionist measures following the agreement by the G20 countries at the November 2008 financial summit in Washington, some countries had already started taking steps to raise tariffs on certain products. The Doha Round of trade negotiations have not been able to

regain momentum since the failed ministerial meeting in July 2008 because of elections in the US and India, among other reasons.

More often than not, politicians must operate with trade-offs. They face domestic political pressure while having to be visionary. They need to weigh the situation and sometimes even pay a political price. This is true for most political systems, but the EU–China relationship is unique and does not exactly fit this rule. China’s institutional strengths and the solidarity of its people in overcoming difficulties together can ensure that its political leaders are comparatively more visionary. The Chinese were more united in the 2008 events: the sleet disaster in the south, the Wenchuan earthquake and the Beijing Olympics all greatly enhanced Chinese cohesion. And although most of the EC commissioners are former politicians, they are not elected to their positions, so they are more or less shielded from domestic pressure; this allows them to vocally promote trade and investment liberalization in the EU. In fact, Premier Wen was wise in his decision to visit the EU headquarters. The EC is, to a large extent, an important stabilizer in terms of maintaining free trade and open markets. It can balance and resist protectionist pressures from southern Member States. The EC’s rationale can be as simple as representing the interests of the EU as a whole. In this respect, the EC has played a role in resisting protectionism.

If 2009 was a year of solidarity for EU–China trade relations, then the situation had changed in 2010. Due to internal and external pressure, the EU adopted a series of “diplomatic offensives” towards China.

Three years after the onset of the GFC, the world economy had begun to recover, but such a recovery was precarious and unsteady, with the risk of a double-dip recession still looming. Sovereign debt crises erupted in Greece, Portugal, Spain and Ireland, and the European economy generally recovered more slowly than other economies. Since June, the euro had strengthened against the dollar and the yuan, and eurozone exports faced greater pressures due to the lack of a flexible exchange rate regime. On 6 October 2010, the 13th EU–China Summit was held in Brussels. Concurrently, the Asia-Europe Meeting (ASEM) was being held. Other summits followed throughout November, including the APEC Summit, the ASEAN+China-Japan-Korea (“10+3”) Summit, and the G20. The crossfire around IMF seats and contention on other issues involving a major reshuffling of international economic and financial power had become apparent. The shadow of a currency war was spreading rapidly around the world. The debate between China and the US and between China and the EU over the RMB exchange rate, market access, intellectual property protection, government procurement and investment climate had intensified. Coupled with the approaching US mid-term elections, there was a clear tendency to politicize China–US trade issues. The US House of Representatives passed a bill related to the RMB exchange rate, and the currency dispute became a highly charged issue in the bilateral relations. Criticism of China’s investment environment was growing. Therefore, the external environment for this EU–China Summit was unfavourable, and trade issues featured prominently on the meeting’s agenda.

For its part, the EU had undertaken an unprecedented and intensive internal coordination, a linkage strategy I call “synergistic linkage”, the core of which is to strengthen internal coordination and create synergies. The EU–China Summit was an important economic diplomacy exercise for the EU after the adoption of the Lisbon Treaty and the establishment of six strategic partnerships, including with China. In this context, the EU convened the meetings of the foreign ministers and heads of state of Member States and decided to step up efforts to advance its strategic interests; in particular, the EU decided to promote trade, strengthen market access, improve the investment climate and intellectual property protection, open up government procurement markets in other countries, regulate export subsidies and conduct exchange rate policy dialogue. Clearly, trade issues were top on the EU’s agenda as it approached the strategic partnership with China in the context of the GFC.

The EU adopted a “wheeling and dealing” approach to advancing its strategic interests, initially at the ASEM Summit on 4 October 2010. On 5 October, the “troika” (president of the European Central Bank, president of the Eurogroup and European Commissioner for Economic and Financial Affairs) pressed for the appreciation of the yuan. Then, on 7 October, at the EU–China Business Summit and Leaders’ Summit, it addressed the EU’s trade concerns.

There are three reasons behind the difficulties in EU–China trade relations:

First, the two sides had not yet been able to find mutually-agreeable solutions to hot-button and sensitive issues. For example, old issues such as the lifting of the ban on arms sales and recognition of China’s market economy status had kept China waiting for too long. The two sides were unable to reach agreement on the exchange rate issue. The dual pressure from Europe and the US left China unsettled.

Second, the changing international landscape had affected the EU’s current interests. The power of developed countries had declined as developing countries gained more power. Emerging economies such as China were trying to establish a new international political and economic order. For example, the EU was reluctant to offer a seat at the International Monetary Fund, but it had no choice, so in exchange, it asked China to take on greater responsibilities in global economic governance, including exchange rate policy, market opening and the protection of intellectual property rights.

Third, there was infighting for power in the EU’s institutional reform. Since the entry into force of the Lisbon Treaty, the EU and its Member States had been fighting over the lead jurisdiction for external relations. The most tenable external jurisdiction at the EU level, and the most agreeable to Member States, was trade policy. Therefore, the EU had made trade issues the primary focus of this meeting, seeking meaningful progress to increase its leverage and persuasive power over Member States for dominance in external affairs.

In 2012, two EU–China Summits were held: the 14th on 14 February and the 15th on 20 September, which was the last attended by Premier Wen before his

term expired. The second meeting was thus more significant in terms of building on past achievements and carrying forward China's agenda. This was the tenth consecutive meeting between Chinese and European leaders since Wen Jiabao became Premier of the State Council in 2003. When he first co-chaired the meeting with European leaders in Beijing in October 2003, the two sides announced that they would establish a comprehensive strategic partnership. This became a remarkable feat for East–West cooperation and North–South dialogue.⁶⁸ At the meeting, the two sides expressed readiness to actively seek alignment between China's 12th Five-Year Plan and the Europe 2020 strategy, and they agreed to formulate a forward-looking and ambitious EU–China cooperation package to provide strategic guidance for advancing the comprehensive strategic partnership between China and Europe. Wen also expressed China's concerns in an open and candid manner. He pointed out that it was deeply regrettable that the two issues of lifting the EU's ban on arms sales to China and recognizing China's full market economy status had dragged on for such a long period, and that the EU should tangibly show political will to remove these two obstacles.

Since its inception in 1998, the EU–China Summit has played three important roles: first strategic management, second issue negotiation and third institutional innovation. However, it is worth noting that given the special nature of the EU as a community of sovereign states, China, while developing relations with the EU, has gradually strengthened its cooperation mechanisms with Member States and established mechanisms with European sub-regions, notably the “16 + 1 Summit” between China and CEE countries launched in April 2012. In 2010, China and Germany agreed to establish a governmental consultation mechanism. This largely reflects the fact that, during and after the GFC, the meetings between China and EU headquarters were no longer sufficient to address many issues facing China and the EU and that more diverse channels of consultation were necessary to match the multilayered complexity of EU–China relations.

The solar panel case: China's large-scale use of linkage strategies (2013)

In the spring of 2012, China and Europe were suddenly embroiled in a trade dispute over Chinese solar panel exports to Europe, with the EU solar manufacturing trade body EU ProSun submitting an application to the EC on 25 July 2012 for an anti-dumping investigation into Chinese solar panel exports. The case involved a huge monetary value. The total value of China's exports of photovoltaic products to the EU in 2011 exceeded USD20 billion, accounting for 70% of China's total photovoltaic exports. The social impact of the case was also massive, as it would affect thousands of Chinese enterprises and more than 400,000 jobs. Naturally, this became the largest trade dispute between China and the EU to that point. In the end, China and Europe found a way to settle the case through consultation by reaching a price undertaking. The case can be considered an important attempt of China's economic diplomacy with Europe, the first international trade dispute settlement personally directed by and participated

in by Premier Li Keqiang. During the negotiations, China adopted a variety of linkage strategies to practice her economic statecraft.

The photovoltaic (PV) industry fully reflects the economic interdependence between China and Europe. PV products are indispensable for European upstream and downstream companies. Upstream companies in the polysilicon industry need to export to China, and downstream companies such as construction companies depend on PV imports from China. As a significant proportion of PV imports to Europe originated in China, Europe could not meet its demand by shifting to alternative sources of supply. The inseparability and reciprocity of this interdependence dictated the baseline outcome of this case. China certainly hoped that the EU would drop the case. From 2011 to 2012, the Chinese government lobbied extensively, but to no avail. This was largely due to the considerable quantity of Chinese PV exports to Europe: 95% of Chinese PV companies produced for export and 70% of the exports went to Europe.

In 2011, the US launched an anti-dumping and countervailing duty investigation into Chinese PV products, essentially shutting them out. The EU's approach was very different from that of the US. Historically, in many trade remedy cases, the EU's approach, when compared to the "simple and rough" approach of the US, could be compared to closing a door but leaving a window open. The reasons for this are, first, good political relations between China and Europe overall, and second, the much more complex EU interests.

In China, Premier Li Keqiang was new in office, and the PV industry involved a high value of exports and many jobs. Therefore, Premier Li Keqiang personally took on the task of lobbying the EU. In late May and early June 2013, when the EU and China were on a brink of a trade war, Premier Li visited Germany and Switzerland and made his case to German Chancellor Angela Merkel. On 26 May, Premier Li held talks with Merkel and attended a joint press briefing. Merkel said Germany was willing to do anything to prevent the trade dispute from escalating to the extent that the European Commission would impose punitive tariffs on Chinese PV products, saying that,

Germany will prevent the EU from imposing permanent tariffs on China within its capacity. We will clear up the misunderstanding as soon as possible. We do not think it would be in our interest to do so, and we will actively stop the escalation of this issue over the next six months.

After working through Germany, on 3 June, Premier Li had a call with European Commission President Barroso, pointing out that the case involved China's vital economic interests and intending that the two sides could resolve the trade dispute through dialogue and consultation, rather than a trade war. There is no winner in a trade war. China and Europe are important partners and share a wide range of common interests. China is willing to communicate with the EU on relevant issues under the existing bilateral economic dialogues, find reasonable and mutually acceptable solutions and jointly promote the continued development of the EU–China comprehensive strategic partnership.

China's intensive lobbying paid off, and Commissioner De Gucht felt he was being pushed against a wall. He waved his finger and said, "They can't count on pressuring me by pressuring Member States. I don't care".⁶⁹ But the truth is that De Gucht must care. Annoyed, De Gucht repeated in a statement to the European Parliament on the evening of 4 June,

So allow me to underline for those of you who do not follow trade issues on a daily basis that it is the European Commission which has the responsibility on behalf of the EU to carry out its external trade policy. And that's for one very good reason – the Commission can ensure independence and work on behalf of everyone across Europe by seeing the "big picture".⁷⁰

An article in the *Financial Times* aptly described De Gucht's situation as feeling, "frustrated and outflanked".⁷¹ Finally, on the evening of 4 June, De Gucht announced the imposition of provisional punitive tariffs of 11.8% on Chinese photovoltaic cells and key components, effective 6 June. It was in the initial phase of preliminary determination and this tariff rate was reduced from the EC's previously proposed average 47.6% rate. However, after 2 months, if the EU and China failed to reach a solution, the rate would rise to 47.6% in the following 4 months. This would be the second phase of preliminary determination. The provisional rate would remain in place for six months until December, after which, the EC would decide whether to impose a final tariff on Chinese-made photovoltaic products, which would last for five years once imposed.

This outcome was a very typical and rather European compromise. In the PV case, the EU was very internally divided. According to media reports, the results of the "vote" (actually a position statement, an informal vote) of the EU Member States on the tariff on Chinese PVs showed that, of the 27 Member States, 18 were against, 4 were for and 5 abstained. Among them, France, Italy, Lithuania and Portugal supported the tariff, while Germany firmly opposed. Under EU law, the opinions of Member States cannot influence the EC's preliminary determination, but for the final determination later that year, the votes of the Member States would have a binding effect. As a result of China's strong lobbying with Germany, Merkel criticized the EC's proposed tariff on Chinese PV exports. The Alliance for Affordable Solar Energy, which represents the interests of EU PV consumers, put pressure on the EC to oppose the tariff.⁷²

China also faced considerable public pressure at home. On 5 June, the *Global Times* published an editorial titled "Give up illusions and carefully manage a 'lose-lose' outcome with the EU", following the EC's announcement of the preliminary determination. The editorial suggested that the EC's brazen decision pushed China and Europe to the brink of a trade war and suggested that China should give up the illusion of resolving differences through negotiation and fully mobilize its resources to retaliate against the EU, either to force a deal by December or to prepare for a lose-lose situation with the EU, paying a price today to deter future trade war opponents.⁷³

In the face of domestic public pressure and for the effective protection of the domestic PV industry, the Chinese government took a series of countermeasures,

the core of which was the linkage of issues. Following the EC's announcement of the results of the preliminary determination in the anti-dumping case involving Chinese photovoltaic products on 4 June, the Chinese government announced the next day to launch an anti-dumping and countervailing duty (AD/CVD) investigation proceeding on European wine. This would mean that the EU's wine trade, with an annual export value of over USD1 billion to China, would be subject to China's anti-dumping tariffs. China's countermeasure elicited an immediate reaction. The three major wine exporters – Italy, France and Spain – suggested that the European Commission convene an extraordinary summit of EU leaders on the matter, but it was rejected by Barroso. The wine action targeted four Member States, including France and Italy, with a particular target on France, which had strongly supported sanctions against China. Wine is a pillar industry in France, providing 75,000 jobs in the country, and 40% of China's wine imports from Europe originate from France.

Clearly in the EU–China PV dispute, China's countermeasures were based on China's market power, most notably its import demand. In other words, China's import demand with the EU was China's most powerful leverage at the negotiating table. Europe reportedly feared China's sanctions in the field of medicine, mobile phones, cars, large aircraft and services, whereas wine was comparatively a small sector. Second, Europe was worried that China would suspend or withdraw its investments in Member States, and Europe would lose more than it gained. A spokesperson of the China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME), which was involved in China's response to the PV case, said,

We have many cards, and the government too has many cards, but we are not at liberty to say [...] Undeniably China's process for dealing with trade frictions is increasingly mature, and the Chinese government's response and reaction in international trade disputes is encouraging.

An expert from the Chinese Ministry of Commerce, on the other hand, cautioned that there is room for improvement in China's response and strategy. The Chinese government should have taken swifter counter measures. "In September last year, when the EU launched the AD/CVD investigation, the Chinese government should have worked out a combination of actions, pulled up a list of countermeasures, and reacted to each move by the EU". Not only should China target trade, but also politics, finance, and diplomacy to counter the EU's AD/CVD investigation.⁷⁴

On 2 August 2013, the European Commission announced an "amicable settlement" of the EU–China PV trade dispute in the form of a "price undertaking", whereby Chinese solar panel exporters would set a minimum import price (MIP), i.e., the price of products sold in Europe would not be lower than the MIP. According to European media reports, 70% of Chinese solar panel exporters whose products were sold to the EU participated in this "price undertaking". On 2 December, the European Commission issued a statement deciding to

impose an anti-dumping duty for two years on Chinese solar panel exporters who did not participate in the “price undertaking”, starting 6 December.

In retrospect, China responded to the investigation with the carefully-planned strategy and action and managed to preserve the overall market share in the EU. Before the European case was initiated on 6 August 2013, 90% of Chinese PV products were exported to the EU, accounting for an 80% share of the EU market. Through the price undertaking and the subsequent price floor, Chinese PV enterprises retained a large part of the EU market and bought time to expand the domestic market and the third-country markets, so that they could shift some of their PV production capacity to third countries.

Finally, on 31 August 2018, the European Commission issued a statement ending the AD/CVD measures introduced in 2013 on Chinese solar PV cells and modules. The EU–China PV MIP undertaking officially ended at midnight on 3 September 2018.

New thinking on EU linkage strategy: The pursuit of reciprocity (2010–2019)

In current international relations theory, “reciprocity” virtually constitutes a central term in neoliberal institutionalism.⁷⁵ The Oxford Dictionary of Philosophy defines “reciprocity” as “the practice of making an appropriate return for a benefit or harm received from another”.⁷⁶ The American scholar of international relations, Robert Keohane, defines reciprocity as “exchanges of roughly equivalent values in which the actions of each party are contingent on the prior actions of the others in such a way that good is returned for good, and bad for bad”.⁷⁷ This shows that the Chinese translation of “reciprocity” as “mutual benefit” is not sufficiently accurate because “reciprocity” can also mean “bad for bad” or “tit for tat”. The Chinese are generally unfamiliar with the term reciprocity. In the 2,000-year-long system of tribute, China, as the centre, dealt with tributary states not on the principle of reciprocity, but on the principle of non-reciprocity, i.e., give more and take less. This principle of reciprocity, with which China only became familiar when it acceded to the WTO, was only understood in terms of benefit, but not in terms of “quid pro quo” or “mutual harm”. The two sides of “good for good” and “bad for bad” were barely understood. In fact, since the GFC of 2008, “reciprocity” has become a core principle of Western countries’ trade policies towards China, including the EU and the US. The pursuit of “reciprocity” marks the defensive stage of free trade policy and the last stage of its development. If “reciprocity” policy fails, mercantilism will take its place and fully replace liberalism, as mercantilism is about economic nationalism and protectionism. In view of this, the West is not far from mercantilism when it demands reciprocity from China. Trump’s “America First” and economic nationalism policies are manifestations of a failed policy of reciprocity.

The EU’s pursuit of reciprocity in its trade negotiations with China can be divided into three periods. The first period was before 2010. The negotiations on the ECC-China Trade Agreement of 1978, the EC–China Trade and Cooperation

Agreement of 1985, China's rejoining of the GATT in 1986, and its WTO accession negotiations in 1995–2001 were essentially negotiations between China and Europe around reciprocal market opening. At the core of the negotiations was the idea of “reciprocity”. The EU did not ask for full reciprocity in the negotiations due to the gap of economic power between Europe and China and China's status as a developing country. The Global Europe trade strategy launched in 2006 by the Commission only mentioned “reciprocity” once when talking about government procurement. The EU proposed that if a trading partner did not open its government procurement market to the EU, the EU would also partially restrict the European government procurement market to the trading partner.⁷⁸ At the time, the EU adopted a liberal trade policy and believed that restricting its own market access would invite reciprocal protectionism from the other side.

The second period was 2010–2014. In November 2010, the new EU Trade Commissioner De Gucht unveiled a new trade strategy. Although it only made one reference to reciprocity, it was clear that more emphasis had been placed on reciprocity than in the 2006 trade strategy. Reciprocity was underscored in the context of the full document that, “But for an open trade policy in Europe to succeed politically, others – including both our developed and emerging partners – must match our efforts, in a spirit of reciprocity and mutual benefit”. This statement actually stemmed from the conclusions of the European Council held on 16 September 2010, which referred to, “the need for Europe to promote its interests and values more assertively and in a spirit of reciprocity and mutual benefit”. In reference to the upcoming 13th EU–China Summit, the EU leaders argued that,

the European Union should actively pursue its strategic interests, including as regards the promotion of bilateral trade, market access for goods and services, and investment conditions; the protection of intellectual property rights and the opening up of public procurement markets; stronger discipline in the field of export subsidies; and the dialogue on exchange rate policies.⁷⁹

The trade policy paper, launched under the auspices of Commissioner De Gucht, also stressed that, “the EU will remain an open economy but we will not be naïve. In particular, the Commission will remain vigilant in defense of European interests and European jobs. It will fight unfair trading practices with all appropriate means”.⁸⁰ Apparently, De Gucht's statement, “we will not be naïve”, was in response to French President Sarkozy's criticism of former Trade Commissioner Mandelson. On 6 October 2010, the 13th EU–China Summit was held in Brussels and coincided with a series of summits. The EU seized these opportunities to launch an offensive against China around issues such as the RMB exchange rate, market access, intellectual property protection, government procurement and investment climate. However, the EU's aggressive position was eventually met with tenacious resistance from China.

The third period is from 2014 to the present. In March 2015, the new trade commissioner, Malmström, presented a new trade strategy. The new strategy again addressed reciprocity with two main demands. First, in bilateral FTA

negotiations, it called for reciprocal market opening and second, in bilateral relations, it called for the implementation of a near-full reciprocal trade policy with developing countries that have graduated from the Generalized System of Preferences (GSP). The new strategy clearly stated that the objective of the EU's trade policy with China was to, "deepen and rebalance trade and economic relations with China for mutual benefit". This means that for the first time in the history of EU–China trade and economic relations, "reciprocity" and "rebalancing" were formally adopted as the core objectives of the EU's trade policy with China.

The historical process of the EU's pursuit of "mutual benefit" and "reciprocity" suggests that the EU's demand for reciprocity has become increasingly vocal, urgent and lopsided. During the period of Brittan, Lamy and Mandelson, the EU pursued reciprocity and mutual benefit as a kind of "positive reciprocity". Positive reciprocity means reciprocal market opening, as opposed to "negative reciprocity", which is mutual market closure. Back in 2007, the then-EU Trade Commissioner Mandelson rejected French President Nicolas Sarkozy's claim that, "trade reciprocity requires protectionist measures". According to Mandelson, "the reaction to 'Fortress Europe' would only be 'Fortress America', 'Fortress China' or 'Fortress India'. We need reciprocal openness: not reciprocal barriers".⁸¹ However, the EU has been advocating for "negative reciprocity" since 2010. EU trade policy in 2010 stated that, "The Commission will therefore present in 2011 a legislative proposal for an EU instrument to increase our leverage to secure improved symmetry in access to public procurement markets in developed and large emerging economies",⁸² which means that the EU will selectively close its own government procurement market if other countries are not open to the EU. This is "negative reciprocity" at work. At present, the weight of free trade in EU trade policy is decreasing, and the weight of protectionism under the banner of "fair trade" is increasing.

Why is the EU putting greater emphasis on reciprocity and urgently pursuing this aim? In June 2018, during an exchange with an official from the European Commission's Directorate-General for Trade, he spoke about the "elephant effect", saying that China is an elephant, with a population of 1.3 billion and a huge export capacity, and that the EU's openness is no longer able to accommodate China's elephant-size weight. In order to maintain the current trade relations between China and Europe, reciprocity is crucial.

"Mutual benefit" and "mutual harm" are two sides of the "reciprocity" coin. Reciprocity, the core building block of neoliberal institutionalism, is the key to sustaining international cooperation. In the absence of mutual benefit, mutual harm will arise. As a further step, Western trade policy will evolve into realism and mercantilism, after relative gains, even to the point of a zero-sum game. In the context of realism and mercantilism, trust disappears and cooperation becomes shaky, unstable, unreliable and no longer a long-term goal for policymakers. Under such circumstances, conflict and war become the norm and the only and ultimate means to problem-solving. In this sense, the development of EU–China trade and economic relations to the point of a trust deficit by 2018 is indeed a

regrettable historical regression. Who should be held responsible for this? Is the answer really that self-explanatory?

The EU's negotiation strategy in the context of the broader China–US–EU strategic triangle

In 2018, a trade war broke out between the United States and China. On 22 March 2018, the Trump administration announced, “USD50 billion in tariffs on Chinese goods due to intellectual property infringement”, and China immediately announced retaliatory measures. On 18 September, the US announced tariffs on USD200 billion worth of goods from 24 September onwards at a tariff rate of 10%. The tariff rate was increased to 25% as of 1 January 2019. China promptly announced a 10% or 5% tariff increase on USD60 billion worth of US exports to China. As the trade war between the US and China raged on, a “trade war” also occurred between the US and Europe. The US decided to impose high tariffs on EU steel and aluminium products from 1 June 2018, citing threats to national security. Three weeks later, the EU responded by imposing 25% tariffs on a total of EUR2.8 billion of US goods. Trump then continued to hike tariffs, threatening to impose 20% tariffs on EU cars and automotive parts. But on 25 July, Washington time, Trump and European Commission President Juncker unexpectedly reached a settlement: the US and the EU would, “work together toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods”. After the meeting, Trump excitedly announced that the EU was to import more US soybeans and liquefied natural gas and together, target China. The US and China also reached a “ceasefire” at the G20 Summit in Argentina on 1 December 2018, with a three-month truce. The frictions between China and Europe are many and complex, but while the trade war between China and the US was in full swing, there was a “window of opportunity” for cooperation between China and Europe, with both sides accelerating the negotiations on the EU–China Comprehensive Agreement on Investment (CAI) and joining hands to drive WTO reform. This series of trilateral interactions between China, the US and Europe were mesmerizing, with frequent “face-changing” across all three parties and with contention as well as collusion. An intricate strategic triangle was formed. In this “game of three players”, what was the EU’s position, what role did it play, what negotiation strategy did it adopt, and how effective was it? This section will address these questions.

According to traditional theory of trilateral relations, a strategic triangle is a transactional game among three players. There are at least four different modes of interaction in this type of game: (1) the three players are friends with one another; (2) the three players compete with one another; (3) one “pivotal” player gets along with the other two, while the other two are competing; (4) two players live in harmony and are partners with each other, and are both opposing the third player, who is isolated in the trilateral relationship, also known as the “lone bird”. In comparison, the “pivot” in the third mode of interaction has the greatest gain, while the “lone bird” in the fourth mode has the greatest loss. Accordingly,

China's biggest gain is when the US and Europe compete, and China maintains rapprochement with the US and Europe. When the US and Europe are in harmony, China has the most to lose if it confronts both the US and Europe. The next best option in the middle is a three-way rapprochement and mutual rapport. Similarly, the EU is striving for a pivotal position in the trilateral game in order to maximize its interest. Therefore, the chances of China becoming a "lone bird" increase.

Historically, the EU and the US have maintained more common economic interests and fewer differences than those between the EU and China or the US and China. In trilateral relations, China is often at a disadvantage, as it must face two rivals at the same time. After the liberalization of the textile trade in 2005, both the US and Europe threatened to impose restrictions on China's textile exports, forcing China to fight on two fronts. The US and Europe share a wide range of common interests in areas such as IPR protection, open access to government procurement, and trade remedies, and they have coordinated on bilateral and multilateral occasions. But it is an overstatement to conclude that the US and Europe are a natural community of interest in trade issues against China, that the EU is following the US's lead, or that the US and Europe have formed an alliance to deal with China, thus putting China always in a disadvantaged "lone bird" position. On many economic and trade issues, there are differences between the US and European positions. In the ECC-China Trade Agreement of 1978, the ECC moved first to grant the most-favoured-nation (MFN) status to China, and there was no permanent normal trade relations (PNTR) issue between China and Europe, while the US and China fought over PNTR many times before the issue was finally resolved in 2000. In the late 1970s, the Sino-US textile agreement negotiations were undone by US internal pressures and a quid pro quo between the Carter administration and relevant interest groups in the US, but the EU-China textile agreement was successfully concluded. Since 2003, the US has started to play up the issue of trade deficit and the RMB exchange rate, while the EU kept a low profile for an extended period. In 1999, after the US and China had completed negotiations on China's accession to the WTO, EU Trade Commissioner Lamy (now Director-General of the WTO) demanded that negotiations with China be continued on the grounds that the EU's interests had not been met, resulting in a delay in China's accession. The EU did not follow suit after the US's decision to take China's IPR protection and market access restrictions on audio-visual products to the WTO in 2007. However, in 2006, the EU took the lead in bringing China to the WTO on the issue of China's auto parts tariffs. There are many economic and trade differences between the US and Europe, including differences on quantitative easing, timing of exit from stimulus packages, financial regulation, IMF reform and the Doha Round of trade negotiations. Overall, despite the many common US-EU economic and trade interests, there is a certain asymmetry in the trilateral game. China is at a relative, rather than absolute, disadvantage. The dynamics of power relationship among the three players depends on issues.⁸³

In terms of trilateral trade relations among China, the US and Europe after 2010, there are three trends worth noting. On 25 July 2018, when European Commission President Juncker and Trump announced a “truce” in the US–European trade war, they made it clear that,

we agreed today to join forces to protect American and European companies better from unfair global trade practices. We will therefore work closely together with like-minded partners to reform the WTO and to address unfair trading practices, including intellectual property theft, forced technology transfer, industrial subsidies, distortions created by state-owned enterprises, and overcapacity.⁸⁴

The finger was pointed directly at China. In an interview with CNBC, EU Trade Commissioner Malmström mentioned that the EU strongly agreed with the US criticism of China, which related to China’s massive subsidies to state-owned enterprises, forced technology transfer, cyber theft, etc. and hoped to join forces with the US to push China to make changes within the framework of the WTO.⁸⁵ The main reason why Europe and the US wanted to join forces was that in the context of economic globalization, the tension between China’s own development and the West’s development objectives had risen, the gap between China’s current development stage and the West’s expectations of China had widened, and the China “threat theory”, “arrogance theory” and “responsibility theory” had re-emerged. The US and Europe both felt the need to strengthen coordination and enhance collective bargaining power. The second trend was that the US and Europe were both increasingly dependent on China. After the GFC, the US and European economies were recovering slowly, unemployment rates remained high, and both were in urgent need of financial support and export expansion. As such, they attached importance to relations with China, especially through high-level economic dialogues to promote economic engagement with China. In terms of global economic governance, the need for trilateral coordination between China, the US and Europe has also been on the rise. All three parties have interests around world economic recovery, financial governance, anti-protectionism, the environment and sustainable development, and climate change and are coordinating through multilateral, bilateral and regional processes. The third trend was the gradual erosion of strategic mutual trust between China, the US and Europe. A mentality that can be called “strategic mutual skepticism” was gradually spreading. Before the GFC, and in the two years following the GFC, there remained strategic mutual trust between China, the US and Europe. Since 2010, however, strategic mutual trust has gradually declined. This is most likely because a series of policy initiatives of the three parties have been left unresolved for a long time, allowing disappointment, frustration, pessimism and mistrust to spread. The EU–China Partnership and Cooperation Agreement and the negotiations to improve the EEC–China Trade and Economic Cooperation Agreement of 1985 have not come to fruition. The EU–China FTA negotiations have not been able to move forward. The US–EU Transatlantic Trade and Investment Partnership

negotiations were called off by Trump. Eventually, trade wars between the US and China and between the US and Europe took place.

In the US–China trade war of 2018, will the EU pick a side? Will it team up with the US against China? When I interviewed EC officials and the European Parliament in June 2018, my overall sense was that the EU was unwilling to choose sides between China and the US. The EU wanted to have an independent position, but the EU’s economic and trade interests significantly overlapped with US interests. As far as negotiation strategy is concerned, in the US–China trade war, the EU attempted to act as a pivot, maintaining a dialogue and consultation (or even friendly relationships) with both sides, but at the same time, it also had “teeth”, retaliating against the US in trade and resorting to WTO dispute settlement mechanism against China. It appears that the EU has been reasonably successful in acting as a pivot and thus has gained some ground, and some of its demands have progressed during the EU–China High-Level Economic and Trade Dialogue (HED) on 25 June 2018 and the subsequent EU–China Summit.⁸⁶

In dealing with relations with America, on 25 July 2018, EC President Juncker and Trump unexpectedly reached a reproachment: the US and Europe would, “work together toward zero tariffs, zero non-tariff barriers and zero subsidies on non-auto industrial goods”, and would unanimously target China. So far, the European Commission has stabilized its relationships with China and the US in a very short space of time and has better protected its own interests in the trilateral game, especially regarding China. Not only has the EU pressured China to make certain concessions, but it has also formed an alliance of interests with the US to jointly put pressure on China. This speaks volumes to the sophistication of the EU’s negotiating strategy.

In fact, the EU adopted the so-called “third-party linkage strategy”, linking with the US and China. The EU used leverage on both sides; successfully became a pivot in the trilateral game among China, the US and Europe; and better protected its own interests.

Evaluation of the effectiveness of the EU linkage strategies during this phase

Roughly, there were three major events that are somewhat coherent and emblematic: first, the EU’s “diplomacy offensive” towards China in the aftermath of the GFC (2009–2012); second, the EU’s pursuit of reciprocity (2010–2019); and third, the EU’s pursuit of pivotal status in the broader strategic triangle among China, the US and Europe. In each case, the EU has used a linkage strategy.

The EU’s “diplomacy offensive” towards China in the aftermath of the GFC (2009–2012)

In this phase, the EU was an offensive force as it was in 1989–1992 and 2006–2008, but the phase also differed from the previous two phases. In 1989, the EU launched a political offensive for human rights and imposed economic sanctions,

among others, while the period 2006–2008 was a commercial offensive, characterized by broader and thornier economic and trade issues with mixed results. The EU persuaded China to establish the High-Level Economic Dialogue, with the main intention of gaining market access to China, but the EU accomplished very few concrete results on market access. The 2009–2012 commercial offensive was launched by the EU in the context of internal and external troubles. This time around, the EU's offensive proved very ineffectual, with hardly any meaningful results – which was regrettable to China. From China's standpoint, it had hoped to cooperate with the EU to overcome external challenges during the 2009–2012 period, and the country gave tangible support to the EU. In Premier Wen's words, "the Chinese are friends in need". But China's painstaking efforts were not reciprocated; they were instead met with fierce attacks from the EU. During 2009–2012 when Europe was frightened by the GFC and the debt crisis, some sceptics in China and internationally believed that the EU was on the precipice of collapse, and there was no point in maintaining a cosy relationship with the EU. It was also during this period that US think tanks raised the idea of "Chimerica" (G2), an idea rejected by Premier Wen.⁸⁷

The EU's diplomacy offensive had little effect due to the relative decline of the EU's own power in the context of the European debt crisis and the EU's strategic missteps. The EU confused its own interests and chose the wrong target for attack. It is no secret that the US had played a part in the 2008 GFC and the subsequent European debt crisis. On the weakening of the euro, the EU did not engage the US for the root cause, but pressed the appreciation of the yuan, a position that was naturally refuted by China. This fundamentally reflects the unequal position of the EU vis-à-vis the US. In the final analysis, the EU was unwilling to make demands with the US and could only pick on an easier target. However, China was no longer a punching bag. The EU's diplomacy offensive availed to nothing.

The EU's pursuit of reciprocity (2012–2019)

In the 2006–2008 period, the EU's strategic priority in trade was to reach a "grand bargain" with China and essentially achieve reciprocal openness of markets. To this end, the EC implemented two linkage strategies: linkage of economic issues and synergetic linkage. For the former, the EC tried to open its own market in exchange for reciprocal openness of the Chinese market. Rumour had it that Commissioner Mandelson called off anti-dumping investigations on Chinese exports in order to gain greater market access to China. However, this strategy failed to achieve its desired effect. The new trade commissioner who took office in 2010 began to change Mandelson's policy towards China, increasing the demand for reciprocity and pressuring China by targeting the country with more intensive trade remedy actions and threatening to use "negative reciprocity". This too had little success. There are a few reasons for this.

First, the EU's power resources had been eroded. Politically, the asymmetry of EU–China political interdependence gradually diminished. Second, the EU's

delay in recognizing China's MES forced China to take the EU to the WTO, largely undermining the EU's credibility and poisoning the mutual trust and confidence between China and the EU. Third, China also began to use linkage strategies on a large scale and was assertive enough to show teeth and adopt retaliatory measures. This largely counteracted the effectiveness of the EU's linkage strategies.

The EU's alliance with the US for pivotal status in the broader China-US-EU strategic triangle

The EC under the Juncker presidency took full advantage of the US-China trade war that started in 2018 to maximize the EU's interest. First, in the EU-China HED in June 2018 and the EU-China Summit in July, the EU successfully advanced the negotiations on the EU-China CAI and accelerated negotiations on the EU-China Agreement on Geographical Indications. Then, in the meeting between Juncker and Trump in July, the EU reached a deal to launch an EU-US zero-tariff agreement and "diverted the tension to the east", with the EU and the US joining forces to deal with China in the areas of excess capacity, IPR, forced technology transfer and state-owned enterprises. Juncker's calculated moves arguably brought immediate benefits to the EU and became his political legacy. They also reflected his obsession with transatlantic relations since his presidency.

Table 8.1 summarizes the EU's linkage strategies during this period. It is amply clear that the EU's diplomacy offensive with China yielded few results, but its strategic moves in the China-US-EU strategic triangle brought a number of direct benefits to the EU.

"Counter-cyclical management" of EU-China relations

Looking back at the decade of Premier Wen's dealings with Europe (2003–2012), the bilateral relationship seems to have "started on a high note but has since gone downhill". Premier Wen invested a great deal of personal effort in the EU-China relations, but larger forces made the progress less satisfactory. What exactly are these larger forces? How can strategists and policymakers implement effective strategic management in the face of these larger forces? These larger forces should be the long-cycle developments in the world economy and the changes in the international political landscape, i.e., the changing balance of power among major players. The key to effective responses by strategists and policymakers lies in assessing the situation, planning ahead, and taking pre-emptive "counter-cyclical" measures to tackle problems before they arise.

Take the example of EU-China relations in 2003–2012. Measured by the long waves of the world economy, the period 2003–2008 fell within Long Wave V-A (Graph 2.1) and was featured by rapid economic growth. Long Wave V-A began in 1986/1992 and ended with the outbreak of the GFC in 2008. The "three-stage jump" in EU-China relations took place in this V-A phase. However, the

Table 8.1 Effectiveness of the EU's linkage strategies (2009–2019)

	<i>Type of linkage</i>	<i>The EU's "diplomacy offensive" in the context of the GFC (2008–2012)</i>	<i>The EU's pursuit of reciprocity (2010–2018)</i>	<i>The EU's negotiation strategy in the context of the broader China–US–EU strategic triangle (Since 2018)</i>
Linkage with the US – a game among three players (The China–US–EU triangle)	Linkage as negotiating parties	Modest		Significant
Linkage between different dialogue mechanisms (ASEM, EU–China Summit, APEC, etc.)	Linkage as negotiating parties	Modest		
Linkage by topics – for China to negotiate on FTA or MES/Belt and Road Initiative, China needs to finalize negotiations on the CAI and implement domestic economic and social reforms	Linkage by topics (political and economic)		Modest	
Linkage by topics – reciprocal opening of government procurement markets	Linkage by topics (economic and economic)		Modest	
Effectiveness in each situation		Modest 1'	Modest 1'	Significant 3'
Overall assessment of effectiveness	1.7'			

five-year period of 2003–2008 was between the end of V-A and the transition to V-B, with the world economy about to enter a recession and EU–China relations about to go from strength to weakness. Countercyclical policies should have been taken during this transition period (2003–2008), the most important being the launch of negotiations on the EU–China FTA to unlock the potential of EU–China relations through institutional innovation. Unfortunately, the proposal to carry out a feasibility study on the EU–China FTA was only made by China in 2012, after the unsuccessful negotiations on the China-EU PCA (Partnership and Cooperation Agreement) and the update of the 1985 EEC–China Trade and Economic Cooperation Agreement. After 2008, the world’s long economic cycle entered the recessionary phase B. Protectionism resurged in Europe and the US, whereas emerging economies such as China rose quickly, bringing about major changes to the international political order. The West became increasingly wary of a rising China, and the window of opportunity for the EU and China to further advance trade and investment liberalization through an FTA was missed. In fact, this phase was characterized by trade frictions and even large-scale “trade wars”. In the recessionary V-B phase, strategists and policymakers needed to implement forward-looking counter-cyclical policies to prepare for the arrival of Long Wave VI-A. Typically, economic long waves last 50–60 years, and phase A and B are each 20–30 years long, so the current phase B will not end until 2025 or even 2035. This means that if countercyclical management is to be implemented in phase B, the EU and China should have started working on a new set of countercyclical policies around 2020. This includes the conclusion of the EU–China CAI (Comprehensive Agreement on Investment) followed by a quick launch of the FTA negotiations, and the need for a partnership in institutional innovation to embrace the next technological revolution and to creatively bridge the institutional, social and value differences between the EU and China. In other words, the PCA negotiations that China and Europe have attempted need to move forward, subject to possible changes to its name and content.

During the current long wave, which is transitioning from V-B to VI-A, many changes will take place within Europe and China. The EU is likely moving towards “Fortress Europe” and “European Empire” phases.⁸⁸ In V-B (2008–2025/2035), the EU is likely moving towards “Fortress Europe”. In VI-A (2025/2035–2050), the EU will likely move towards a “European Empire”. This will largely reshape EU–China relations.

Thus, the first step in the strategic management of EU–China relations is to accurately forecast historical trends and the evolution of the world economy and international political order. The second step is to implement “countercyclical” strategic management and “macro controls” pre-emptively. Such countercyclical policies are generally implemented in phase A or towards the end of phase B in long waves of the world economy. Due to the complexity of the EU institutions, slow decision-making processes and intertwined internal interests, the implementation of countercyclical policies in EU–China relations will need a lead time of 2–3 years and should be aimed at ensuring the stable development of EU–China relations.

Notes

- 1 Xu Mingqi listed ten reasons, namely: 1. the contradiction theory of independent fiscal policy and unified monetary policy; 2. the theory of imperfectly optimal monetary zones (the theory of missing conditions in monetary zones); 3. the theory of fiscal incompetence and unsustainable welfare system; 4. the theory of EU system defects; 5. the theory of political crisis and democratic deficit; 6. the theory of policy mistakes; 7. the theory of financial speculation and ratings falling down; 8. the theory of banking system fragility; 9. The theory of weak banking system; 9. The theory of sluggish economic growth and declining competitiveness; 10. The theory of external imbalance (contagion from the US financial crisis and global imbalance). See Xu, M. (2013). Theoretical Review and Analysis of the European Debt Crisis (in Chinese). *Studies of International Finance*, (6), pp. 36–43.
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9 EU: a sui generis linkage power at work

Many Chinese scholars have thought deeply about the EU's type of power and its implications for EU–China relationship. Professor Zhu Liqun of the China Foreign Affairs University was a prominent thinker who sadly passed away prematurely. In a eulogy written by Professor Qin Yaqing in her memory, he recalled that a group of professors from the China Foreign Affairs University, including him and Professor Zhu, visited Europe in 2007 to conduct a research project on the EU. Professor Zhu kept asking the question, “Is the European Union a mere normative power?” Soon after her return to China, Professor Zhu published a paper titled, “What kind of power is the EU?”¹ In this paper, Professor Zhu argued that the EU is a “world actor” that is developing comprehensive power and is committed to building a new European “empire”, through which it can influence the world. As a “subsystem”, the EU is also a complex actor, which makes it more difficult, not only for the outside world to deal with it, but also for the outside world to perceive its power. Europe, which has experienced two world wars and tamed power politics in its integration, is also a powerful force for change, exerting a unique role and influence in shaping the global order in terms of norms and legitimacy.² It has been a long time since Professor Zhu left us, but her question, “What kind of power is the EU?” remains a central topic in EU studies.

This book offers a partial answer to the question from the author's dual perspective as a negotiator and an academic, i.e., “the EU is a linkage power”. I define linkage power as an actor that uses the linkage strategy as the main way to achieve its domestic and diplomatic objectives. In the case of the EU, the linkage strategy converts the EU's power resources into power outcomes for other countries and regions (e.g., compelling other countries to take actions they would otherwise not take).

A fundamental proposition of this book is that in today's international relations, power politics are far from receding, and the Westphalian system is still the dominant international political paradigm. While other forces survive and act according to the logic of power, the EU, in its own interest, must find ways to respond and adapt to the reality of power politics. Like other world actors, the EU is often confronted with the problem of the gap between expectations and capability. The EU lacks military power. Its internal power is fragmented, and

there are heterogeneous interests across Member States and the different EU institutions. This situation means that the EU may encounter greater challenges, and therefore a greater need for creativity than the average sovereign state when channelling its power resources to foreign policy and external economic objectives. By reviewing the history of EU trade negotiations with China, this book concludes that the linkage strategy is a major strategy used by the EU in conducting negotiations both internally and externally.

Conclusions about the EU as a linkage power vis-à-vis China

I draw the following conclusions based on the case studies and the evaluation of EU's linkage power.

Linkage is a crucial modus operandi in the EU's internal bargain and its external relations with a third country

The case studies show that linkage served as a relevant and indispensable way for the EU to handle its relations with China throughout the 44 years since the EEC and China established diplomatic relations in 1975. On many occasions, linkage was used tactically to obtain a specific concession from the Chinese side, such as during the Textile Disputes. On other occasions, linkage was essential in shaping the major aspects of the overall EC/EU–China relationship. During the ‘rising power’ period (1975–1988), the Commission's issue linkage between its pursuit of economic interests and China's pursuit of political interests on the Taiwan question was crucial in creating a political basis for the two parties to establish diplomatic relations, which was the first milestone of bilateral relationship. During the period of ‘Power through partnership’ (1993–2004), the EU–China partnership was actually enabled by many implicit issue linkages, mainly in the following areas: political-security, economic and trade, human rights. These linkages were, in substance, many different combinations of interest trade-offs. In turn, this evolving partnership, once established, enabled more new linkages to be created, in particular, contextual linkage (requiring a favourable political background for the EU to link the overall bilateral relationship with a specific sectoral issue), and also made these linkages more effective. During the ‘offensive power’ period (2006–2008), the Commission attempted to strike a grand bargain with China in the trade policy area for reciprocal market opening. This linkage shaped the key aspects of the EU–China relationship since trade was top of the agenda during this period.

I find that the EU regularly resorted to linkage over a relatively long period. Linkage was an important lever for the EU in its external relations with China. Since the EEC and China established diplomatic relations, the EU has consistently applied linkage strategies. The case studies show that the linkages were applied at least 36 times, out of which, the linkage between two economic issues within the same issue-area was applied 9 times; linkage with the United States was

applied 8 times; contextual linkage, synergistic linkage and the linkage between a political issue and an economic one were applied 5 times each; linkage with China twice, and conditionality and cognitive linkage once each. Between 1975 and 1988, linkage strategies were applied at least five times. Between 1989 and 1992, linkage was applied at least once. Between 1993 and 2004, linkages were applied at least ten times. During the Textile Dispute in 2005, linkages were applied at least eight times. Between 2006 and 2008, linkages were applied at least seven times. Between 2009 and 2019, linkage was applied five times. Table 9.1 shows that the frequency of linkage strategy at different periods.

In this book, I extended the concept of issue linkage to *party linkage*, and acquired some insights about the EU's linkage with the United States. In handling its relations with China, the EU developed subtleties by way of the linkage with the US. Specifically, involving the US implicitly or explicitly in its trade negotiations with China, the EU intended to achieve three patterns of US linkage. Firstly, linking with the US was intended to create a combined EU–US weight to press China to compromise. In this case, the EU and the US de facto colluded. But the subtlety was that the EU rarely did so publicly. On the contrary, the EU tried not to leave China with any impression that it colluded with the US. As David Shambaugh well summarized, though the European and American approaches to China were not necessarily different in substance, they differed from time to time in terms of degree, style and context.³ With these differences felt and appreciated by the Chinese side, the EU gained an advantageous bargaining position through the tactic of differentiation from the US. This phenomenon was found in the EU's negotiations with China on China's WTO accession and the EU–China Textile Dispute in 2005. Secondly, the EU made implicit linkage with the US in the circumstances when the US–China relationship had difficulties. In this situation, China tended to resort to the EU for support against the US's pressure, and this gave the EU a good opportunity to gain an advantageous negotiating position vis-à-vis China. The relevant evidence was found in the negotiation on the 1979 EEC–China textile agreement, the EU–China Coke Dispute in 2004 and the achievements from the EU–China High-Level Economic and Trade Dialogue (HED) and the EU–China Summit in the context of 2018 US–China Trade War. Thirdly, there were cases in which China accorded to the US a privileged treatment while not equally granting to the EU. The EU then tactically expressed its dissatisfaction and referred to its strategic partnership with China, asking for equal treatment as granted to the US. The establishment of the EU–China HED was such a case.

The EU is also an internal linkage power. In the theoretical part, I argued that according to the literature, the EU is institutionally not a unitary actor. However, throughout the case studies, I find in fact that the EU was able to achieve synergy among the European Commission and the Member States on many occasions, which resulted from the EC/EU's internal linkages – synergistic linkage and linkage with China. Synergistic linkage usually takes on two forms. The first aims to resolve the EU's domestic bargaining deadlock resulting from institutional divisions and divergences in interests and preferences among the Commission and

Table 9.1 Frequency of different linkages at different periods

	Contextual linkage	Linkage with US	Linkage with China	Issue linkage (political -economic)	Issue linkage (economic -economic)	Conditionality	Cognitive linkage	Synergistic linkage	Frequency of linkages
Rising power (1975–1988)	Establishing diplomatic ties			✓					5
	78 Trade	✓			✓			✓	
Offensive power (1989–1992)	79 textile	✓							
				✓					1
Power through partnership (1993–2004)	Building strategic partnership	✓		✓	✓				10
Textile Disputes (2005)	Galileo		✓		✓			✓	
	Reciprocal opening-up WTO					✓			
	Accession	✓							
	Coke dispute	✓			✓		✓	✓	8
	First phase	✓							
	Second phase	✓	✓				✓		

(Continued)

Table 9.1 Continued

	Contextual linkage	Linkage with US	Linkage with China	Issue linkage (political -economic)	Issue linkage (economic -economic)	Conditionality	Cognitive linkage	Synergistic linkage	Frequency of linkages
Market access (2006–2008)	grand bargain in trade				✓ ✓			✓	7
	Establish HED	✓		✓					
	PCA and			✓	✓				
Struggling for reciprocity (2009–2019)	Update of 1985 Trade Agreement								
	EU’s offensive diplomacy in global financial crisis	✓ ✓							5
	Struggling for reciprocity EU’s negotiation tactics in China–US–EU Triangle				✓ ✓				
		✓							
Frequency Total	5	8	2	5	9	1	1	5	36

the Member States. By introducing a new policy option/incentive obtained in the EU's external negotiation with China, the Commission was often (but not always) able to break the domestic impasse and achieve consensus. The second form introduces a domestically negotiated outcome to the external bargaining table. In this case, the EU's trade negotiator first needs to strike a deal with its internal negotiating interlocutors such as the resisting Member States. This usually means the Commission makes concessions to "bribe" those Member States. Sometimes, the Member States themselves can establish the second form of synergistic linkage, in which they exchange interests in the form of trade-off, log-rolling and backscratching. A typical example was the deal between France and Germany during the first phase of the Textile Dispute. France successfully persuaded Germany to agree to imposing urgent import restrictions on the Chinese textile exports. Synergistic linkage represents the EU's interest-based approach to reach domestic consensus, in contrast to a normative approach based on value and norm convergence. However, this type of linkage was not always effective, especially after 2005. As to linkage with China, this refers to the Commission's tactical alliance with China on a specific issue (such as in the Galileo project and during the second textiles dispute) in order to overcome resistance from some Member States. In both cases, the linkages with China were successful.

I therefore conclude that linkage is a crucial *modus operandi* for the EU both in its external relations and domestic bargains.

Linkage was generally effective vis-à-vis China, but with variations

Throughout the case studies, I find that the EU varied in its effectiveness as a linkage power in three respects: (1) in terms of the overall effectiveness at different periods; (2) in terms of the effectiveness across different linkage types (in other words, some types of linkages on average were more effective than the others); and (3) different types of linkage varied in effectiveness at different periods. From this, we conclude that when referring to the EU's linkage power, there is a need to specify period and linkage type.

Variability of the overall effectiveness at different periods

In terms of the overall effectiveness of linkage strategy, I find that in many cases, the EU's linkage strategy had significant or considerable power impact on China, whilst on some occasions, the EU's linkages were less effective, such as the periods 1989–1992, 2006–2008 and 2009–2019.

Table 9.2 presents an overview of the power impacts (effects) of all the linkages between 1975 and 2019. I find that the EU's linkage power was the most effective in achieving its goal through partnership during the period 1993–2004, when it scored 4.2 points. It was then followed by the 'defensive power' period in the EU–China Textile Dispute in 2005, which scored 4 points; the 'rising power' period (1975–1988), which scored 3.7 points; the 'offensive power' period (2006–2008), which scored 1.3 points; the period of "struggling for reciprocity", which

Table 9.2 Linkage effectiveness at different periods

	Contextual linkage	Linkage with US	Linkage with China	Issue linkage (pol-eco)	Issue linkage (economic)	Conditionality	Cognitive linkage	Synergistic linkage	Overall effectiveness ^d
Rising power (1975–1988)	Establishing diplomatic ties			significant					significant
	78 Trade	considerable			considerable				considerable
	79 textile		considerable						considerable
Offensive power (1989–1992)				Nil					3.7, Nil
Power through partnership (1993–2004)	Building strategic partnership	considerable		Considerable	significant				0, significant
	Galileo		Considerable						considerable
	Reciprocal opening-up				significant			considerable	significant
	WTO					significant			significant
	Accession		considerable						significant
	Coke dispute	considerable	considerable						considerable
Textile disputes (2005)	First phase	considerable	considerable		Marginal		Considerable	considerable	4.2, significant
	Second phase	considerable	Considerable					Marginal	considerable
			Considerable						4, 4'

Market access (2006–2008)	grand bargain in trade area Establish HED	considerable	Consid- erable Nil	Marginal Marginal Nil	Marginal	Marginal considerable Nil
	PCA and Update of 1985 Trade Agreement					
Struggling for reciprocity (2009–2019)	EU's offensive diplomacy in global financial crisis	Marginal				1.3' Marginal
	Struggling for reciprocity EU's negotiation tactics in China–US– EU Triangle	Considerable		Marginal		Marginal Considerable
Average score/ each linkage	3'	2.7'	3'	2.2'	5'	3'
				2.1'	2.2'	1.7

scored 1.7 points; and the offensive power period (1989–1992), which scored 0. As an offensive power between 2006 and 2008, the EU's linkage strategy achieved mixed results. On the one hand, the EU managed to press China into proposing the establishment of a High-Level Dialogue Mechanism on market access. On the other, the EU failed to achieve anything substantive in market access.

This mixed record of the EU's linkages vis-à-vis China suggests to us that the EU was at its most powerful when exercising partnership diplomacy during the period (1993–2004) while it was the least powerful when embarking on two offensives, one political in 1989 and the other commercial in 2006–2008.

Variability across different linkage types

I found varying degrees of effectiveness among linkage strategies. Some linkage strategies seem more effective than others. With a score of 5, conditionality is the most effective linkage strategy for the EU to manage trade relations with China. In other words, the EU gained the largest economic and trade benefits through China's WTO accession negotiations. The conditional linkage here refers to the EU's setting of preconditions, i.e., China must meet the market access conditions prescribed by the EU in order to join the WTO. The context at that time was that China made the historic decision from top-down to rejoin the GATT and accede to the WTO, motivated by its own interest, and regarded its accession to the WTO as an important part of building a socialist market economy with Chinese characteristics, therefore it was willing to pay a high price in terms of market opening. In addition, the WTO accession negotiations were carried out within a broader institutional framework of reciprocal benefits, which has not been seen again since China's accession to the WTO in 2001. Around 2012, China proposed to launch FTA negotiations with the EU as a way to create a new institutional framework for negotiations on reciprocal benefits and two-way market opening, but unfortunately, the EU was not receptive to this proposition.

Contextual linkage, cognitive linkage, linkage with the US and linkage with China all worked well for the EU.

Contextual linkage is based on the closeness and even intimacy of EU–China relations, with the key being China's interest in the strategic partnership with the EU and thus its willingness to make economic concessions with the EU for this intimacy. But the history of EU–China trade negotiations shows that contextual linkage has had a limited role since 2006. This is largely due to the fact that the “honeymoon period” between China and the EU ended around 2006 and the EU could no longer use its closeness with China to “induce” new concessions from China. This is an important revelation for EU policymakers that maintaining a close relationship with China is the political basis for serving the EU's economic interests. Without that the EU's efforts to realize its economic interests will be frustrated.

At the core of the cognitive linkage is the EU's value appeal. In the history of EU–China trade negotiations, I have seen only one active use of this value appeal, namely in the first phase of EU–China textile negotiations, when the EU

successfully persuaded China to accept EU import restrictions to a certain extent on the grounds of looking after the interests of other developing countries. This value appeal exploited China's identity as a developing country and then used the rhetoric of protecting the interests of developing countries at large to convince China to accept self-imposed export restrictions, thus achieving the goal of protecting the European textile and apparel industry. The EU's ability to exploit this value appeal was also based largely on the fact that the EU (and its Member States) is the world's largest provider of development aid. However, this linkage has been used only once in the history of EU-China trade negotiations, which is indirect evidence of the lack of common values between Europe and China, so that EU has had few opportunities to successfully use its value appeal. The freezing point of EU-China relations after the June 4 Incident in 1989 highlighted the huge negative impact of the difference in values on bilateral relations. With the benefit of hindsight, the potential common value between Europe and China is the idea of development. If Europe and China can reach consensus on a series of major development issues, it will help ladder up the EU-China trade and economic relations.

Linkage with the US is among the most frequently used EU linkage strategies with China and has been seen throughout the history of EU-China trade negotiations. It can be likened to a "trump card" in the EU's toolkit of linkage strategies. The EU has relied more on this linkage strategy especially in view of its declining power. This strategy works largely because it stems from the structural contradictions between China and the United States, which make China put more value on the EU's unique role on the world stage. China expects the EU to be an independent pole that will contribute to multipolar international politics. Had there been no such structural competition between China and the US, the EU's linkage strategy to use the US to pressure China would be much less effective.

Variability of individual linkage type at different periods

I also find that different linkage type had variable effectiveness at different periods. Since conditionality and the cognitive linkage were applied only once in the case studies, I am unable to track its evolution and therefore there is no such a question as 'variability' for them. I conclude that contextual linkage, linkage with the US and linkage with China have been consistently effective, with considerable influence at different periods. The political-economic issue linkage, economic-economic issue linkage and synergistic linkage over time fluctuated in their effectiveness. The case studies provided us with some insights about the changes in effectiveness of the EU's linkage strategies.

The effectiveness of *political-economic issue linkage* depended on both political and economic power resources. For the period (1975–1988) when China put politics above economics, the EEC's political-strategic power resources were thereby strengthened, benefitting the EEC's negotiating position and allowing it to gain economic benefits. Subsequently from 1989 to 1992, the EC/EU's

political power resources – its political interdependence with China, its credibility in the eyes of the Chinese government and its internal solidarity – dipped to the lowest point of the whole period (1975–2019). During the period 2006–2008, though the EU's political and economic power resources had been eroded, some events, such as the German leader's meeting with Dalai Lama in 2007 and the French president's call to boycott the opening ceremony of the Beijing Olympic Games on the grounds of Tibet and human rights, nevertheless represented an opportunity for the Commission, which it successfully used to gain political credit with the Chinese side, which translated into visible economic benefits for the EU side – a positive conclusion of the 1st EU–China HED in April 2008.

The linkage between two economic issues depended mainly on the asymmetry in its economic interdependence with China. The degree of effectiveness varied. I observed that this linkage did not become any more effective after 2005. One decisive factor in the effectiveness of this type of linkage was the role of trade-offs in negotiations on economic interests between the EC/EU and China. Thus, during the 1993–2004 period, the EU offered market access to China in exchange for China's market opening, whereas during the grand bargain period (2006–2008), the EU was unable to offer the Chinese side new market openings and respond to China's demand on the market economy status and desire for stringent discipline on anti-dumping measures. At this point, the dilemma emerged: the EU's deadlocked domestic bargain needed the outcomes of its external negotiations with China to move forward, while China was reluctant to make concessions unless the EU made the first move in further opening its markets and granting the MES to China. In other words, the ineffectiveness of the economic-economic issue linkages to some extent followed from the failure to establish an acceptable exchange of economic interests between the EU and China. My findings about *synergistic linkage* have also confirmed this point. I find that *synergistic linkage* was one of the most frequently applied linkages, at least five times in the course of cases studied, during almost all the periods. The relatively frequent application of this internal linkage has shown its relevance in the EU's external bargains.

It is interesting to note that *synergistic linkage*, though frequently used, was in fact one of the least effective. This was mainly because the EU was seriously divided after 2005 in the face of globalization and China's enormous export capacity. The European Member States, industry and trade associations were unable to find a common position, which significantly weakened the EU's external bargaining position. That contrasts with the EC/EU's effective synergistic linkages preceding 2005, when before and during the WTO accession negotiations, China was mainly seen as an economic opportunity by Europe. Even though there were some trade problems and tensions, they did not yet project an overall impression that China was an economic threat, partially due to China's limited economic weight and export capacity at that time. The EC/EU's effective synergistic linkages at that time could also be attributed to its success in the external negotiations with China, which produced lucrative market access concessions from the Chinese side. The external and internal bargaining process was

rather like a seesaw, with the internal and external bargains sitting on each end. Only when a balance was struck could the EU's linkage strategy be successful.

The above findings lead us to conclude that the EU still had some way to go before becoming a unitary actor capable of exercising effective linkages to achieve its objectives, despite some success in achieving synergies among the Commission and the Member States. In other words, although the EU consistently tried to use linkage power, it was not always successfully able to express a unified EU interest and could only act collectively from time to time. Whether the EU was able to acquire internal synergies often depended on the outcomes of its external negotiations with China, and the evolving international context. The more and better concessions the Commission obtained from China, the easier it was for the EU to achieve internal consensus, and the stronger the role of the Commission tended to become within the Union. This conclusion runs counter to the idealistic or normative idea that the EU's solidarity comes solely and automatically from an emerging common culture or a universal 'European' interest. However, as stated above, the dilemma was that China might not be ready to make the first move in market access concessions without the EU making the first move in offering new market access and/or granting China the MES. To resolve this dilemma, as far as I can see, there are three scenarios: (1) either the Chinese government launches a new round of voluntary market liberalization as it did during the 1993–2004 period; (2) or the EU makes a political decision to meet the Chinese government's demands on market access, the TDIs and lifting the arms embargo; (3) or the international context develops to a certain point when either the EU or China feels it needs to move to resolve this dilemma. These three scenarios are not necessarily mutually exclusive. It may be that a combination of the scenarios that may offer a way out.

The EU is a sui generis linkage power

Different from other powers like the United States or China, the EU is a non-unitary actor with multiple chief negotiators and decision-makers across pillars. Even for the first pillar, there exist competence divisions between the EU level and the Member States, not to mention the wide heterogeneity of interests and preferences among the Member States. Moreover, the EU's governance structure is by no means static, where increasingly trade competences are moving to the EU level. All these factors have significant implications for the EU's linkage power over China.

With increased competences and intensified EU–China institutionalized relations, the EU was better equipped to make linkages

The increase of the EC/EU competences and its bilateral institutionalization with China generally facilitated the establishment of the EC/EU's linkages and improved their effectiveness. There were several examples in the EU–China trade relationship:

From January 1, 1975, the European Commission acquired a new mandate to negotiate commercial treaties on behalf of all Member States, with state trading countries. This new role immediately enabled the European Commission to approach China to negotiate a new trade agreement, which was also the major motivation for the EEC to establish diplomatic relations with China. Only with this acquisition of new competence was the EEC able to strike a bargain with China, with the Chinese side mainly seeking political benefits (having the EEC recognize the “One China principle”), and the EEC mainly seeking economic benefits (doing business with China). The greater use of linkages is also a consequence of the further development of European integration, in particular, European Political Cooperation in the 1970s, which reassured the Chinese side as to the EU’s potential to become a pole in the international system. This significantly reinforced Europe’s credibility in the eyes of the Chinese authorities. China believed or hoped that the formation of the European Communities would be strong enough to counterbalance the superpowers, particularly the Soviet Union.

Between 1993 and 2004, EU–China relations reached a highly institutionalized and interwoven level of cooperation. The Commission’s March 1998 China Communication which envisaged a comprehensive partnership between the EU and China, aimed to upgrade political consultation to annual summits, dialogue on human rights, support for China’s accession to the WTO, and the promotion of bilateral trade and investment. Annual EU–China Summits would put the EU–China relationship on a commensurate footing with the EU’s approach towards other major international partners such as the US, Japan and Russia, raise the profile of the EU in China and vice versa, as well as injecting added momentum into the negotiation and resolution of key issues in the EU–China relationship. Evidences show that the annual Summit has been a fertile ground for the EU’s linkages with China, which has allowed Chinese and European leaders to focus on a few key issues at each Summit.

During the same period, the EU ratified the Amsterdam and the Nice Treaties, which extended the EU’s competences. This was then translated into a much expanded agenda for EU–China cooperation through a fast growing and maturing partnership. The EU–China relations, which were once largely confined to the areas of trade and investment and financial/technical assistance, expanded to cover a multitude of sectors. A robust and regular political dialogue was established. A number of sectoral agreements had been concluded. There were frequent and, in many cases, institutionalized exchanges, in areas ranging from global challenges such as the environment and illegal migration, through the field of basic and applied research and technological cooperation, to the regulatory framework in key sectors of the economy. EU assistance under the EC-China Co-operation Programme was refocused on the EU’s China policies in general. These changes brought about a new maturity in the relationship, characterized by increasingly close policy coordination in many areas. I find that the strategic

partnership itself was an excellent comprehensive and all-embracing linkage, featuring a complex combination of issue linkages within or across different areas.

Between 2006 and 2008, though the EU's integration process encountered temporary difficulties due to the "No vote" in the French and Dutch referendums, the Commission managed to launch the negotiations on the EU–China Partnership and Cooperation Agreement (PCA) and the update of the 1985 EEC–China Trade and Economic Cooperation Agreement, and establish a High-Level Economic and Trade Dialogue. This strengthened bilateral institutionalization enabled and facilitated the EU's new linkage attempts vis-à-vis China. We conclude that during this period, the EU's partnership and summitry diplomacy and the newly launched negotiations and dialogue mechanisms significantly facilitated the EU's multiple issue linkages, either within a specific issue-area or across issue-areas.

The EU's ever-evolving and increasing competences and the intensity of bilateral institutionalization with China are a hallmark of the EU–China relationship. This is unique and unprecedented compared with other powers' relationships with China, such as the US or Russia. Generally speaking, the EU's integration process has made the EU an increasingly powerful actor and provided an enabling environment for its linkage politics.

The EU's division of competences and the divergent interests among the Member States and the Commission had mixed consequences for the effectiveness of the EU's linkages

The EU has a sui generis pillar structure with division of competences both within and across pillars. Trade belongs to the first pillar – community competence, while foreign policy falls under the second pillar – common foreign and security policy (CFSP). They have different decision-makers and negotiators.

I find that the European Communities' limited competence and the European Union's pillar structure negatively affected the EC/EU's linkage strategies on at least three occasions: on the eve of the establishment of EEC–China diplomatic relations in 1975, after the Tiananmen Incident in 1989, and the grand bargain period from 2006 to 2008 when the Commission put to China the idea of reciprocal market opening. In the first two cases, the EC attempted to establish a linkage between a political and economic issue, which required the transfer of power resources across the political and economic areas. The third case concerned linkage between two economic issues. I find that the EC/EU's division of competences vis-à-vis the Member States either endangered the establishment of linkages or undermined their effectiveness:

- *On the eve of the establishment of the EEC–China diplomatic relations in 1975.* China publicly sought the EEC's clarification of its position on the Taiwan question, whereas the EEC was eager to establish normal trade relations with China by proposing an EEC–China trade agreement. In fact, I see this case rather as a trade-off between political and economic interests between the two parties, where the EEC was hoping to gain economic benefits through political trade-off. However, the EEC delegation was reluctant

to make any such declaration on the grounds that it had no legal mandate to make any declaration involving territories. The impasse was finally broken with a compromise, in which Christopher Soames, the Commissioner for external relations, would publicly state that the EEC had no relations with Taiwan. In other words, only when Commissioner Soames went beyond the Community's competence was this political obstacle finally removed. This case shows that an actor such as the EEC did not find it easy to link a political issue with an economic one.

- *Linking economic sanctions with human rights immediately after the Tiananmen Square Incident in 1989.* In this case, the EC tried to gain a particular political outcome through economic sanctions. Although the linkage between the human rights issue and the economic sanctions was established, it remained fragile and did not stand for long. From the outset, there were exceptions to the EC's sanctions. This was partly due to the non-binding nature of the sanctions as a result of Germany's objections, which very quickly caused them to collapse and partly because the foreign policy dimension was divided between the Community and the Member States, who all too easily tended to put their own economic interests and preferences before the Community's overall strategy.
- *The period of reciprocal market opening in 2006–2008.* During this period, trade agenda expanded beyond what it had been during China's WTO accession negotiations. Many trade issues fell outside the exclusive competences of the European Communities. The Member States either shared some of the trade competences or had exclusive competences on some specific trade issues such as investment and trade promotion. In other words, Europe was a fragmented power even in trade policy. More problematic then was the EU's decision-making structure: the EU had a single chief trade negotiator with many market access requests from the Member States, whereas it had 27 decision-makers divided in how to treat similar requests from the Chinese side. Such an unbalanced dichotomy between the negotiating agent – the Commission, and the decision-makers – the Member States, did not always help in the EU's trade negotiations with China, since it was difficult to meet China's requests, the essential precondition for the grand bargain between the EU and China.

The effectiveness of synergistic linkages largely depended on the outcome of the external negotiations and the converging domestic interests. For example, this type of linkage both in the "Bra War" (2005) and in the grand bargain (2006–2008) proved to be less effective, only producing marginal effects, whereas on the other occasions before 2005, it had proved more effective. This was mainly because between 2005 and 2008 Europe was divided in its trade relations with China. European Member States, industry and trade associations simply were simply unable to find a common position in the face of economic globalization and the rise of China. This factor significantly weakened the Commission's bargaining position, which in turn demonstrated that the diverging interests and

preferences among the Member States played a key role in the success or failure of the EU's linkage strategies.

That being said, the EU's competence-sharing structure with its Member States also created further opportunities for the EU to apply linkages. As Marianne Dony explains, the external action of the EU could be viewed as the outcome of the interactions between the EC (acting within the context of the first pillar), the EU (acting on the basis of the second and third pillars) and the Member States (acting within their own competences).⁵ I note that the European Commission did not hesitate to make use of the tension between some Member States and China to further its own plans. A clear example of the Commission using this strategy to enhance its role and raise its profile as an international trade negotiating party, occurred on the eve of the first EU–China High-Level Economic and Trade Dialogue in April 2008. Commissioner Mandelson was able to make use of the tension between France and China to gain favour from the Chinese side by distancing himself from the position of the European Parliament and France on the Tibet issue, calling their boycott of the Olympic Games opening ceremony “a political gimmick”. His position was supported by President Barroso who led a large delegation in China to launch the first session of the HED. This was a clear case of political-economic issue linkage where the Commission first delinked the opening ceremony of the Beijing Olympic Games from the Tibet issue, and then linked an economic issue (ensuring the success of the first HED) with a political one (whether to boycott the Olympic Games or not).

The EU has also established specific mechanisms and institutions to facilitate linkages. The EU–China Summit is indeed an institutional mechanism used by the Commission to link the overall context with a specific trade issue. A specific instance occurred at the 8th EU–China Summit, when the textile issue was put in the context of the overall EU–China relationship. Thanks to an institution such as the Summit, the EU's pillar structure does not always restrict the fungibility of its power resources.

Characterizing the EU's power fungibility

Since linkage is in substance a way of optimizing the use of power resources, our research on linkage has given us some new insights on the issue of power fungibility. In the theoretical part, we asked two questions: (1) In which direction is the power fungible? (2) Which is more difficult, power fungibility within an issue-area or across issue-areas? Some preliminary thoughts are illustrated as follows:

- **In which direction is the power fungible?** Realists usually believe that power fungibility is top-down. Our case studies have presented a mixed picture: *the EU's power fungibility in its trade relations with China is both top-down and bottom-up.*

There is evidence to show that the EC/EU tied political issues to economic ones in order to obtain concrete economic benefits. For example, during the 1975–1988

period, the linkage was applied from high politics to low politics (top-down). But during the period of 1989–1992, when the European Communities imposed economic sanctions for the sake of China’s human rights, it was a bottom-up linkage, with the EC’s power transferred from low politics to high politics.

Our research also showed that the EU was good at obtaining economic benefits through political leveraging, while poor at achieving political goals through economic leveraging. In other words, *the EU’s power fungibility is more top-down than bottom-up*. The explanation might be the central position of economic interests in the calculations of European decision-makers. They were reluctant to sacrifice economic interests for political objectives. Even if they were willing to do so, that willingness did not hold for long due to the pressure from domestic interest groups. This reminds us again that the EU is, first of all, an economic Community. This contrasts with the United States, who easily put politics and geostrategic interests above economics in handling its relations with China.

I also find that the EU was good at transferring political power resources to the economic area. This can be proven by the relatively high and stable effectiveness of the contextual linkage and the linkage with the United States, which relied on the EU’s political interdependence with China. China’s enthusiasm about building a multipolar world underlay the EC/EU’s advantageous political position vis-à-vis China. This contradicts the traditional preconception that the EU is an economic power but a political dwarf. The cases showed that the EU is a political power, rich in political power resources and adept in wringing economic concessions from the Chinese side through issue linkages.

The related question is what kind of political power resources the EU has acquired and how it used them in its dealings with China. This question is answered below.

- **Which is more difficult, the linkage within or across issue-areas?** Andrew Moravcsik has argued that the major constraint on linkage strategies lies in their domestic distributional implications. On this logic, the potential for linkage (across issue-areas) is far more limited than the potential for concessions within issue-areas.⁶ My case studies have largely proven Moravcsik’s argument that linkage within issue-areas is generally easier than across issue-areas. But I differ with him on the reasons behind that. I find that this was largely attributable to the EU’s pillar structure and competence divisions. For example, the political-economic issue linkage did not hold for long in the 1989 Tiananmen Incident. This was partially because the foreign policy dimension was divided between the European Communities and the Member States, who chose to prioritize their own economic interests and preferences above the Community’s overall strategy.

Clearly, in most cases, the linkages were made between low politics issues in the EU’s trade relations with China. The economic-economic issue linkage were applied at least ten times (including the conditionality linkage), while the

political-economic issue linkage has been applied only five times. I conclude that it is easier to establish linkages within an issue-area than across issue-areas (pillars).

The EU is a linkage power relying on strategic power resources

In the theoretical part, I presuppose that the EU's non-military character forces the EU to resort to civilian power resources. My findings have proven this point. This contrasts with the United States or Russia, who have strong military-security power and therefore could adopt top-down linkages relying on hard military power. The EU also adopted top-down linkages. But the question is through what kind of power resources the EU applied such top-down linkages. The case studies show that the EU resorted mainly to its political interdependence relationship with China. Sometimes, this relationship was balanced. Sometimes, it was asymmetrical in favour of the EU. I call both of them strategic power resources, since they mainly resulted from the EU's relative position in the international system compared with other great powers, and from the EU's potential to become a great power or a pole in a multipolar world. These power resources correspond to the present and near future distribution of power and therefore, were strategic in nature. They were widely applied in the EU's linkage strategies, including the contextual linkage, the linkage with the US and the political-economic issue linkage.

Evidences show that the EU was a master in using the strategic power resources, which, to some extent, made up for its insufficiency in military-security power. The EU-China political interdependence, as a type of strategic power resources, was applied at least on five occasions: respectively in the EU's negotiations with China on the latter's WTO accession, the two phases of the EU-China Textile Dispute, the establishment of the High-Level Economic and Trade Dialogue, the grand bargain on reciprocal market access (2006–2008) and the EU's handling of the China-US-EU strategic triangle (2009–2019). For the asymmetrical political interdependence, it was applied in the 1975–1988 period to establish EEC-China diplomatic relations through a political-economic issue linkage.

Clearly, the EU adopted systemic-level calculations when exercising these linkages in its relations with China. China also responded with systemic-level considerations. The EC/EU has been perceived by China as a great power, rich in power potentials and having the so-called 'shadow of the future'. China treated the EC/EU with considerations about the present and near future distribution of power in mind. Between 1975 and 1988, the EC built upon its power potential as a counterbalancing power against the Soviet Union and made an implicit linkage between its strategic power resources on the one hand and seeking economic benefits from China on the other. This strategy was effective throughout the 1990s and is still useful now, when the EU is perceived by the Chinese side as a potential pole in a multipolar world. The EU managed to build upon these strategic political power resources to win favours and concessions from the Chinese side. We find that the EU was adept in drawing upon its systemic-level position and making frequent use of these linkages. The case studies show that, among

different types of linkages, the linkage with the US and the contextual linkage were among the most frequently applied and the most effective, and used in nearly all the periods.

To conclude, the EU's reliance on its strategic power resources and the relevant linkages is a distinctive feature in comparison with other powers. The US cyclically prefers a unilateral and unipolar world, Russia is still reluctant to embrace multilateralism, the EU, therefore, acquired distinctive strategic power resources and successfully applied them in its linkages vis-à-vis China.

Future trends of EU–China trade relations (2025–2055)

What does the future look like for the EU? And for China? What are the respective interests of China and Europe? What will be the changes to their relative power? How should they negotiate with each other? This section attempts to provide an outlook on EU–China trade and economic relations in the period of 2025–2055 (see Table 9.3).

Outlook on the EU's future and EU–China trade and economic relations

According to the trajectory of the long cycles of the world economy (Graph 2.1) and the underlying rationale of Europe's historical evolution,⁷ the author predicts that in the period of 2025–2035, the EU may gradually move towards “Fortress Europe”. But in the longer term, in the period of 2035–2055, the EU may become a “European Empire”.

Looking first at the trajectory of long waves of the world economy, the period 2001/2008–2025/2035 is likely to be the Kondratieff Long Wave V-B, i.e., the recessionary phase. We are currently in the middle of V-B (the cut-off year for this book is 2022), and there is no telling when the cycle will end. However, based on the 50–60-year rule of thumb on the duration of a Kondratieff wave, the downward phase (phase B) is typically 25 to 30 years long. Therefore, the cycle may extend somewhere between 2025 and 2035. It is impossible to tell exactly in which year this phase will end, but it should be a year or a period in the decade of 2025–2035. In terms of power shifts, the West is in relative decline. Populism is on the rise while the EU has suffered multiple crises, including Brexit, the European refugee crisis, geopolitical crises (e.g., Ukrainian crisis and the Russia–Ukraine war), and a sluggish economic recovery, while emerging economies such as China and India have emerged assertively in this timeframe. For example, China launched the Belt and Road Initiative in 2013. However, it is worth noting that China's economy has also been showing signs of slowdown since 2010 under the “new normal”. China started implementing “supply-side structural reforms” in 2016. Following the outbreak of Covid-19 in the end of 2019 and Russia's invasion of Ukraine in 2022, the world economy entered recession.

At the end of the Kondratieff Long Wave V and before the beginning of Long Wave VI, there may be a transitional phase, likely between 2025 and 2035. Based

Table 9.3 EU integration and trade strategy with China from the lens of the long waves of the world economy (1965–2055)

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>
1965–1985 Kondratieff Long Wave IV-B (major phase)	Holdoff stage: “Empty chair crisis”; economic stagnation in the 1970s; EEC enlargement (UK, Ireland, Denmark and Greece)	“Civilian Power Europe”: Active engagement, icebreaking, starting out and laying the groundwork	Establishment of diplomatic relations in 1975; EEC–China Trade Agreement in 1978 and the EU–China Textile Agreement in 1979; European Commission President Roy Jenkins visits China in 1979
1986–1992 Transition from Kondratieff Long Wave IV-B to V-A (minor phase)	Relaunch stage: Single European Act of 1986; the implementation of qualified majority voting in the Single Market, Delors’ Plan, EU enlargement (Spain and Portugal), upheaval of the Soviet Union and Eastern Europe; end of the Cold War; entry into force of the Maastricht Treaty of 1992 and birth of the European Union	“Normative Power Europe” 1.0: Peaceful evolution and linking human rights with trade issues	June 4 Incident in China
1993–2004 Kondratieff Long Wave V-A (major phase)	High-speed development stage: Launch of the euro; EU enlargement (Austria, Finland and Sweden)	“Normative Power Europe” 2.0: Promote change through commerce, drive political momentum through economic growth, reciprocal opening-up	EU–China comprehensive strategic partnership; China’s WTO accession negotiations; Project Galileo cooperation
2005–2009 Transition from Kondratieff Long Wave V-A to Kondratieff Long Wave V-B (minor phase)	Stagnation stage: GFC, European debt crisis and setbacks of EU integration	“Linkage Power Europe” 1.0: Grand bargain and start of reciprocity demands	EU–China textile trade dispute and the EU’s trade deficit

(Continued)

Table 9.3 Continued

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>
2010–2024 Kondratieff Long Wave V-B (major phase)	Stagnation stage: Europe suffers multiple crises of refugees, populism, and geopolitics; Brexit; the EU starts to develop its military/defence forces	“Linkage Power Europe” 2.0: Reciprocity as a core objective of trade policy agenda with China	Seeking market access; the PV case and steel trade dispute; formation of the broader China–US–EU triangle
2025–2035 Transition from Kondratieff Long Wave V-B to Kondratieff Long Wave VI-A (minor phase)	“Fortress Europe” stage: Europe suffers from multiple crises, old and new; gradual internal stratification; populism enters core EU decision-making circles; integration process in jeopardy; small-scale enlargement; the EU further develops its military/defence forces	“Mercantilist Power Europe”: Notable rise in economic nationalism and aggressive economic diplomacy; more assertive and obstinate trade policy; joining forces with the US to build a “transatlantic fortress” and “transatlantic community of economic imperialism”	A series of trade wars and technology wars between the EU and China; geo-economic competition and cooperation; China likely in an isolated position in the trilateral power balance of the EU, China and the US
2035–2055 Kondratieff Long Wave VI-A (major phase)	“European Empire” stage: Recovery and growth of power; emergence as a stand-alone geostrategic block and an independent pole in a multipolar world; large-scale expansion; internal hierarchy and significant strengthening of leadership cores; establishment of an independent, medium-sized military force and defence community	“Linkage Power Europe” 3.0: Promoting comprehensive exchanges of strategic, political and economic interests with China	An EU–China FTA, next-generation economic and trade agreement, or next-generation comprehensive agreement

Source: Prepared by the author.

on experience, this transitional phase will be a period of intense conflict. It is likely that by the end of the Kondratieff Long Wave V, the EU will not be able to resist internal protectionist and populist pressures, and its trade policy will regress from liberalism to mercantilism, or economic nationalism. China’s trade policy would not be free from protectionist pressures. To make matters more complex, politics and foreign policy will significantly encroach on trade policy. In the

beginning of Long Wave VI, a longer period beyond 2035, when the economy recovers and grows quickly, driven by the fourth industrial revolution, the EU will enter an expansionary phase of “European Empire”, pursuing great power status and the export of values on a global scale. It will expand further eastward and southward. At the same time, a tiered hierarchy will be established within the EU, with Germany and France in the leading tier and Central and Eastern Europe and Southern Europe in a marginal and subordinate position.

Specifically, there are four basic characteristics of “Fortress Europe” (2025–2035). First, the EU may see small-scale opportunistic expansion, including absorbing the Western Balkans and probably Ukraine into the Union. The second is the gradual internal stratification, the “centre-periphery” structure of Europe. The EU’s economic core is the Western European countries, while Southern Europe and Central and Eastern Europe are the peripheral and semi-peripheral. Leaving the centre, the peripheral and semi-peripheral countries would have to depend on new a “rock” to survive. Third, externally, the EU will become tough and obstinate. In terms of external trade policy, the community will adopt a defensive liberal policy with “reciprocity” at the core, strengthen trade remedies, implement the EU foreign investment review system, and propose new industrial policies. This stance is obviously different from the neoliberal approach. At the heart of defensive liberalism is “reciprocity”, but if the policy of “reciprocity” fails, the EU may shift towards mercantilism, which is protectionist at its core. The EU will also join hands with the US and other countries with similar interests in areas such as finance, exchange rate, trade, and intellectual property rights to implement offensive economic diplomacy and exert pressure on developing countries and emerging economies. The emergence of a “U.S.–EU Transatlantic Fortress” may become a real possibility. In the longer term, the US, Europe and other Western countries will jointly promote the creation of a transatlantic imperialistic community. Fourth, the EU will be “strong on the outside and weak on the inside”. Solidarity is in short supply within the EU and its inner core of power remains relatively weak. Compromise is still needed with populist forces. At a time of internal challenges and external threats, the EU will become increasingly self-protective. Externally, it will go after imaginary enemies to rally internal unity. In 2017, then-European Council President Donald Tusk argued, “an increasingly assertive China, aggressive Russia, radical Islam, and the post-Trump U.S. are the four biggest external threats to the EU”.⁸ The external negotiations of “Fortress Europe” must be hard-lined and its strategy must be Machiavellian and strategic, rather than based on values alone, but the values of liberal democracy will never be abandoned.⁹ In its external negotiations, the EU will still connect and link values and pragmatic interests which are not necessarily contradictory to each other.¹⁰

In the “Fortress Europe” phase (2025–2035), the EU will be the “intermediate zone” between the two superpowers of China and the US in terms of strategic and geopolitical interests. However, this “intermediate zone” is facing internal and external challenges and is likely to become a “shatterbelt” in the geopolitical

sense. This is mainly because the European Peninsula, located at the western end of the Eurasian continent, will face the squeeze of four major geostrategic plates, which are the US-led maritime plate, the Russia-led Eurasian plate, the China-led East Asian plate, and the North African and Middle East Islamic plate.¹¹ These four geostrategic plates surround the European Peninsula and exert pressure on Europe from both geopolitical and geo-economic perspectives. In the face of this pressure, the EU will risk disintegration if it fails to unite from within. In terms of EU–China political/strategic relations, the China-led East Asian plate should be the least threatening power to Europe, and Europe’s geopolitical reliance on China is bound to rise appreciably. Of course, the EU’s position in the broader China–US rivalry will not diminish, as it will remain a balancing force in the China–US–EU strategic triangle. This means that in the “Fortress Europe” phase, China and Europe will still have great potential for political interdependence, but such interdependence would require strategic foresight and management by policymakers on both sides.

As far as trade and economic interests are concerned, the core goal of EU–China relations is to ensure mutual market opening. China’s interest in keeping the EU market open will rise significantly. In the “Fortress Europe” phase, populist forces will gradually seize leadership positions in the EU and dominate the ruling party in some Member States, which will certainly call for greater protectionism at the EU level and demand industrial policies as well as China’s unilateral market opening. The economic, industrial and technological competition between China and Europe will intensify notably. At the same time, the economic and trade interests between China and Europe are massive. According to the China Center for International Economic Exchanges (CCIEE), bilateral trade between China and Europe will reach EUR678 billion by 2025, of which China will export EUR404 billion to the EU-27 and the EU-27 will export EUR277 billion to China, with a surplus of EUR126 billion on the Chinese side.¹² In the 2008–2017 decade, China continued to run a large surplus with the EU, in the magnitude of USD100–150 billion. In 2018–2025, China’s trade surplus with the EU will remain at USD150 billion, if not higher. This means that China needs the EU market more than the EU needs the Chinese market, which adds to the EU’s negotiating leverage. It is conceivable that in the “Fortress Europe” phase, the EU will urge China to unilaterally open further and improve the trade balance in the bilateral trade relations with China, whereas the bloc will significantly strengthen self-protection.

On investment relations, the imbalance in two-way investment between China and the EU will fundamentally change, and Chinese investment interests in the EU will rise significantly. With the rise in demand of EU Member States for extra-territorial funding following the 2009 eurozone sovereign debt crisis and the acceleration of outward investment by Chinese companies, Chinese FDI in the EU has seen rapid growth since 2009. By the end of 2016, China’s cumulative FDI in the EU had amounted to USD69.83 billion, a 21-fold increase from 2008, and the ratio of cumulative FDI by EU companies in China of USD110.336 billion was under 1:2, a significant improvement from the ratio of

1:19.2 in 2008.¹³ Also, in terms of investment flows, a report released by research firm Rhodium Group and Berlin-based think tank Mercator Institute for China Studies estimated that Chinese FDI in the EU surged 76% to EUR35.1 billion in 2016. By contrast, EU M&A deals in China fell for the second year in a row to EUR7.7 billion. This means that Chinese investors spent four times more on M&A in the EU than European companies did in China in 2016.¹⁴ Further, in 2017, Chinese investment flows to the EU remained high at EUR30 billion.¹⁵ In other words, China and Europe are undergoing a fundamental change in their investment relationship, from China's unilateral dependence on EU investment in the past to investment interdependence. In terms of trends, Chinese investment flows to the EU will likely exceed those of the EU to China. What is the potential of China's future investment in the EU? Can it reach the level of the current multi-trillion-dollar stock between the US and Europe? As of 2015, the EU's FDI stock in the US had reached EUR2.6 trillion and the US in the EU, EUR2.4 trillion. It is a real possibility that the FDI stock between China and Europe could exceed EUR1 trillion in the future, provided the EU–China political relationship will remain stable.

“Fortress Europe” is not a sustainable state. The two historical threads of empire and capitalism, hidden within the old man of European history, will always push Europe towards the phase of “European Empire”,¹⁶ especially around 2035 when the world economy enters Long Wave VI-A, i.e., the expansionary phase. The EU will likely start a new round of expansion based on economic recovery and growth, thus entering the “European Empire” phase. The basic features of a “European Empire” are threefold: first, a massive expansion (with the incorporation of the EU's eastern partnership countries and even Turkey and some North African and Middle Eastern countries, or at least some special linkage arrangement); second, the emergence of an internal hierarchy with a substantially strengthened leadership core; and third, the establishment of an independent mid-sized military force.

In the “European Empire” phase, the EU will become an important pole in terms of strategic and geopolitical interests in a multipolar world. It will become a stand-alone EU geostrategic plate independent from the US-led maritime plate, symbolized by the EU's military and defence independence and the establishment of a medium-sized military force. For a reasonably long time to come, there will likely be six competing and collaborative geostrategic plates: the maritime plate (US-led), the EU plate (led by Germany, France and EU institutions), the Eurasia plate (led by Russia), the East Asian plate (led by China), the South Asia plate (led by India), and the Islamic Arab geostrategic plate.¹⁷ In other words, in the world of 2035–2055, multipolarity will change from a trend to a full-fledged reality. In terms of EU–China political/strategic relations, China and the EU, representing the two geostrategic plates at the eastern and western ends of Eurasia, have an intricate competitive and cooperative relationship with the US-led maritime plate and the Russian-led Eurasia plate. Geographically, China sits in the middle of the US and Russia; Europe is also located between the US and Russia. Conversely, the US is located between China and Europe, and Russia

too is located between China and Europe. Therefore, there is potential for further geopolitical coordination between China and Europe going forward. However, the enlargement of the envisioned “European Empire” may overshadow EU–China relations as it may turn the Mediterranean, the Black Sea and the Baltic Sea into its own internal waters, which would seriously undermine the balance of power in a multipolar world.

In the field of trade and economy, EU–China relations will see major developments. An EU–China FTA, the next-generation trade agreement or a next-generation comprehensive agreement will be signed, thus advancing EU–China trade and economic relations. China and Europe are likely to become each other’s largest trade partners, and EU–China trade and investment relations will become more balanced. Of course, such trade and economic relations will be subject to the development of overall bilateral relations.

Comparison of power between the EU and China

The rapid rise of Western Europe was an important development in post-World War II international politics, an important historical process that took place during Long Wave IV-B of the world economy (1967/1971–1986/1991), where the EU rose to become a leading bloc during Long Wave V-A (1986/1991–2005/2008) and introduced significant changes to international geopolitical and economic relations.

Historically, since the first industrial revolution at the end of the 18th century, the rise of the world’s great powers has occurred in phase B of long waves of the world economy, such as the rise of the United States and Germany in Long Wave II-B (1870/1875–1893/1896), followed by their ascendance to leadership in phase A of the next long wave. Phase B is also critical for the reconfiguration and rebalancing of international political power. For example, during Long Wave III-B (1914/1920–1940/1945), between the First and Second World Wars, Germany and Japan were defeated. China’s rise has been ongoing, and most likely started in Long Wave V-B (2005/2008–2025/2035) and then in Long Wave VI-A (2025/2035–2055), China will ascend to leadership.

Since the rise of Western Europe preceded China by one cycle, the power dynamics between the EU and China are as follows: Europe’s power, mainly economic power, outweighed China’s during the 50-plus years from Long Wave IV-B (1967/1971–1986/1991) to V-A (1986/1991–2005/2008). Therefore, during the “civilian power” (1965–1985), “normative power 1.0” (1986–1992), “normative power 2.0” (1993–2004) and “linkage power 1.0” (2005–2008) phases described in this book, the EU had tremendous power resources in its negotiations with China and was often able to achieve its strategic and tactical objectives through multiple linkage strategies. However, in Long Wave V-B (2005/2008–2025/2035), China’s power rose rapidly while European integration suffered serious setbacks, and Europe endured multiple crises such as Brexit, the refugee crisis, rising populism and geopolitics. With China’s GDP surpassing

that of the EU-27 after losing the UK in 2021, the power dynamics between China and Europe have reversed. The law of history suggests that a challenger power tends to start its rise in phase B and become a leading power in phase A of the next long wave, but whether this power will rise successfully and consolidate its status as a leading power will only be seen in the next phase B. The unsuccessful rise of Japan and Germany in World War II proves this point. In this sense, China's rise as a leading power in Long Wave VI-A (2025/2035–2050/2055) is to be expected, and the power dynamics between China and Europe will surely shift in China's favour. But the answer to China's future fate, whether China will rise successfully and become a mature leading power in the future, will only be told in Long Wave VI-B (2050/2055–2075/2080) because in Long Wave VI-B, the world economy will be in a new downward cycle and the international political order will face another reshuffling. What will happen to China and Europe? Much will depend on whether the future leaders of China and Europe can learn the lessons of history and avoid the security dilemma that results from over-expansion.

At the current stage of history, Long Wave V-B (2005/2008–2025/2035), the power dynamics between China and Europe are shifting in China's favour. In 2021, China's GDP already exceeded that of EU-27. According to estimates by the CCIEE, by 2025, China's GDP will have exceeded EU-27 by 10 percentage points.¹⁸

However, as discussed above, the asymmetries of EU–China trade and economic relations are likely to persist beyond 2025. In other words, China's trade surplus with the EU will, for some time, remain, even when China's GDP surpassed that of the EU in 2021. This means that China's dependence on the EU market outweighs the EU's dependence on the Chinese market.

In terms of military spending, according to Eurostat, the 28 EU Member States together spent about EUR200 billion on defence in 2016, or 1.3% of total EU GDP. Four of these countries – the UK, France, Germany and Italy – are the top military spenders. The UK spent EUR47 billion, France EUR41 billion, Germany EUR33 billion and Italy EUR22 billion, accounting for 71% of total EU military spending.¹⁹ Brexit was a major blow to the EU's military defence power. According to SIPRI data, China's military spending in 2017 was USD228.2 billion,²⁰ on par with that of EU-28.

In terms of military, economic and other hard power, China will surpass the EU around 2025. But this does not mean that the EU will be subservient in trade negotiations with China. In fact, when China's hard power exceeds that of the EU, the EU will have to rely on soft power, smart power and a linkage strategy from a position of strength to negotiate with China. Similarly, China will need to choose appropriate strategies and tactics to negotiate with the EU on the basis of its growing comprehensive power. Moreover, at the historical stage when the EU becomes "Fortress Europe" (2025–2035), it will likely intensify efforts to establish a transatlantic community with the US and the UK, including a "transatlantic fortress", a "transatlantic community of economic imperialism" and a military alliance through NATO to counterbalance China.

How should the EU and China deal with each other in the future?

Trend analysis suggests a strong momentum of China's rise and a decline of the EU's relative power. In 2021, China overtook the EU in terms of GDP, and around 2035, China will probably overtake the US economically. Going forward, how should the EU and China deal with each other (see Table 9.4)?

(I) How China and the EU should deal with each other between 2023 and 2025?

This period belongs to Kondratieff Long Wave V-B (2008–2025). It saw the rise of populism on a worldwide scale, and the “zeitgeist” (German word: meaning the spirit of the times) will slide irrevocably towards mercantilism and conservatism. It has three main features: first, national centrism, i.e., the primacy and precedence of national interests, typified by Trump's “America First” agenda; second, the fierce competition among nations around power and geopolitical interests; and third, the start of mercantilist economic policies in all major economies. We must not forget that two previous occurrences of this zeitgeist, from the 1870s to 1914 and in the 1930s, led to the outbreak of two world wars.

This “holdoff period” will likely last for a long time. This means that the current wave of populism, nationalism and mercantilism will continue. During this period, which could be as short as 10 years or as long as 20 years, the countries will have to “wait for help”. Otherwise, they will slide into the vortex of a great power conflict or even a world war. China and the EU may be the last saviour to globalization, and the two can play a unique role in providing international public goods. This is also a period of opportunity to advance EU–China relations, and China and Europe should work together to resist the economic nationalism that is proliferating globally and to preserve a free and open system of global economic governance. At the political and strategic level, China and the EU should work together to achieve multipolarity and balance of power and to avoid a shift to mercantilism, isolationism and conservatism. China needs to further open its markets and protect intellectual property rights.

In the field of trade, Europe on the offensive and China on the defensive remains the theme of this phase. Although China's GDP has exceeded that of EU-27, the EU still has advantageous power in trade at this stage. First, China runs a large trade surplus with Europe, and its dependence on the EU market outweighs that of the EU on the Chinese market, which means that the EU enjoys a relative market power advantage. Second, the EU's FDI stock in China is still larger than China's FDI stock in Europe, so the EU enjoys a scale advantage in bilateral investment relations. Third, the EU is the most important source of technology for China.

China's market power is yet to be fully unlocked, most notably through success in major EU–China negotiations, the PCA and the update of the 1985 EEC–China Trade and Economic Cooperation Agreement, and the EU–China CAI, whose ratification had been delayed in early 2022 when this book was completed. To improve its market power, China needs to increase its internal coordination efforts and push for meaningful progress in the negotiations from the top-down.

Table 9.4 Evolution and projection of China's negotiating strategy with the EU (1975–2055)

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>	<i>EU–China power dynamics</i>	<i>China's negotiating strategy with the EU</i>
1965–1985 Kondratieff Long Wave IV-B (major phase)	Holdoff stage: "Empty chair crisis"; economic stagnation in the 1970s; EEC enlargement (UK, Ireland, Denmark and Greece)	"Civilian Power Europe": Active engagement, icebreaking, starting out and laying the groundwork	Establishment of diplomatic relations in 1975; EEC–China Trade Agreement in 1978 and the EU–China Textile Agreement in 1979; European Commission President Roy Jenkins visits China in 1979	Europe is economically much stronger than China, and the two sides are politically interdependent	Actively supports European integration; seeks Europe's support on the Taiwan question; seeks European funding, technology and market access
1986–1992 Transition from Kondratieff Long Wave IV-B to Kondratieff Long Wave V-A (minor phase)	Relaunch stage: Single European Act of 1986; the implementation of qualified majority voting in the Single Market, Delors' Plan, EU enlargement (Spain and Portugal), upheaval of the Soviet Union and Eastern Europe; end of the Cold War; entry into force of the Maastricht Treaty of 1992 and birth of the European Union	"Normative Power Europe" 1.0: Peaceful evolution and linking human rights with trade issues	June 4 Incident in China	Europe is economically much stronger	Adheres to the "four basic principles", hides strength and bides its time, implements further reform and opening-up, and applies to rejoin the GATT

(Continued)

Table 9.4 Continued

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU–China trade negotiations</i>	<i>Key milestones in EU–China trade negotiations</i>	<i>EU–China power dynamics</i>	<i>China’s negotiating strategy with the EU</i>
1993–2004 Kondratieff Long Wave V-A (major phase)	High-speed development stage: Launch of the euro; EU enlargement (Austria, Finland and Sweden)	“Normative Power Europe” 2.0: Promote change through commerce, drive political momentum through economic growth, reciprocal opening-up	EU–China comprehensive strategic partnership; China’s WTO accession negotiations; Project Galileo cooperation	Europe is economically much stronger	Negotiates on WTO accession, sticks to reform and opening-up, hides strength and bides its time, continues to support European integration, builds a comprehensive strategic partnership with Europe, urges the EU to recognize China’s market economy status and lift the ban on arms sales
2005–2009 Transition from Kondratieff Long Wave V-A to Kondratieff Long Wave V-B (minor phase)	Stagnation stage: GFC, European debt crisis and setbacks of EU integration	“Linkage Power Europe” 1.0: Grand bargain and start of reciprocity demands	EU–China textile trade dispute and the EU’s trade deficit; launch of negotiations on the PCA and improvement of the 1985 EEC–China Trade and Economic Cooperation Agreement; establishment of EU– China HED	Europe is economically much stronger, but the balance of power begins to shift in China’s favour	Resolutely defends national interests in Xinjiang, Tibet, Taiwan and other issues of sovereignty and territorial integrity; properly manages trade frictions, maintains the big picture of EU– China comprehensive strategic partnership, and supports Europe in dealing with the GFC and the European debt crisis

2010–2024 Kondratieff Long Wave V-B (major phase)	Stagnation stage: Europe suffers multiple crises of refugees, populism, and geopolitics; Brexit; the EU starts to develop its military/defence forces	“Linkage Power Europe” 2.0: Reciprocity as a core objective of trade policy agenda with China	Seeking market access; the PV case and steel trade dispute; formation of the broader China–US–EU triangle	Significant changes in the balance of economic power between China and Europe in favour of China, with China’s GDP surpassing that of EU-27 by around 2023	The author recommends China fully exploit and leverage its market power; jointly uphold the multilateral trading system and the spirit of liberalism, openness and inclusiveness; launch and work towards the early conclusion of EU–China FTA negotiations
2025–2035 Transition from Kondratieff Long Wave V-B to VI-A (minor phase)	“Fortress Europe” stage: Europe suffers from multiple crises, old and new; gradual internal stratification; populism enters core EU decision-making circles; integration process in jeopardy; small-scale enlargement; the EU further develops its military/defence forces	“Mercantilist Power Europe”: Notable rise in economic nationalism and aggressive economic diplomacy; more assertive and obstinate trade policy; joining forces with the US to build a “transatlantic fortress” and “transatlantic community of economic imperialism”	A series of trade wars and technology wars between the EU and China; geo-economic competition and cooperation; China likely in an isolated position in the trilateral power balance of the EU, China and the US	China’s economic power grows stronger	The author recommends China conclude the EU–China FTA negotiations and expand the scope to entire Eurasia, or even aim for a “world island” FTA that includes Europe, Asia, and Africa; provide non-reciprocal market access (greater openness on the Chinese side) to keep the EU in the free and open trade camp

(Continued)

Table 9.4 Continued

<i>Years</i>	<i>Stages of EU integration</i>	<i>Stages/modalities of EU-China trade negotiations</i>	<i>Key milestones in EU-China trade negotiations</i>	<i>EU-China power dynamics</i>	<i>China's negotiating strategy with the EU</i>
2035–2055 Kondratieff Long Wave VI-A (major phase)	“European Empire” stage: Recovery and growth of power; emergence as a stand-alone geostrategic block and an independent pole in a multipolar world; large- scale expansion; internal hierarchy and significant strengthening of leadership cores; establishment of an independent and powerful military force and defence community; increased independence	“Linkage Power Europe” 3.0: External expansion and driving change through commerce, Promoting comprehensive exchanges of strategic, political and economic interests with China	Strengthened EU–China strategic coordination to jointly shape a power parity system in a multipolar world; intensified geo-competition and cooperation between China and Europe	China's combined power grows stronger	The author recommends China deepen, broaden and update the EU–China FTA; jointly promote a new round of globalization, strengthen cooperation, coordination and leadership with the EU in global governance; achieve global cooperation in the fields of technology, finance and currency; focus on two- way investment promotion

Source: Prepared by the author.

China and the EU need to ratify the CAI by 2025 to provide an institutional buffer before the challenging period of EU–China trade and economic relations in 2025–2035.

(II) How China and the EU should deal with each other in 2025–2035?

This phase falls within the transition from Kondratieff Long Wave V-B to VI-A. Historically, the transition from one long cycle to the next will come with intense contradictions, crises, threats of war, revolution and major geopolitical conflicts. This phase is a critical period for China to surpass the US in terms of GDP, and the tension between China and the US will likely intensify. A full-scale “decoupling” or even a major conflict between the US and China is not out of the question.

During this phase, the EU will continue its relative decline, marked by major upheavals and crises internally and a passive and weakened international position. This phase may also see heightened tensions between the EU and China in the fields of trade and economics. Trade wars, technology wars and geopolitical rivalries are likely to emerge. This is because the dynamics within Europe have changed considerably, as one crisis builds on another and risks continue to arise. The zeitgeist in Europe and the US is entering a phase of economic nationalism. There is growing discomfort with the rise of China and the changing international political and economic landscape.

In this phase, the EU–China mutual negotiating strategy should be reciprocal openness, with FTA negotiations as the pivot. This could be a bilateral FTA between China and Europe, an FTA for the whole Eurasian continent, or even a “world island” FTA that spans across Africa, the Middle East and Eurasia. In the second half of this phase (around 2030), China could implement non-reciprocal market opening with the EU, i.e., China will open up more and faster to encourage the EU to remain open. In this phase, a “grand bargain” strategy should be implemented. At the core of the “grand bargain” strategy is the exchange of interests, which requires both sides to accommodate each other’s concerns and reach an agreement despite the constraints of their domestic interests.

(III) How China and the EU should deal with each other in 2035–2055?

This phase is Kondratieff Long Wave VI-A. Driven by the new technological and industrial revolutions, the world economy will experience a new boom cycle. China should have surpassed the US as the world’s biggest economy. China, the US and the EU will most likely be the top three economies in the world.

This is also a crucial period for the progress of multipolarity. If the US cannot provide hegemonic leadership, we can only hope for parity among major powers in a multipolar world. As this new balance of power is being formed, the US, the UK, the EU, Russia and China will be key to maintaining the security of Europe. The areas critical to Europe’s security will be the European maritime zone and Central and Eastern Europe. The geopolitical dynamics in these key areas will redefine competition and cooperation among major powers in Eurasia and bring about new opportunities and challenges to EU–China relations.²¹ The EU will enter the phase of a “European Empire”, becoming politically and militarily independent, having a mid-sized military force, and continuing to expand in

the direction of North Africa, the Middle East and Central and Eastern Europe. In the geopolitical game of Eurasia, the EU's geostrategic position will remain important. It will be a key pole in the quadrilateral relations of China, the US, Russia and Europe. The room for manoeuvring in EU–China geostrategic relations will increase further.

In this phase, China and the EU should more proactively and open-mindedly develop trade and economic relations, increase the depth and breadth of cooperation further to the conclusion of an FTA, jointly promote globalization, strengthen coordination and collective leadership in the field of global governance, strengthen cooperation in science and technology, and build global cooperation on financial and monetary affairs. The focus of EU–China trade and economic cooperation will increasingly lean on two-way investment, with the stock of bilateral investment likely to exceed EUR2 trillion by then.

This phase will also see intensified geo-economic competition between China and Europe. Due to the expansion of the EU's economic imperialism, the competition between China and Europe for economic interests will intensify in Eurasia and even around the globe, which will require China and Europe to strengthen geo-economic coordination and achieve trilateral cooperation for mutual benefit and win-win results. As China's comprehensive power far exceeds that of the EU in this phase, it is imperative to prevent Europe from forming closed alliances or "fortress" with other incumbent or emerging powers and to replace the isolationist and conservative zeitgeist of Long Wave V-B with the spirit of liberalism, openness and inclusiveness.

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