



European  
University  
Institute

ROBERT  
SCHUMAN  
CENTRE FOR  
ADVANCED  
STUDIES

# WORKING PAPERS

RSCAS 2017/33  
Robert Schuman Centre for Advanced Studies  
Global Governance Programme-270

## Leveraging Diversity: Europe's China Policy

James Reilly



European University Institute  
**Robert Schuman Centre for Advanced Studies**  
Global Governance Programme

## **Leveraging Diversity: Europe's China Policy**

James Reilly

EUI Working Paper **RSCAS** 2017/33

This text may be downloaded only for personal research purposes. Additional reproduction for other purposes, whether in hard copies or electronically, requires the consent of the author(s), editor(s). If cited or quoted, reference should be made to the full name of the author(s), editor(s), the title, the working paper, or other series, the year and the publisher.

ISSN 1028-3625

© James Reilly, 2017

Printed in Italy, July 2017

European University Institute

Badia Fiesolana

I – 50014 San Domenico di Fiesole (FI)

Italy

[www.eui.eu/RSCAS/Publications/](http://www.eui.eu/RSCAS/Publications/)

[www.eui.eu](http://www.eui.eu)

[cadmus.eui.eu](http://cadmus.eui.eu)

## **Robert Schuman Centre for Advanced Studies**

The Robert Schuman Centre for Advanced Studies (RSCAS), created in 1992 and directed by Professor Brigid Laffan, aims to develop inter-disciplinary and comparative research and to promote work on the major issues facing the process of integration and European society.

The Centre is home to a large post-doctoral programme and hosts major research programmes and projects, and a range of working groups and *ad hoc* initiatives. The research agenda is organised around a set of core themes and is continuously evolving, reflecting the changing agenda of European integration and the expanding membership of the European Union.

Details of the research of the Centre can be found on:  
<http://www.eui.eu/RSCAS/Research/>

Research publications take the form of Working Papers, Policy Papers, Policy Briefs, Distinguished Lectures, Research Project Reports and Books.

Most of these are also available on the RSCAS website:  
<http://www.eui.eu/RSCAS/Publications/>

The EUI and the RSCAS are not responsible for the opinion expressed by the author(s).

## **The Global Governance Programme at the EUI**

The Global Governance Programme is one of the flagship programmes of the Robert Schuman Centre for Advanced Studies at the European University Institute (EUI). It aims to: build a community of outstanding professors and scholars, produce high quality research and, engage with the world of practice through policy dialogue. At the Global Governance Programme, established and early career scholars research, write on and discuss, within and beyond academia, issues of global governance, focussing on four broad and interdisciplinary areas: European, Transnational and Global Governance; Global Economics; Europe in the World; and Cultural Pluralism.

The Programme also aims to contribute to the fostering of present and future generations of policy and decision makers through its unique executive training programme, the Academy of Global Governance, where theory and “real world” experience meet. At the Academy, executives, policy makers, diplomats, officials, private sector professionals and academics, have the opportunity to meet, share views and debate with leading academics, top-level officials, heads of international organisations and senior executives, on topical issues relating to governance.

For more information: <http://globalgovernanceprogramme.eui.eu>



## **Abstract**

The widespread assumption that 'Europe must speak to China with one voice' misses important advantages of the EU's divided sovereignty structure. European states frequently secure economic benefits from China while deflecting Beijing's demands for reciprocal policy concessions off to Brussels. EU negotiators utilize internal constraints through 'two-level games' that strengthen their bargaining position with Beijing. EU member states have exploited their dual identities to expand engagement with China, attract Chinese investment, and build financial cooperation. The reputed downsides of European division often represent either unrealistic expectations or relatively modest concerns for Europe. Going forward, European scholars and officials should adopt a more realistic sense of what the EU's China policy might achieve, identify when and why Europeans have been most effective in engaging China, and develop strategies to further leverage Europe's diversity.

## **Keywords**

International Relations; Trade, Investment and International Cooperation; European Foreign Policy; Institutions and Policy-making





## Introduction

Europe's relationship with China appears troubled. Questioning official rhetoric celebrating a 'strategic partnership', Richard Maher writes that 'EU-China relations are today, and are likely to remain, contested, uneven, and...shallow' reflecting at best a 'limited partnership'.<sup>1</sup> China's 'new assertiveness' is raising anxieties, as Beijing seeks to 'buy up Europe' while deploying a 'divide and rule' strategy.<sup>2</sup> To respond effectively to the China challenge, experts urge, 'the EU must learn to speak to China with one voice'.<sup>3</sup>

If Europe is to constructively engage China, it will have to engage itself collectively first...A lack of a clear-cut common vision could become a weakness when dealing with a strong partner which has only one...Europeans have to be careful to present a unified response so that China does not end up ruling by dividing, carving out concessions in the heart of Europe as an irony of history.<sup>4</sup>

European Commission's June 2016 China strategy echoes these concerns, insisting 'the EU must project a *strong, clear and unified voice* in its approach to China'.<sup>5</sup>

The assumption that greater internal coherence will necessarily enhance Europe's foreign policy effectiveness is, however, coming under sharper scrutiny. Greater coherence, Daniel Thomas argues, 'is no guarantee that the EU will be able to "punch its weight politically;"' such assumptions are 'either misinformed or misleading, or perhaps both'.<sup>6</sup> Studies of EU disaster relief and foreign aid, for instance, find no clear relationship between internal coherence and effectiveness.<sup>7</sup> Adopting a single approach can even limit effectiveness by preventing member states from using 'good cop-bad cop' tactics.<sup>8</sup> 'At times,' Sophie Meunier explains, 'the EU has exploited its disunity strategically in order

---

<sup>1</sup> Richard Maher, 'The elusive EU-China strategic partnership', *International Affairs* 92:4, 2016, p. 960. See also: Jonathan Holslag, 'The Elusive Axis: Assessing the EU-China Strategic Partnership', *Journal of Common Market Studies* 49:2, 2011, pp. 293-313.

<sup>2</sup> Nien-Cheng Chang Liao, 'The sources of China's assertiveness: the system, domestic politics or leadership preferences?' *International Affairs* 92:4, 2016, pp. 817-833; Francois Godement and Jonas Parello-Plesner, 'The scramble for Europe', European Council on Foreign Relations Brief, 2011, [http://www.ecfr.eu/page/-/ECFR37\\_Scramble\\_For\\_Europe\\_AW\\_v4.pdf](http://www.ecfr.eu/page/-/ECFR37_Scramble_For_Europe_AW_v4.pdf). (All URLs cited in this article were accessible on 6 August 2016.).

<sup>3</sup> Guy de Jonquières, 'The European Union's China policy: priorities and strategies for the new commission', *ECIPE Policy Brief* 3, 2015, <http://ecipe.org/app/uploads/2015/04/The-European-Union's-China-Policy.pdf>

<sup>4</sup> See, respectively: Gustaaf Geeraerts, 'EU-China relations', in Thomsas Christiansen, Emil Kirchner and Philomena Murray, eds., *The Plaggrave handbook of EU-Asia relations* (Houndmills: Palgrave Macmillan, 2013), p. 492; Alice Ekman, *China: setting the agenda(s)?* European Union Institute for Security Studies Issue Brief, March 2015, [http://www.iss.europa.eu/uploads/media/Brief\\_4\\_China.pdf](http://www.iss.europa.eu/uploads/media/Brief_4_China.pdf); Sophie Meunier, 'A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe', *Asia Europe Journal* 12, 2014, p. 157.

<sup>5</sup> European Commission, 'Elements for a new EU strategy on China,' 22 June 2016, [http://eeas.europa.eu/china/docs/joint\\_communication\\_to\\_the\\_european\\_parliament\\_and\\_the\\_council\\_-\\_elements\\_for\\_a\\_new\\_eu\\_strategy\\_on\\_china.pdf](http://eeas.europa.eu/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf). Emphasis in original.

<sup>6</sup> Daniel C. Thomas, 'Still punching below its weight? Coherence and effectiveness in European Union foreign policy', *Journal of Common Market Studies* 50:3, 2012, pp. 474.

<sup>7</sup> Arne Niemann and Charlotte Bretherton, 'EU external policy at the crossroads: The challenge of actorness and effectiveness', *International Relations* 27:3, 2013, pp. 261-275.

<sup>8</sup> Antonio Missiroli, 'Coherence for European security policy: debates, cases, assessments,' Occasional Paper 27, Paris, WEU Institute for Security Studies, 2001.

to increase its bargaining power'.<sup>9</sup> In short, the relationship between Europe's internal coherence and its external effectiveness remains 'ambiguous and still underexplored'.<sup>10</sup>

This study builds upon this scholarship by examining European foreign policy toward China: an issue area featuring sharp member state competition, low cohesion levels, and limited delegation to the EU.<sup>11</sup> Despite these constraints, Europe's China policy has been far more effective than most experts acknowledge. Europe's 'divided sovereignty' structure has proven useful for both EU and national policymakers in bargaining with China.<sup>12</sup> In negotiating with China over a bilateral investment treaty, EU officials have played a two-level game with considerable sophistication and success, extracting concessions while resisting Chinese demands. Meanwhile, by deflecting unpalatable decisions off to Brussels, national leaders have attracted valuable investments from China without having to concede a costly policy *quid pro quo*.

Agreement across Europe on China policy is often elusive. In such cases, member states have flexibly used their single-country status, forging new modes of cooperation with China before drawing upon EU institutions and resources to bolster their influence and protect their interests. European entry into the Asia Infrastructure Investment Bank (AIIB) and Eastern European cooperation with China exemplify this agile engagement. Moreover, surging Chinese investment across Europe has not sparked a destructive race to the bottom, instead encouraging expanded EU-China economic cooperation. The reputed downsides of Europe's divisions—an inability to pry open China's domestic markets, reluctance to refuse China, and vulnerability to Beijing's 'divide and conquer' strategy—often reflect unrealistic expectations or imprecise analysis.

This is not a paean to division. Member states cooperating through EU institutions generally better advance both national and EU-level interests. Yet European scholars and officials should adopt a more realistic sense of what the EU's China policy might achieve, identify when and why Europeans have been most effective in engaging China, and develop strategies to further leverage Europe's diversity.

## Negotiating with China

A senior EU official recently shared with me an instructive tale. A few years ago, he attended a EU-China meeting on currency policy. The EU side included over twenty people: two from each of the major EU institutions involved in Euro-related policymaking. Then he walked the China side: *one person*, from the People's Bank of China. This dichotomy epitomizes the EU's negotiating relationship with China. Authority in the EU is divided, with numerous 'veto players' looming over any major policy decision. Chinese authority is far more centralized. Does Europe's internal complexity undermine its bargaining power with Beijing?

Classic bargaining theory explains how having one's 'hands tied' at home, such as by an adversarial legislature, can bolster a leader's demands for concessions from their adversary across the bargaining table.<sup>13</sup> European leaders have used such 'two-level games' to strengthen their bargaining position with China. Negotiations over a bilateral investment treaty (BIT) offer a telling example.

---

<sup>9</sup> Eugénia da Conceição-Heldt and Sophie Meunier, 'Speaking with a single voice: internal cohesiveness and external effectiveness of the EU in global governance', *Journal of European Public Policy*, 21:7, 2014, pp. 962.

<sup>10</sup> Louise Van Schaik, *EU effectiveness and unity in multilateral negotiations: more than the sum of its parts?* (Basingstoke: Palgrave Macmillan, 2013), p. 12

<sup>11</sup> European foreign policy here includes both member states' and EU policies.

<sup>12</sup> Nicolas Jabko, 'The "divided sovereignty" of the Eurozone', in Philipp Genschel and Markus Jachtenfuchs, eds., *Beyond the regulatory polity? The European integration of core state powers* (Oxford: Oxford University Press, 2014), pp. 124-143.

<sup>13</sup> Thomas C. Shelling, *The strategy of conflict* (Cambridge: Harvard University Press, 1981); Robert D. Putnam, 'Diplomacy and domestic politics: the logic of two-level games,' *International Organization* 42: 3, 1988, pp. 427-460.

### ***Playing Two-Level Games***

In May 2013 the EC requested, and quickly secured, a mandate from member states to begin BIT negotiations with China. By February 2016, they had held nine rounds of talks and had achieved a formal accord on the scope of the final agreement.<sup>14</sup> Initially, Beijing requested that the two sides either negotiate a separate Free Trade Agreement (FTA) simultaneously with the BIT or incorporate both trade and investment within a single agreement. China has been relatively successful with its other trade partners in this regard, having reached 12 FTAs, including with Switzerland, Iceland, ASEAN, South Korea, and Australia, and begun negotiations over six more FTAs, including with Norway, and a trilateral FTA with Japan and South Korea.<sup>15</sup>

Although Europe has also signed or begun negotiating dozens of bilateral FTAs, EU negotiators refused Beijing's request.<sup>16</sup> Despite David Cameron's 2013 pledge in Beijing to 'put his full weight' behind opening FTA negotiations, the EU has remain unmoved. As one EC official told me: 'The BIT is a necessary precondition before talking about a FTA. There cannot even be an FTA feasibility study until the BIT is finalized'.<sup>17</sup>

In November 2013, the EU conceded only that 'negotiating and concluding' a robust BIT would 'convey' Europe's 'willingness to envisage broader ambitions including, once the conditions are right, towards a deep and comprehensive FTA, as a longer term perspective'.<sup>18</sup> This highly conditional pledge offered little reassurance for Beijing, and yet China agreed to embark upon BIT negotiations on this basis. Chinese officials also repeatedly suggested to their EU counterparts that their stance in BIT negotiations would be 'greatly helped' if the EU agreed to recognize China's market economy status (MES).<sup>19</sup> Yet again, EU officials turned back China's request: refusing to even mention MES in the 2013 *EU-China 2020* joint statement.<sup>20</sup>

The EU also successfully shaped the scope of negotiations. Before agreeing to start negotiations, EU officials insisted that the BIT must include robust arrangements on market access, national treatment (treating European investors as domestic investors even before the investment is formally established), and negative lists (excluding only specific Chinese sectors from European investment). In its 2012 investment agreements with Canada, and with Japan and South Korea, China successfully resisted similar demands for pre-entry national treatment and declined to offer a negative list.<sup>21</sup> As German researchers explain, such measures are 'clearly beyond the scope of traditional BITs'.<sup>22</sup> Yet the November 2013 China-EU agreement opening formal negotiations announced that the BIT would include 'investment protection and market access'.<sup>23</sup> In February 2016, the EU and China agreed on

---

<sup>14</sup> European Commission, 'Overview of FTA and other trade negotiations,' May 2016, [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf)

<sup>15</sup> China's FTA Network, 'China's free trade agreements,' 6 August 2016, [http://fta.mofcom.gov.cn/english/fta\\_qianshu.shtml](http://fta.mofcom.gov.cn/english/fta_qianshu.shtml).

<sup>16</sup> European Commission, 'Overview.'

<sup>17</sup> Interview with EC official, Brussels, 3 February 2016.

<sup>18</sup> 'EU-China 2020 strategic agenda for cooperation', 23 November 2013, [http://eas.europa.eu/china/docs/20131123\\_agenda\\_2020\\_\\_en.pdf](http://eas.europa.eu/china/docs/20131123_agenda_2020__en.pdf)

<sup>19</sup> Interview with member state representative, Brussels, 1 February 2016.

<sup>20</sup> 'EU-China 2020.'

<sup>21</sup> Axel Berger, 'Investment treaties and the search for market access in China', IISD, 26 June 2013, <https://www.iisd.org/itm/2013/06/26/investment-treaties-and-the-search-for-market-access-in-china/>

<sup>22</sup> Frank Bickenbach, et al. 'The EU-China bilateral investment agreement in negotiation: motivation, conflicts and perspectives', *Kiel Policy Brief*, 95 (2015), p. 4.

<sup>23</sup> 'EU-China 2020.'

the scope of the agreement, which will include ‘improved market access opportunities’ and ‘guarantee non-discriminatory treatment’, signalling China’s acceptance of the EU’s negative list approach.<sup>24</sup>

Given its relatively weak bargaining position, the EU’s success is surprising. As one EC official explained to me, ‘the EU needs the BIT more than China, so we lacks leverage’.<sup>25</sup> ‘The problem’, another added, ‘is the EU is already very open to investment, so what can we offer China?’<sup>26</sup> Yet the EU played its weak hand strongly, refusing China’s requests to link the BIT to FTA negotiations or to MES promises, while successfully shaping the negotiating agenda to suit European preferences. The EU’s success stands in sharp contrast to Switzerland and Iceland, who have signed FTAs and offered China MES. What explains Europe’s success?

One reason is obvious: size matters. As a German diplomat to the EU explained: ‘even Germany is so much smaller that it needs the EU to gain leverage with China’.<sup>27</sup> The EU has also benefitted from parallel US demands in the ongoing China-US BIT negotiations: in September 2015, China exchanged a negative list with the US—the first time for Beijing.<sup>28</sup> Chinese officials favouring a more liberal investment regime may also see EU demands as useful external pressure: ‘*gaiatsu*,’ in the Japanese phrase.<sup>29</sup>

Yet the EU’s most important resource has been its strategic use of internal constraints. Brussels has played a two-level game with considerable sophistication and success. From the beginning, member states (via the European Council) put their negotiating team on a tight leash. DG Trade was only permitted to negotiate an agreement that would ‘secure existing openness and deliver new liberalization’ in ‘accessing each other’s investment market,’ ‘improve the treatment of investors...and intellectual property rights’, and cover ‘treatment of EU investors in China’ and ensure ‘improved access to the Chinese market’.<sup>30</sup> A senior Council official confirmed privately that the mandate requires that the BIT include ‘strong market access and a “strong protections for EU investors in China’.<sup>31</sup>

The EU’s internal approval process further ties DG Trade’s hands. The EU Council must formally adopt the deal, while Parliament must ratify it. The Parliament, rife with protectionist and anti-China sentiment, has established a ‘monitoring group’ overseeing the China BIT talks that raises concerns forcefully and directly with DG Trade.<sup>32</sup> Finally, if the European Court of Justice decides (in a pending case) that the EU does not, in fact, have exclusive competence over foreign investment, the BIT might require ratification from member state parliaments.<sup>33</sup>

---

<sup>24</sup> European Commission, ‘Overview.’

<sup>25</sup> Interview with member state representative, Brussels, 2 February 2016. The EC labels the BIT the EU’s ‘immediate priority’ with China. European Commission, ‘Elements’.

<sup>26</sup> Interview with European Council staff, 4 February 2016.

<sup>27</sup> Interview with member state representative, Brussels, 4 February 2016.

<sup>28</sup> Insa Ewert, ‘The EU–China bilateral investment agreement: between high hopes and real challenges’, Security Policy Brief 68, February 2016,

<http://www.egmontinstitute.be/wp-content/uploads/2016/02/SPB68-Ewert.pdf>

<sup>29</sup> For instance, see calls for investment liberalization in: ‘*China 2030: building a modern, harmonious, and creative society*’, Washington and Beijing: Development Research Center of the State Council and World Bank (2013), p. 389, <http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>

<sup>30</sup> The actual mandate is confidential. The quote is from: European Commission, ‘Commission proposes to open negotiations for an investment agreement with China’, 23 May 2013, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=900>.

<sup>31</sup> Interview with European Council staff, Brussels, 4 February 2016.

<sup>32</sup> Interview with European Parliament staff, Brussels, 5 February 2016.

<sup>33</sup> Ewert, ‘The EU–China’.

Far from weakening Europe, these internal constraints have bolstered the EU's negotiating position.<sup>34</sup> DG Trade could credibly claim to their Chinese counterparts that they were unable to even discuss a FTA until a favourable BIT is signed; that they were unable to engage in a BIT-for-MES trade; and that for the BIT to receive Parliamentary approval, it had to include favourable market access conditions. President Xi Jinping's negotiators have far less credibility in trying to claim parallel constraints. As Professor Zhang Xiaotong, from China's Wuhan University, notes: 'The EU-China BIT is much more than a purely economic exercise, for it involves politics and power'.<sup>35</sup> And in this case, the complicated internal politics of the EU enhanced European power.

### ***Europe's Blame Game***

Competition for Chinese investment, many fear, will compel European leaders to acquiesce in China's policy demands. Yet member states have successfully deflected Beijing's requests off to Brussels, attracting valuable Chinese investment without having to concede a costly policy *quid pro quo*. A telling example comes, fittingly enough, from Machiavelli's heirs.

In October 2014, Chinese Premier Li Keqiang visited Rome. Flanked by a smiling Prime Minister Matteo Renzi, Li presided over the signing of a dozen new commercial deals worth over €8 billion, and announced major agreements with China's two largest financial institutions. Li assured his Italian hosts these deals were 'merely an appetizer' with 'the main course of Sino-Italian cooperation yet to come'.<sup>36</sup> In exchange, Li encouraged Italy, European Council President at the time, to 'continue playing a constructive role in promoting China-EU ties, which are now at a crucial stage'.<sup>37</sup>

Li was referring to China's MES request.<sup>38</sup> Instead, the month after Li's visit, Deputy Economic Development Minister Carlo Calenda told the *China Daily* that he had promoted the idea of starting FTA talks among EU trade ministers.<sup>39</sup> Before his next China trip, in May 2015, Calenda told Italian media: 'In the pre-council for trade in Brussels I expressed my support for an FTA...the Nordic countries' bloc, Italy, Germany and Spain are not against starting this process'.<sup>40</sup>

Only a few months later, Calenda abruptly announced Italy's opposition to awarding MES to China. Insisting that the EU should not 'unilaterally disarm' and warning that MES would 'put entire industrial lines of our economy and our continent on its knees', Calenda bluntly declared: 'China is not a market economy, it doesn't meet the conditions'.<sup>41</sup> Italy thus became the first (and, as of this writing, the only) EU member to declare its opposition to MES. In January 2016 Renzi sent Calenda to Brussels as Italy's first non-diplomat to serve as Permanent Representative, where he successfully

---

<sup>34</sup> For a parallel finding, see: Sophie Meunier, 'What single voice? European institutions and EU-US trade negotiations', *International Organization* 54:1, 2000, pp. 103-135.

<sup>35</sup> Zhang Xiaotong, 'Treading carefully in the minefield of the EU-China investment treaty', *Europe's World*, 1 April 2015, <http://europesworld.org/2015/04/01/treading-carefully-minefield-eu-china-investment-treaty/#.VuvONMdUvww>

<sup>36</sup> Zhao Yanan, "'Main course" still ahead', *China Daily*, 16 October 2014, [http://english.gov.cn/premier/news/2014/10/16/content\\_281474997646584.htm](http://english.gov.cn/premier/news/2014/10/16/content_281474997646584.htm).

<sup>37</sup> 'China, Italy agree to further promote partnership', *Xinhua*, 15 October 2014, [http://www.chinadaily.com.cn/world/2014livisitgrl/2014-10/15/content\\_18743363.htm](http://www.chinadaily.com.cn/world/2014livisitgrl/2014-10/15/content_18743363.htm).

<sup>38</sup> On MES, see: Laura Puccio, 'Granting of market economy status to China: An analysis of WTO law and of selected WTO members' policy', European Parliamentary Research Service PE 571.325 (2015).

<sup>39</sup> 'Europe should have FTA with China: Italian official', *Xinhua*, 19 December 2014, [http://europe.chinadaily.com.cn/business/2014-12/19/content\\_19123046.htm](http://europe.chinadaily.com.cn/business/2014-12/19/content_19123046.htm)

<sup>40</sup> Rita Fatiguso, 'Italy would support an EU free trade agreement with China', *Italy Europe 24*, 17 March 2015, <http://www.italy24.ilssole24ore.com/art/business-and-economy/2015-03-16/italy-would-support-an-eu-free-trade-agreement-with-china-141422.php?uuid=ABHSRy9C>

<sup>41</sup> James Politi and Christian Oliver, 'Italy defends EU tariffs as last defence against China', *Financial Times*, 4 October 2015, <https://next.ft.com/content/eea6fab2-68f4-11e5-a57f-21b88f7d973f>

demanded that the EC conduct a new impact assessment on MES and hold a public consultation process.<sup>42</sup>

Meanwhile, Italy has backed away from its initial support for starting FTA talks: diplomats now claim ‘this was never an official policy position’. Despite this remarkable reversal, ‘Italy has not faced any additional Chinese pressure or criticism in response to our outspoken stance on MES.’ Instead, they describe Italy’s MES stance as useful. ‘At least now there is a debate’.<sup>43</sup>

In short, the second-largest recipient of Chinese investment from 2000 to 2015 and the recipient of China’s single-largest investment in Europe in 2015 also emerged, in the same year, as the strongest opponent of Beijing’s top policy objective in Europe: securing MES.<sup>44</sup> In compensation, Renzi offered Beijing only fleeting rhetorical support for FTA talks.

David Cameron adopted a similar tactic. After a year in China’s doghouse for his May 2012 meeting with the Dalai Lama, in December 2013, the British Prime Minister was finally welcomed in Beijing, where he promised to put his ‘full political weight’ behind a China-EU FTA while denouncing countries that ‘want to shut China off behind a bamboo curtain of trade barriers’. ‘Britain’, Cameron enthused, ‘wants China to realize its dream’.<sup>45</sup> The 120 UK firms accompanying Cameron were rewarded with trade and investment deals signed during the visit worth over £5.6 billion.<sup>46</sup>

In October 2015, Xi Jinping returned the favour, traveling to the UK for a leisurely four-day visit, where he presided over deals promising £30 billion of Chinese investment into the UK. On the last day, in four hours of private talks at the prime minister’s country residence, Xi told Cameron what he wanted in exchange. ‘The EU is a comprehensive strategic partner for China and is China’s largest trading partner’, Xi reminded Cameron. ‘China hopes Britain, as an important member of the EU, can play an even more positive and constructive role in promoting the deepening development of China-EU ties’.<sup>47</sup> Just as Jonathan Fenby warned: ‘Xi may come to London bearing gifts, but...he will want a *quid pro quo* in terms of political support’.<sup>48</sup>

In fact, Cameron had already promised, back in 2010 in Beijing: ‘I will make the case for China to get market economy status in the EU’.<sup>49</sup> Yet he failed to reiterate this position during, or after, Xi’s visit. Instead, just weeks after Xi left London, Cameron reassured the UK Parliament that ‘even if China gets that [MES] status...it can be fined’, adding: ‘If there is illegal dumping, we will support action in the European Union, and that can be done in spite of the status that a country has’.<sup>50</sup>

---

<sup>42</sup> ‘EU launches public consultation for granting China market economy status’, *China Daily*, 11 February 2016, [http://www.chinadaily.com.cn/world/2016-02/11/content\\_23450048.htm](http://www.chinadaily.com.cn/world/2016-02/11/content_23450048.htm)

<sup>43</sup> All quotes from: interview with Italian diplomat, Rome, 28 April 2016.

<sup>44</sup> Data from: Thilo Hanemann and Mikko Huotari, ‘A new record year for Chinese outbound investment in Europe’, *MERICs Report*, 2016, <http://www.merics.org/en/press-contact/press-releases/a-new-record-year-for-chinese-outbound-investment-in-europe.html>.

<sup>45</sup> ‘David Cameron promises China “growth partnership”’, BBC, 3 December 2013, <http://www.bbc.com/news/uk-25176613>.

<sup>46</sup> ‘Press release: £5.6 billion worth of deals signed in China’, 3 December 2013, <https://www.gov.uk/government/news/56-billion-worth-of-deals-signed-in-china>

<sup>47</sup> 习近平同英国首相卡梅伦再次会晤 [Xi Jinping meets again with UK Prime Minister Cameron], Xinhua, 23 October 2015, [http://news.xinhuanet.com/politics/2015-10/23/c\\_1116915868.htm](http://news.xinhuanet.com/politics/2015-10/23/c_1116915868.htm)

<sup>48</sup> ‘Britain: “China’s best partner in the West?”’ *ChinaFile*, 20 October 2015, <https://www.chinafile.com/conversation/britain-chinas-best-partner-west>.

<sup>49</sup> Cameron add:ed ‘But China needs to help, by showing that it is committed to becoming more open’. ‘David Cameron: China should be given better access to EU markets as reward for opening economy’, *The Guardian*, 10 November 2010, <http://www.theguardian.com/politics/2010/nov/10/david-cameron-china-eu-markets-economy>

<sup>50</sup> UK Parliament, ‘PM answers on MES on China’, 3 February 2016, <http://www.publications.parliament.uk/pa/cm201516/cmhansrd/cm160203/debtext/160203-0001.htm>

Like Renzi, Cameron appeased Beijing with vague FTA pledges while assuaging domestic constituencies by talking tough on MES. Able to deflect difficult decisions off to Brussels, both leaders successfully attracted Chinese investments without policy concessions. Playing deflection and two-level games offer negative advantages. Yet the EU's divided sovereignty framework has also enabled European states to utilize their dual identities—as sovereign states and EU members—to forge cooperation with China even when EU-level accord proves elusive.

## **Europe's Agile Engagement**

Member states' distinct economic structures and priorities, exacerbated by competition for Chinese investment and markets, generate diverging preferences over China policy. The EU's cumbersome structures often prove unable to bridge these divides. Facing such impasses, member states can exploit their national autonomy to enter cooperative arrangements with China. Once inside the tent, they utilize EU institutions to bolster their collective influence. European entry into the Asia Infrastructure Investment Bank (AIIB) exemplifies such agile diplomacy.

### ***AIIB: Getting Inside the Tent***

President Xi Jinping first publically proposed the AIIB in October 2013, setting 31 March 2015 as the deadline to join as a 'prospective founding member' (PFM). By early March, a number of EU members signalled their intent to meet that deadline. The UK reportedly told Chinese officials that they would announce their application on 17 March. Once other European countries learned of Britain's intent, they quickly followed suit. In the end, Luxembourg beat London by one day, formally applying for membership on 11 March, followed by the UK, and then Switzerland on 13 March.<sup>51</sup> Three days later, France, Germany and Italy issued a joint statement announcing their intent to join.<sup>52</sup> By the end of the month, fourteen EU members had applied for PFM status.

To many in Europe, the AIIB represents an embarrassing failure. Thomas Renard denounced Europe's 'apparent rush' as having 'no coordination'.<sup>53</sup> 'Beijing stole a strategic win over Europe', complained two German experts, as Europeans 'tumbled over one another to court Beijing'.<sup>54</sup> EC President Jean-Claude Juncker denounced this 'race to see who is first to become a member'.<sup>55</sup> The EC's own think tank criticized 'Europe's response' as 'uncoordinated and *ad hoc*'.<sup>56</sup>

---

<sup>51</sup> 'UK move to join China-led bank a surprise even to Beijing', *Financial Times*, 26 March 2015, <http://www.ft.com/intl/cms/s/0/d33fed8a-d3a1-11e4-a9d3-00144feab7de.html#axzz43QoiUtY4>

<sup>52</sup> Andrew Higgins and David E. Sanger, '3 European powers say they will join China-led bank', *New York Times*, 17 March 2015, [http://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html?\\_r=0](http://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html?_r=0)

<sup>53</sup> Thomas Renard, 'The Asian Infrastructure Investment Bank (AIIB): China's new multilateralism and the erosion of the West', *Security Policy Brief* 63 (April 2015), <http://www.egmontinstitute.be/wp-content/uploads/2015/04/SPB63-Renard.pdf>

<sup>54</sup> Maaïke Okana-Heijmans and Daniel Lanting, 'Europe's China policy coming of age?' *EU Observer*, 1 July 2015, <https://euobserver.com/opinion/129415>

<sup>55</sup> Fu Jing, 'EU needs stronger voice in AIIB, says Juncker', *China Daily*, 9 September 2015, [http://www.chinadaily.com.cn/world/2015-09/09/content\\_21835149.htm](http://www.chinadaily.com.cn/world/2015-09/09/content_21835149.htm)

<sup>56</sup> European Political Strategy Centre, 'The Asian Infrastructure Investment Bank: a new multilateral financial institution or a vehicle for China's geostrategic goals,' *Strategic Notes* 1, 24 April 2015, [http://ec.europa.eu/epsc/publications/notes/sn1\\_en.htm](http://ec.europa.eu/epsc/publications/notes/sn1_en.htm)

In fact, there was considerable deliberation and communication among member states and between member states and EU officials, reflecting Europeans' 'habit of cooperation.'<sup>57</sup> In the fall of 2013, Chinese officials directly approached a number of leading EU member states to encourage them to join. German officials immediately shared this information with EC officials in Beijing, who then shared this information with all other EU members. As one senior EC official involved in the Beijing discussions explained:

The AIIB is an absolutely natural development. It is an example of China seeking to shape the global order, and it is to be expected...I was happy to facilitate member states joining the bank. Our main principal is that there should be equal treatment among all member states, so we focused on sharing information among all of them.<sup>58</sup>

Naturally, member states justified their decisions by arguing that they would shape the institution in a positive direction.<sup>59</sup> We can assess these claims against the AIIB's voting distribution, leadership appointments, and foundational documents.

The AIIB's 57 founding members include 20 'non-regional' states: 17 are European (14 EU members). No other non-Asian OECD countries have joined, giving Europeans a monopoly of the non-Asian, wealthy members of AIIB. Europe's combined vote share of 22.09 is second only to China (26.06) and far ahead of India (7.51), Russia (5.93), Brazil (3.02), and Australia (3.46)—combined.<sup>60</sup>

The AIIB's 12-member Board of Directors is responsible for daily operations. Of the three positions reserved for non-Asian countries, two are set aside for Europe: one for Eurozone countries and one for 'other European states.' The first Board includes a German (Nikolai Putscher) and a UK official (Vanessa MacDougal).<sup>61</sup> Of the AIIB's five Vice-Presidents: two are Europeans. The UK's Danny Alexander is VP and Corporate Secretary, a position described as 'trusted advisor, communications and liaison officer, and overall governance professional'. Germany's Joachim von Amsberg, a World Bank Vice President, is VP for Policy and Strategy, responsible for the AIIB's 'strategic agenda, investment portfolio, and operational policies'.<sup>62</sup>

With Europeans' entry, the AIIB created a tension between non-Asian, wealthy countries with strong opinions about development assistance and developing Asian countries hungry for rapid aid with few preconditions. Europeans are already exerting considerable weight on this balance, evident in the AIIB's Operating Principles pledge: 'The Bank shall place no restriction upon the procurement of goods and services from any country'.<sup>63</sup> The AIIB has also issued a 50-page 'Environment and Social Framework' that 'comprises mandatory environmental and social requirements for each Project'.<sup>64</sup> These policies more closely reflect the values espoused by European development agencies than China's development program.<sup>65</sup>

---

<sup>57</sup> Helen Wallace, 'Analysing and explaining policies' in Helen Wallace and William Wallace, eds., *Policy-making in the European Union* (Oxford: Oxford University Press, 2000), pp. 65-81.

<sup>58</sup> Interview with EC staff, Brussels, 5 February 2016.

<sup>59</sup> 'UK announces plans to join Asian Infrastructure Investment Bank', 12 March 2015, <https://www.gov.uk/government/news/uk-announces-plans-to-join-asian-infrastructure-investment-bank>; Higgins and Sanger, '3 European'.

<sup>60</sup> EU member states secured 20.2 per cent of all votes; the three other European states have 1.89 per cent.

<sup>61</sup> 'AIIB Directors', [http://euweb.aiib.org/html/aboutus/governance/Board\\_of\\_Directors\\_/BOD\\_Members/?show=1](http://euweb.aiib.org/html/aboutus/governance/Board_of_Directors_/BOD_Members/?show=1)

<sup>62</sup> 'AIIB Vice Presidents', [http://euweb.aiib.org/html/aboutus/governance/Senior\\_Management/Vice\\_Presidents/?show=1](http://euweb.aiib.org/html/aboutus/governance/Senior_Management/Vice_Presidents/?show=1)

<sup>63</sup> 'AIIB procurement policy', <http://www.aiib.org/uploadfile/2016/0226/20160226052146876.pdf>

<sup>64</sup> 'AIIB environmental and social framework', <http://www.aiib.org/uploadfile/2016/0226/20160226043633542.pdf>

<sup>65</sup> James Reilly, 'A norm-taker or a norm-maker? Chinese aid in Southeast Asia. *Journal of Contemporary China*, 21:73, 2012, pp. 71-91



Soon after EU members announced their intent to join, European Bank for Reconstruction and Development President Suma Chakrabarti revealed that the EBRD had already established an 'intense and wide-ranging dialogue' with the AIIB.<sup>66</sup> In January 2016, Chakrabarti attended the AIIB's inauguration ceremony, where he finalized China's EBRD membership.<sup>67</sup> Reflecting these thickening ties, in June 2016, the AIIB and EBRD announced their first co-funded project.<sup>68</sup> The EBRD is not alone: the European Investment Bank (EIB) has also seconded staff to the AIIB, opened an office in Beijing, and is exploring co-financing.<sup>69</sup>

The EBRD and EIB are serving as 'force multipliers': facilitating coordination among EU members while deploying their institutional resources to help Europeans shape AIIB rules and practices. Eastern Europeans' response to China's '16+1' initiative can be seen in a similarly positive light.

### ***China's Eastern Engagement***

The China-CEEC (Central and Eastern European Countries) Partnership ('16+1') began in April 2012 with an Economic and Trade Forum in Warsaw. A Secretariat was soon established in Beijing, with 'Guidelines for China-CEEC Cooperation' issued at summit meetings in November 2013 in Bucharest, December 2014 in Belgrade, and November 2015 in Suzhou.<sup>70</sup> The framework brings together 16 countries, including five non-EU members.<sup>71</sup> It is primarily an annual summit of national leaders, underpinned by a nascent but thickening web of linkages designed to foster economic cooperation.<sup>72</sup> In 2012 Beijing established a \$10 billion China-CEE Investment Cooperation Fund; then added an additional \$3 billion two years later.

To date, actual Chinese investment in CEE countries has remained 'modest': only in Hungary is aggregate Chinese investment above one per cent of GDP.<sup>73</sup> Chinese experts admit that China's 'insignificant' investment into CEE has proven 'a source of disappointment for some Central European countries'.<sup>74</sup> Beijing's efforts to expand investment into CEE countries have been 'beset with difficulties', deriving from Chinese inexperience, unrealistic expectations on both sides, and a

---

<sup>66</sup> AIIB, 'President-designate Jin meets UK Prime Minister Cameron, Chancellor Osborne and EBRD President Sir Suma Chakrabarti', 2015, [http://www.aiib.org/html/2015/NEWS\\_1115/31.html](http://www.aiib.org/html/2015/NEWS_1115/31.html).

<sup>67</sup> Anthony Williams, 'China becomes EBRD member as Suma Chakrabarti visits Beijing, EBRD, 15 January 2016, <http://www.ebrd.com/news/2016/china-becomes-ebrd-member-as-suma-chakrabarti-visits-beijing.html>

<sup>68</sup> Svitlana Pyrkalo, 'EBRD will attend AIIB Annual Meeting in Beijing, sign first joint project', EBRD, 23 June 2016, <http://www.ebrd.com/news/2016/ebrd-will-attend-aiib-annual-meeting-in-beijing-sign-first-joint-project.html#uPdQ2upBsSrZxlqG.99>

<sup>69</sup> European Commission 'Factsheet on "EU-China Investment cooperation"', 28 September 2015, [http://ec.europa.eu/priorities/sites/beta-political/files/factsheet-eu-china-investment-cooperation\\_en.pdf](http://ec.europa.eu/priorities/sites/beta-political/files/factsheet-eu-china-investment-cooperation_en.pdf)

<sup>70</sup> For the Guidelines see, respectively: <http://www.china-ceec.org/151/2015/01/26/41s5603.htm>; <http://www.china-ceec.org/151/2015/01/27/41s5626.htm>; [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1318039.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1318039.shtml)

<sup>71</sup> Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania, Romania, Bulgaria, *Serbia, Montenegro, Croatia, Macedonia, Bosnia and Herzegovina* and *Albania* (non-EU members in *italics*).

<sup>72</sup> An full list is available at: 'The Suzhou guidelines for cooperation between China and Central and Eastern European Countries', 24 November 2015, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1318039.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1318039.shtml)

<sup>73</sup> Wade Jacoby, 'Chinese investment in the Balkans', *CritCom*, 14 December, 2015, <http://councilforeuropeanstudies.org/critcom/chinese-investment-in-the-balkans/>

<sup>74</sup> Kong Tianping, 'The 16+1 framework and economic relations Between China and the Central and Eastern European Countries', *CritCom*, 14 December 2015, <http://councilforeuropeanstudies.org/critcom/161-framework-and-economic-relations-between-china-and-ceec/>

lack of enthusiasm or capacity in many CEE states.<sup>75</sup> Most of China's CEE infrastructure projects are actually bilateral: the most significant regional project is the ambitious, but still highly uncertain, Belgrade-Budapest High-Speed Railway.<sup>76</sup>

'Over the past three years', Premier Li Keqiang claimed in November 2015, '16+1 cooperation, just like a high-speed train, has set out on its journey and gained speed all the way from Warsaw to Bucharest, and from Belgrade to Suzhou'.<sup>77</sup> In fact, the CEEC train has moved far slower than Beijing hoped. The 2015 Suzhou Summit's slogan of 'a *new* beginning, *new* domains and a *new* vision', only three years after its inception, highlights the considerable obstacles facing China's CEEC initiative.

Yet western European experts describe Beijing's initiative as 'disconcerting' and 'alarming'.<sup>78</sup> Jonathan Holslag warns that the 16+1 initiative 'confirms how weak the EU is at the moment' and signals that 'the EU as a collective is losing credibility'.<sup>79</sup> '16+1 is a direct attack on European sovereignty', one German diplomat insisted. 'Beijing has a 'One China' policy: we should have a 'One EU' policy, and insist that China respect this'.<sup>80</sup>

In fact, the 11 EU member states do not require Brussels' approval to seek outside investment, and as the EU's poorest members, have a far greater need for infrastructure funding.<sup>81</sup> Banding together in this configuration enhances their attractiveness to Chinese investors. Countries such as Hungary, Poland and the Czech Republic—among the EU's poorest and least powerful members—emerge as the wealthiest, most stable, and influential countries within the CEEC. Indeed, these three are the largest recipients of Chinese investment among the 16.<sup>82</sup>

Much of Europe's anxiety assumes that the initiative will erode the EU's influence and European values. EC officials are particularly concerned that CEE recipients of Chinese-funded projects might favour Chinese firms, thus contravening EU public procurement rules. DG Competition, which can fine EU members and issue critical reports on EU candidates, reportedly is investigating CEEC-related procurements. Yet even within EU rules, as one EC official admitted ruefully, 'tenders can be written quite creatively'.<sup>83</sup>

China's CEEC initiative is unlikely to erode the EU's influence or attractiveness in the region. China is drawn to the region largely due to the CEE countries' access to the EU's internal market. From 2003 to 2015, the bulk of China's large FDI projects in the Balkan region went to three EU member states: Romania, Bulgaria, and Greece.<sup>84</sup> The largest non-EU recipient of Chinese FDI among

---

<sup>75</sup> Jakub Jakóbowksi, 'China's foreign direct investments within the '16+1' cooperation formula: strategy, institutions, results', OSW, 12 March 2015, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2015-12-03/chinas-foreign-direct-investments-within-161-cooperation>

<sup>76</sup> Dragan Pavličević, 'Chinese infrastructure investments in Serbia: between politics and profit', CritCom, 14 December 2015, <http://councilforeuropeanstudies.org/critcom/chinese-infrastructure-investments-in-serbia-between-politics-and-profit/>

<sup>77</sup> Jiang Shixue, 'A 16+1 think tank network for better China-CEECs relations', CritCom, 14 December 2015, [http://www.china.org.cn/opinion/2015-12/11/content\\_37291453.htm](http://www.china.org.cn/opinion/2015-12/11/content_37291453.htm)

<sup>78</sup> Graham Hollinshead, 'Deconstructing the Sino-Serbian "bridge of friendship"', CritCom, 14 December 2015, <http://councilforeuropeanstudies.org/critcom/deconstructing-the-sino-serbian-bridge-of-friendship-discerning-dominant-chinese-logics-and-geopolitical-implications/>

<sup>79</sup> Kit Gillet, 'China cosyng up to Eastern Europe', Al Jazeera, 26 November 2013, <http://www.aljazeera.com/indepth/features/2013/11/china-cozing-up-eastern-europe-2013112513118391613.html>

<sup>80</sup> Interview with German diplomat, Brussels, 4 February 2016.

<sup>81</sup> For a positive assessment, see: Marta Golonka, 'Partners or rivals: China's investment in Central and Eastern Europe,' Central and Eastern Europe Development Institute (Warsaw) (2012).

<sup>82</sup> Jakóbowksi, 'China's.'

<sup>83</sup> Interview with EC official, Brussels, 5 February 2016.

<sup>84</sup> Jacoby, 'Chinese investment'.

the 16 CEE members, Serbia, is attractive to China primarily because of its free trade agreements with the EU and status as a EU candidate country.<sup>85</sup> EC officials also worry that non-EU members such as Serbia may take on unsustainable levels of Chinese debt that the EU is forced to absorb in the future. Yet Serbian officials are already resisting Chinese efforts to include state guarantees in their loan conditions due to Belgrade's concerns with financial risks.<sup>86</sup>

Unlike Britain or Greece, none of the CEEC's eleven EU members have threatened to leave the EU. They benefit disproportionately from the EU's net financial transfers, currency stability, and their privileged access to capital, labour, and commodity markets. Instead, they have parlayed their EU status to attract Chinese attention, which in turn has stimulated new EU infrastructure funding linking CEE countries to Western Europe.<sup>87</sup>

Suspicion that China intentionally selected a mixed EU/non-EU grouping to undermine or pressure the EU also misunderstands China's motivations. As Chinese experts explain, all 16 are former socialist states, many of which reacted to the end of Soviet influence by becoming virulently anti-Communist, criticizing China's policies on Taiwan, Tibet, and human rights.<sup>88</sup> By 2012, Chinese leaders saw an opportunity to act in Eastern Europe as they did in Asia and elsewhere: establishing a new sub-regional grouping where China would play a catalytic role by providing new investment for regional infrastructure, yielding diplomatic, economic, and strategic benefits for Beijing.

Yet just as in Asia and Africa, Chinese leaders underestimated the anxiety their initiative would spark in Brussels. In his April 2012 Warsaw speech, Premier Wen Jiaobao's four-point proposal failed to even mention the EU, instead encouraging CEE countries to 'inject new vitality for the development of China-Europe relations'.<sup>89</sup> EU leaders quickly signalled their strong concerns to Beijing and CEE members.<sup>90</sup> In response, the 2014 Belgrade Guidelines promised that all China-CEEC initiatives would parallel the EU-China 2020 Strategic Agenda and pledged that all 11 EU members would act 'in accordance with...EU legislation, regulations and policies'.<sup>91</sup> The subsequent Suzhou Guidelines further 'welcomed and supported' recent EU-China agreements and welcomed EU officials as observers.<sup>92</sup>

In sum, like their western counterparts, Central and Eastern European states utilized the EU's divided sovereignty structure in creative fashion, advancing their national interests with limited negative impact upon fellow EU members or the EU itself. While outside observers denounced China's perfidy and bemoaned European divisions, EU officials rose to the challenge.

---

<sup>85</sup> Jakóbowski, 'China's foreign'.

<sup>86</sup> Pavličević, 'Chinese infrastructure'.

<sup>87</sup> For example, the new 'Connecting Europe Facility.' European Commission, '217 million euros to be invested in key trans-European energy infrastructure projects', 19 January 2016, <https://ec.europa.eu/energy/en/news/energy-eu-invests-217-million-euros-energy-infrastructure>

<sup>88</sup> Long Jing, 'Relations between China and CEE countries: development, challenges and recommendations', 21 November 2014, [http://www.ciis.org.cn/english/2014-11/21/content\\_7388215.htm](http://www.ciis.org.cn/english/2014-11/21/content_7388215.htm)

<sup>89</sup> China-CEEC Secretariat, 'Wen outlines proposals on building closer China-Central and Eastern Europe ties' 26 April 2012, <http://www.china-ceec.org/151/2013/11/02/41s392.htm>

<sup>90</sup> Stefanie Bolzen and Johnny Erling, 'Divide, conquer, aim east: China has a sharp new European trade strategy,' *Die Welt*, 11 November 2012, [http://www.worldcrunch.com/world-affairs/divide-conquer-aim-east-china-has-a-%20sharp-new-european-trade-strategy/eastern-europe-beijing-foreign-commerce/c1s10100/#.Uqx7B\\_TuJhw](http://www.worldcrunch.com/world-affairs/divide-conquer-aim-east-china-has-a-%20sharp-new-european-trade-strategy/eastern-europe-beijing-foreign-commerce/c1s10100/#.Uqx7B_TuJhw)

<sup>91</sup> 'The Belgrade guidelines for cooperation between China and Central and Eastern European Countries', 27 January 2015, <http://www.china-ceec.org/151/2015/01/27/41s5626.htm>;

<sup>92</sup> 'The Suzhou guidelines for cooperation between China and Central and Eastern European Countries', 24 November 2015, [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1318039.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1318039.shtml)

### ***Building Cooperation***

Stimulated perhaps by their perceived failure to develop a coherent EU-level response to China's CEEC and AIIB initiatives, EU officials responded to China's One Belt, One Road (OBOR) initiative in proactive fashion, establishing in June 2015 a 'EU-China Connectivity Platform' designed to 'capture the synergies' between OBOR and the EU's Investment Plan for Europe.<sup>93</sup> By March 2016, a working group bringing experts from China's Silk Road Fund and National Development and Reform Commission together with EC and EIB officials had already met three times.<sup>94</sup> According to a participating EC official, China sent 'extremely high quality people—professional and experienced. It shows that Beijing is taking this very seriously'.<sup>95</sup>

In mid-April 2016, EC and Chinese officials announced that China would soon begin its pledged contribution of between €5 and €10 billion to the European Fund for Strategic Investments: the first non-EU state to announce its participation (the largest national contributor has been the UK, with €8.5 billion).<sup>96</sup> The EFSI agreement is just one of the EU's recent economic accords with China.<sup>97</sup> In September 2015 the EC and China signed a 'milestone' agreement on fifth-generation telecommunications.<sup>98</sup> The European Central Bank (ECB) also secured China's largest currency swap agreement outside of Asia.<sup>99</sup>

Meanwhile, fears that that competition among member states to attract Chinese investment would spark a destructive 'race to the bottom' have not materialized. 'The challenges posed by [Chinese] inflows are widely overblown', argues Françoise Nicolas.<sup>100</sup> Sophie Meunier agrees. 'The dreaded impact on European labor has not happened'. Instead of dismantling firms, 'Chinese acquisitions have often been accompanied by investment in equipment and facilities by the Chinese parent company to modernize the existing European company'.<sup>101</sup> 'The Chinese appear to be investing for a longer term', an Italian economic official told me. 'Despite our concerns, things have gone pretty well'. Member state competition has sparked innovative efforts to attract Chinese investment, such as the joint investment vehicles created by Italy, France, and Belgium for Chinese investors.<sup>102</sup> As a result, Europe has emerged as the second-largest recipient of China's overseas investment.<sup>103</sup>

---

<sup>93</sup> 'EU-China Summit joint statement', 29 June 2015, [http://europa.eu/rapid/press-release\\_IP-15-5279\\_en.htm](http://europa.eu/rapid/press-release_IP-15-5279_en.htm).

<sup>94</sup> Yang Yanyi, 'One belt one road: a community of common interest', address to the European Parliament, 16 February 2016, <http://www.chinamission.be/eng/mh/t1341339.htm>

<sup>95</sup> Interview with EC official, Brussels, 2 February 2016.

<sup>96</sup> Eric Maurice, 'China to join Juncker's investment scheme', *EU Observer*, 28 September 2015, <https://euobserver.com/eu-china/130453>

<sup>97</sup> European Strategic Partnerships Observatory, 'EU-China', <http://strategicpartnerships.eu/pays/eu-china/>

<sup>98</sup> 'Industries to benefit from China-EU 5G agreement', *Xinhua*, 9 October 2015, <http://www.chinaeu.eu/interview-industries-to-benefit-from-china-eu-5g-agreement/>

<sup>99</sup> ECB, 'ECB and the People's Bank of China successfully test bilateral currency swap arrangement', 26 November 2015, <https://www.ecb.europa.eu/press/pr/date/2015/html/pr151126.en.html>

<sup>100</sup> Françoise Nicolas, 'China's direct investment in the European Union: challenges and policy responses', *China Economic Journal*, 7:1, 2014, p. 103.

<sup>101</sup> Sophie Meunier, 'A Faustian bargain or just a good bargain? Chinese foreign direct investment and politics in Europe', *Asia-Europe Journal* 12:1, 2014, pp. 149; 150.

<sup>102</sup> ESDADE, 'Chinese Investment in Europe 2015-16', n.d., <http://itemsweb.esade.edu/research/esadegeo/ENGChineseInvestmentInEurope201516.pdf>

<sup>103</sup> Carlos Casanova, et al. 'Chinese outbound foreign direct investment: How much goes where after roundtripping and offshoring?' *Le Xia Working Paper15/17*, Hong Kong, June 2015. For a claim that Europe is the world's largest recipient, see: ESDADE, 'Chinese Investment in Europe'.

## **Downsides of Division?**

Europeans' most ubiquitous concern is that a lack of unity undermines the EU's capacity to pressure China—particularly in expanding market access. According to the OECD, China has the world's most restrictive regime on inward foreign investment.<sup>104</sup> The European Chamber of Commerce has denounced China's 'reform and closing up'.<sup>105</sup> Public procurement is of particular concern. Beijing has made five bids to enter the WTO's General Procurement Agreement, but none have been accepted by the EU or the US.<sup>106</sup> Frustrated by its inability to pry open Chinese markets, in June 2016, the EC's new China Strategy declared: 'The fundamental principle of the EU's relationship with China is that it should be based on reciprocal benefit in both political and economic terms'.<sup>107</sup> Yet if Beijing fails to offer satisfactory concessions, as is likely, Europe may end up eroding its longstanding openness toward foreign investment for scant benefit.

The obstacles are partly structural: Europe's divided sovereignty renders it better at resisting demands for concessions than at compelling change through negotiations.<sup>108</sup> However, the US, a far more coherent bargaining partner, has also been unsuccessful in many of its market access demands in China. Modest increases in EU cohesion are unlikely to prove decisive, particularly given the high political and economic stakes within China today. Instead, this is likely to be an ongoing negotiating point of some difficulty—for Brussels as it is for Washington.

A second fear is that internal divisions render European's vulnerable to Beijing's 'divide and conquer' strategy.<sup>109</sup> Yet Meunier finds 'no evidence of a master plan to turn EU countries one against the other'.<sup>110</sup> While careful to avoid appearing to intervene in Europeans' domestic affairs, Chinese leaders encouraged both Greece and the UK to remain inside the EU. Furthermore, Beijing has hardly neglected Brussels: since 2009 China's two top leaders have spent more time in Brussels than US President Barack Obama.<sup>111</sup> Following China's timely investments and currency purchases amidst the Euro crisis, George Soros declared: 'China saved the Euro'.<sup>112</sup> The EU is China's largest customer and hosts a growing share of Chinese investments: Beijing's interests are for 'a prosperous EU, a united Europe and a strong Europe'.<sup>113</sup>

Others worry that Europeans cannot stand up to Beijing unless they stand together. Yet recent scholarship shows that China's economic statecraft has failed to influence key European policy decisions.<sup>114</sup> National leaders remain willing to reject Chinese investments as strategically or politically inappropriate, evident in Prime Minister Theresa May's delay on the Hinkley nuclear

---

<sup>104</sup> OECD, 'FDI regulatory restrictiveness index, <http://www.oecd.org/investment/fdiindex.htm>

<sup>105</sup> European Chamber of Commerce in China, 'European business in China position paper 2015,' 8 September 2015, [http://www.eurochamber.com.cn/en/publications-archive/360/Executive\\_Position\\_Paper\\_2015\\_2016\\_](http://www.eurochamber.com.cn/en/publications-archive/360/Executive_Position_Paper_2015_2016_)

<sup>106</sup> Bickenbach, et al. 'The EU-China'.

<sup>107</sup> European Commission, 'Elements for a new EU strategy'.

<sup>108</sup> Meunier, 'What single voice?'

<sup>109</sup> Maher, 'The elusive', p. 976

<sup>110</sup> Meunier, 'A Faustian bargain'.

<sup>111</sup> From 2009 to 2015, Obama's ratio of days visiting the 'Big Three' versus days in Brussels (30:4) is similar to China's top two leaders (34:6). Sources: <https://history.state.gov/departments/history/travels/president/obama-barack>; and 'China's economic statecraft'.

<sup>112</sup> Gregory White, 'Soros: China saved the Euro', 16 September 2015, *Business Insider*, <http://www.businessinsider.com/soros-china-saved-the-euro-2010-9>. For a nuanced assessment, see: Miguel Otero-Iglesias, 'The Euro for China: too big to fail and too difficult to rescue', *The Pacific Review* 27:5, 2014, pp. 703-728.

<sup>113</sup> Premier Li Keqiang in June 2015, cited in: Maaike Okano-Heijmans and Daniel Lanting, 'Europe's response to China's activism: balancing hope and fear in the new age of global economic governance', Clingendael Report, October 2015.

<sup>114</sup> Name James Reilly, 'China's economic statecraft in Europe', *Asia-Europe Journal* 15:2, 2017, pp. 173-185.

project.<sup>115</sup> European determination is even stronger on trade. The EU is the WTO's third most frequent user of trade defence instruments: 56 of its 73 anti-dumping measures apply to China.<sup>116</sup> In response to domestic pressures, EU officials have imposed stiff anti-dumping tariffs on Chinese steel imports.<sup>117</sup> Protectionist forces are surging across Europe, evident in the Parliament's May 2016 resolution opposing MES for China.<sup>118</sup> Europeans have hardly dropped their guard in the face of China's economic challenge.

## Conclusions

European leaders at the national and EU levels have utilized the EU's divided sovereignty structure in strategic fashion, resisting Chinese demands for policy concessions through two-level games and deflection strategies, while maneuvering between the two levels to forge new modes of cooperation and attract investment from China. Member states' reluctance to delegate authority to Brussels may undermine the EU's reputation as a credible negotiating partner, while competition for Chinese markets and investment can erode trust. Europeans have not achieved all their ambitions in China, particularly in market access. Yet given the EU's structural limitations and entrenched economic differences across member states, exacerbated by severe economic and political challenges, Europe's China policy should be seen as reasonably successful.

Since its 2003 'Communication on China', the EC has struggled to "Europeanize" relations with China 'so that the EU speaks with a single voice on all key issues of China policy'.<sup>119</sup> This initiative has successfully focused Beijing's attention upon Brussels, bolstered EU-China cooperation, encouraged member states' 'habits of cooperation', and emboldened the EU to resist Chinese pressure. Yet retaining a myopic 'single voice' approach risks missing the opportunity to leverage Europe's diversity. Member states' 'mini-lateral' initiatives can yield valuable benefits at limited cost, as the CEEC and AIIB cases demonstrate.<sup>120</sup> Europeans should reconsider the benefits of a more flexible approach, envisioned in their 1985 Trade and Cooperation Agreement with China, which declared member states 'entirely free to engage in bilateral activities in the field of economic cooperation and to conclude new economic cooperation agreements with China where appropriate'.<sup>121</sup> National efforts to attract Chinese investment, for instance, should be encouraged to develop in parallel with EU initiatives such as the Connectivity Platform.

---

<sup>115</sup> Steven Swinford and Emily Gosden, 'Theresa May delays Hinkley nuclear decision amid concerns over Chinese involvement', *The Telegraph*, 29 July 2016,

<http://www.telegraph.co.uk/business/2016/07/29/theresa-may-delays-hinkley-nuclear-decision-amid-concerns-over-c/>

<sup>116</sup> European Parliament, 'Resolution of 12 May 2016 on China's market economy status', 2016/2667(RSP), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0223+0+DOC+XML+V0//EN&language=EN>

<sup>117</sup> Valentina Pop and Eva Dou, 'EU imposes fresh anti-dumping tariffs on Chinese steel', *Wall Street Journal*, 30 July 2016, <http://www.wsj.com/articles/eu-imposes-fresh-anti-dumping-tariffs-on-chinese-steel-1469802897>

<sup>118</sup> European Parliament, 'Resolution'.

<sup>119</sup> European Commission, 'A maturing partnership - shared interests and challenges in EU-China relations,' Brussels, COM (2003) 533, p. 7, [http://trade.ec.europa.eu/doclib/docs/2005/september/tradoc\\_124565.pdf](http://trade.ec.europa.eu/doclib/docs/2005/september/tradoc_124565.pdf); Michael Smith, 'EU Diplomacy and the EU-China strategic relationship: framing, negotiation and management', *Cambridge Review of International Affairs* 29:1, 2016, pp. 78-98.

<sup>120</sup> On 'mini-lateralism', see: Rosa Balfour and Kristi Raik, *Equipping the European Union for the 21<sup>st</sup> century. National diplomacies, the European External Action Service, and the making of EU foreign policy* (Helsinki: Finnish Institute of International Affairs, 2013).

<sup>121</sup> *EEC-China Trade and Cooperation Agreement*, 16 September 1985, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar14206>.

Meanwhile, the EU should bolster its own role as an 'instrument of national power' that 'preserves or strengthens rather than undermines national executive capacity'.<sup>122</sup> The EU gains recognition and support from member states and third parties by demonstrating its practical value within joint projects.<sup>123</sup> The AIIB case is a perfect example. Going forward, as Hanemann and Huotari note, 'the projected growth of Chinese OFDI in coming years will likely overwhelm the capacity of smaller EU economies to properly review relevant investments'.<sup>124</sup> Instead of insisting upon a unified approach across Europe, the EU's monitoring capacity can usefully augment national measures.

'Today,' Rosa Balfour explains, 'the single voice debate is a thing of the past. The challenge is to make the pieces of the foreign policy machinery work together to be more than the sum of its parts'.<sup>125</sup> Proposed solutions tend to fall into two extreme camps: either the EU must centralise power in Brussels or else it must grant power back to national governments. This article joins instead an emerging third stream: advocates seeking to capitalise upon Europe's diversity in strategic and pragmatic fashion.<sup>126</sup> Leveraging Europe's ingrained 'logic of diversity' offers a promising pathway forward.<sup>127</sup>

---

<sup>122</sup> Rosa Balfour and Kristi Raik, 'The European External Action Service and national diplomacies', EPC Issue Paper 73, March 2013, p. 3.

<sup>123</sup> Thomas Gehring, et al. 'European Union actorness in international institutions: why the EU is recognized as an actor in some international institutions, but not in others', *Journal of Common Market Studies* 51:5, 2013, pp. 849–65.

<sup>124</sup> Thilo Hanemann and Mikko Huotari, 'Chinese FDI in Europe and Germany: preparing for a new era of Chinese capital, MERICS Report, June 2015, p. 42, [http://thg.com/wp-content/uploads/2015/06/ChineseFDI\\_Europe\\_Full.pdf](http://thg.com/wp-content/uploads/2015/06/ChineseFDI_Europe_Full.pdf)

<sup>125</sup> Rosa Balfour, 'Patchwork foreign policy needs more than a few new stitches', German Marshall Fund Policy Brief, 14 July 2015, <http://www.gmfus.org/publications/europes-patchwork-foreign-policy>

<sup>126</sup> Richard Sakwa, 'The death of Europe? continental fates after Ukraine', *International Affairs* 91:3, 2015, pp. 553-579; Jan Zielonka, *Is the EU doomed?* (Cambridge: Polity, 2014).

<sup>127</sup> Stanley Hoffmann, 'Obstinate or obsolete? The fate of the nation-state and the case of Western Europe', *Daedalus* 95:3, 1966, pp. 862-915.

**Author contacts:**

**James Reilly**

Department of Government and International Relations

Merewether Building (H04)

The University of Sydney, NSW 2006

Australia

Former Jean Monnet fellow at the RSCAS, EUI (2015-2016)

Email: [james.reilly@sydney.edu.au](mailto:james.reilly@sydney.edu.au)