ESADE
Ramon Llull University
ESADEgeo-CENTER
FOR GLOBAL ECONOMY
AND GEOPOLITICS

EU-Asia summits:

China grows and its self-confidence grows with it, while the EU stands divided

ESADEgeo Position Paper 5

November 2010

Jaume Giné Daví
Lecturer at ESADE Law School

ABSTRACT

- **Although it is actually the world's leading economy, the EU is still divided and almost absent to Asian eyes.**
- **Chinese underdevelopment is at odds with the fact that China enjoys the largest foreign exchange reserve in the world.**
- **China trusts that by satisfying the financial needs of several EU member states it will win allies and so resist pressure from Brussels to revalue the yuan and to respect human rights.**
- **The 13th EU-China Summit did not reach specific agreements. Brussels failed to put across a coherent message to Beijing. China knows it, and is acting accordingly.**

UE-Asia summits: China grows and its self-confidence grows with it, while the EU stands divided

The 8th ASEM (Asia-Europe Meeting) Summit and the 13th EU-China Summit were held in Brussels on 4 to 6 October 2010. They took place in a complex political and economic context marked by the unstoppable rise of China, the financial crisis afflicting some EU member states, and the "currency war" affecting the value of the dollar and the euro against the yuan and the currencies of other emerging countries.

Having overtaken Japan, China is now the world's second economy. Only the US remains ahead of it. According to the World Bank, after these three come four European countries: Germany (4th), France (5th), UK (6th) and Italy (7th). If we combine the GDPs of these four with those of Spain (12th) and the rest of

the Community countries, the EU is in fact the world's leading economy. However, while China grows the EU is not always a union. It continues to be very divided and almost absent to the eyes of the world, especially those of Asia. If we take a look at a map of Eurasia, the yellow patch of the Chinese colossus dominates, whereas the EU appears indistinct amid a mosaic of colours and a maze of political barriers. It could be much more than a huge market with a single currency if it acted with a common strategy and spoke to China and other emerging powers with a single voice in the spheres of foreign policy and security. There are clearly new institutional capabilities after the approval of the Lisbon Treaty. But the EU must improve coherence and coordination between its members if it is to have more influence in international relations.

a) On 4 and 5 October, the **8th ASEM Summit** was attended by the 27 EU member states and 16 Asian countries, in addition to representatives of the Community institutions and ASEAN. Three new members – Russia, Australia and New Zealand – took part for the first time. It brought together 46 states representing 58% of the world's population, 50% of its GDP and 60% of its trade. The Asian members of ASEM account for 25% of total EU trade. In 2009, China, Japan, South Korea and India represented 12.9%, 4%, 2.3% and 2.3% of EU foreign trade. At the same time several forums were held with the participation of delegations of parliamentarians, employers and other representatives of civil society in the countries involved. The Asia-Europe Foundation (ASEF) also met and organised the conference "Connecting Civil Societies".

ASEM offered Europeans and Asians an excellent opportunity to contrast their positions on economic and monetary issues on the eve of the G20 summit (Seoul, 11 and 12 November) and only a few weeks before the next Climate Change Conference in Cancun. The Summit passed a declaration entitled "Towards more effective global economic governance". It supported a reform of IMF quotas to provide a fair reflection of the importance and responsibilities of the emerging powers in the world economy, a topic also addressed in the G20

summit held in Seoul on 11 and 12 November. The EU was in favour of giving up two of the nine places it occupies in the IMF.

b) Greater interest was aroused by the **13th EU-China Summit** held on 6 October. The EU is China's main trading partner, and China is, after the US, the EU's second largest trading partner. In the first half of 2010, China accounted for 8.5% of total EU exports and 17.8% of its imports. According to Eurostat, the value of foreign trade in goods tripled from 2000 to 2009. Exports to China increased from €26,000 million to €82,000 million. Imports likewise rose from €75,000 million in 2000 to €248,000 million in 2008, although they fell to €215,000 million in 2009 due to the global crisis. Germany is the top exporter to China (47%), followed by France (10%) and Italy (8%). Germany is also the top importer from China (23%), followed by the Netherlands (17%, due to the "Rotterdam effect"), UK (13%) and Italy (10%). Yet the EU's trade deficit with China continues to be unstoppable and affects all member states except Ireland and Finland. The largest balance gaps affect the Netherlands, UK, Italy, Spain and France. However, in 2009 the EU enjoyed a trade surplus in services. The EU is also a major net investor in China.

The Europeans accuse China of undervaluing the exchange rate of the yuan in order to maintain, and if possible increase, its exports to the EU. This situation is damaging to the competitiveness of European companies, feeds the Community and internal trade deficit, and hinders economic recovery and job creation in the EU. Other conflicts come into play, including the insufficient protection of intellectual and industrial property rights in China. Furthermore, Beijing is tightening up the conditions for European companies operating in China. German firms complain of the aggressiveness of Chinese state-owned enterprises that, with government financial support, engage in dumping practices in order to win markets and public contracts. They also criticise that access to the Chinese internal market is made conditional to transfer of technology or know-how by the investors. In addition, the EU has to compete with China to acquire so-called "rare materials". Beijing already bared its teeth on this delicate issue in Tokyo in September.

In Brussels China turned a deaf ear to European calls for the yuan to be gradually revalued in order to correct the current monetary tensions. Beijing announced in June, before the Toronto G20 summit, that it would let the yuan appreciate. But since then it has only risen 2% against the dollar and has even fallen 9% against the euro.

Wen Jiabao is using the traditional Chinese strategy of complaining more than one's opponent. He argues that China is still a developing country and needs cooperation from outside to continue growing economically, even if it is at the cost of others. He insists that China has a low per-capita income and has to create more jobs. Wen Jiabao warned, in his speech at the Europe-China Business Forum, that a rapid appreciation of the yuan would cause an avalanche of closures of Chinese exporting firms resulting in the loss of millions of jobs and ultimately serious social instability in his country. He went on to conclude that if China were to suffer economic and social conflicts it would spell disaster for world trade.

But Chinese underdevelopment is at odds with the fact that China enjoys the largest foreign exchange reserve in the world. Wen Jiabao also visited Greece, Italy, Germany and Turkey, delivering the message that Beijing would make great efforts to support the stability of the euro by providing generous financial aid to euro-zone countries affected by the financial crisis. Since January 2010, Beijing has bought debt from Spain, Portugal, Ireland and Greece. It feels a pressing need to diversify its portfolio of foreign bonds, which is highly concentrated in the US. In this European tour, China undertook to continue buying treasury bonds and invest in infrastructure or logistics projects. But we would do well to remember that these loans will have to be repaid. And the more they buy, the less room for political manoeuvring the European debtor countries will have with the Chinese creditor. Furthermore, the Chinese investments will facilitate the landing of its companies and products in the European internal market. Greece and Italy got a nice slice of the Chinese pie. They could become China's port of entry into Europe. Spain too aspires to this.

The strategy of the Chinese in the EU is clear: “divide and rule”. They undertake commitments not in Brussels but in Athens or Rome. They could help the euro directly by revaluing the yuan, but they prefer to finance the euro-zone member countries. China trusts that by satisfying the urgent financial needs of several EU member states it will win allies and so resist pressure from Brussels to revalue the yuan.

In the absence of a single, steady European voice, Beijing deals separately with Berlin, Paris, London or Madrid. Nicolas Sarkozy normalised his relations with China during his visit to Beijing in April and strengthened them when President Hu Jintao travelled to Paris from 4 to 6 November. He sought support from China for his ambitious proposals to reform the international monetary system. He wants to ensure success for Paris in the upcoming G20 summit to be held in France in 2011. Angela Merkel also visited Beijing in July to lend support to German firms operating in the complex Chinese market. Germany is China’s main trade partner in the EU, with transactions amounting to €20,700 million in 2009 and a trade surplus that was clearly in China’s favour. In addition, like the Russians and Arabs, Chinese investors are moving in on the London property market. And Madrid boasts excellent “political” relations, although trade relations are as yet low-key, and trusts that Beijing will continue to buy Spanish public debt.

c) The results of the 13th EU-China Summit in Brussels were bittersweet. Rather than a rapprochement, a wide gap was found to still separate the EU and China. But there are also differences among the 27 members of the EU when it comes to facing the Chinese challenge. Each continues to give national interests priority over Community ones.

The Final Communiqué expressed the joint commitment to open a new phase in EU-China relations. But it made no mention of any specific agreement on key issues such as the desirability of revaluing the yuan, which causes the current trade imbalances. Nor did it make any reference to the matter of human rights in China. Herman Van Rompuy and José Manuel Barroso reported that they discussed this thorny subject openly with Wen Jiabao, insisting that China ratify

the UN International Covenant on Civil and Political Rights adopted in 1966. Beijing only ratified the International Covenant on Economic, Social and Cultural Rights. The human rights agenda irritates China, as was made very clear from its angry reaction to the awarding of the Nobel Peace Prize to the Chinese dissident Liu Xiaobo on 8 October.

The root of the problem is the member states' unwillingness to adopt common positions on foreign policy. China knows it, and is acting accordingly. In the wake of Wen Jiabao's European tour in October, the Chinese president, Hu Jintao, visited Portugal and France from 4 to 6 November. He was received with a big red carpet. While the EU stands divided, China grows and its self-confidence before the EU grows with it.

For further information about ESADEgeo's Position Papers, please feel free to contact:

Irene García García
Jr. Research Fellow
ESADE Center for Global Economy and Geopolitics
Av. Pedralbes 60-62, 08034 Barcelona, Spain
irene.garcia2@esade.edu
93 280.61.62 Ext. 3917