

The EU – US – China Triangle Panel Discussion

The EU – US – China Triangle Panel Discussion

Angelos Pangratis, Deputy Head of the Delegation of the European Commission in the United States

The Institute for Human Sciences at Boston University, School of Management, Boston University

Tuesday, April 4, 2006

General introduction

First I would like to point out just a few facts on the relative importance of the EU – US economic relationship compared with the US – China relationship. I think it is important as a starting point to our discussion to stress, that despite the media excitement about the rise of China, the US and the EU remain by far the most important economic partners. In fact the EU – US trade is actually about double of US – China Trade. Roughly, we are talking about less than \$500 billion compared to a little more than \$250 billion.

On trading services the EU – US relation is worth more than €250 billion per year. In fact, this amount is much bigger than the whole external trade of services of China with the whole world.

In terms, of foreign investment the comparison is even more telling: in 2004 for example the US invested in France alone around \$7 billion. This is almost the double of what the US invested in China the same year. Europe accounts for about 75 percent of total foreign investment in the US China's part is not significant.

The Transatlantic, economy employs 14 millions workers on both sides of the Atlantic: around 7 million on each side.

So that is the first point that we should not forget.

China's many challenges

When we talk about China we immediately think about challenges. Let's think quickly about some key challenges China faces and also challenges China represents for the US and the EU.

First big issue in terms of China's internal policies: the contradictions between an economy that is getting freer and a political system which is not necessarily following the same path.

A lot of expectations were raised for a new wave of political reforms when Hu Jintao came in power. However overall, we did not observe real improvement of fundamental political rights and free speech. We saw examples of crackdown on liberties, cases of crackdown on the Internet freedom and particularly on NGOs. We see a general tendency of centralisation of State and party power and it remains to be seen what role the 2008 Olympics will play in this respect.

On the positive side we see a focus on rural poverty, government austerity and anti-corruption. Moreover, we notice a strong concentration of China's official policy around the "peaceful rise" and the "peaceful development" concepts which often appear as the opposite concepts of the "threat" dimensions which are very often projected from many quarters in the western world.

From the international policy and politics point of view it is obvious that the economic rise of China is accompanied by what we can call a "geopolitical rise", a rise of the global influence of China. This is not happening without some difficulties as we can observe particularly on a regional basis. We witness in North-East Asia what are probably the biggest changes in the modern world in terms of regional geopolitical balance but, also clear increase of China's influence in other parts of Asia including in relation with South Asia.

On a global scale China develops an overall careful and cautious international policy. There is, however, a very clear and more visible projection of its power and influence around the basic needs that it has in ensuring energy supplies. The necessity to access adequate energy supplies leads China to active initiatives including with some difficult partners in Central Asia, Iran, Africa, Russia or Latin America. These relationships sometimes complicate China's partnership with both the EU and the US.

It is very important to realise, that the worst case scenario that the West is facing in its overall relation with China, from the economic point of view, do not result from scenarios of growth and success of the country. In fact, the major risks are related to scenarios of failure and economic and social instability. I think it is important to realise where the worst scenarios lie. The risks of failure and instability have not completely disappeared. China is doing extraordinary progress on the positive side (growth, fight against poverty, etc.), but it still has very significant structural disequilibriums. I will just mention very quickly a few:

Growing inequality of income distribution: China, before the reforms, was among the most equal income distribution countries in the world, now it is among the countries at the other end of that list.

High regional disparities: down-town Shanghai is part of the worlds' financial best but in some rural areas of the country the average salaries still are of one dollar per day.

Rise in environmental concerns such as air and water pollution, soil erosion, deforestation and especially in the North decline in potable water.

The concentrated political system makes it very difficult to deal with corruption and transparency.

A still fragile banking sector constitutes a particularly worrying element because it fails to recuperate despite the economy growing so spectacularly.

I think it is also important to realise that there is some difference up to now in the way we react to the rise of China from the trade policy point of view. Both the EU and the US see flames of protectionism growing internally in parallel with the increase of China's trading power. We both react with some anti-dumping and other market protection measures on specific products. However, it seems to me that from the EU point of view, we believe relatively less in sectoral protections and more in coordinated global macro-economic adjustments. We demand China to modernize its inefficient financial system, to tackle the reasons that force its people to maintain high levels of savings and liberalize progressively the capital and exchange markets.

It is also important to address even very briefly a last key question: what are the chances for China to become a technology giant? In this field we believe that China's achievements are generally overestimated. China still remains extremely dependent upon the multinational companies and foreign technology.

European Union – China relations: what advancement?

The EU - China relation has been developing very rapidly. It is due in grand part to the growing trade relationship but it is also due to the fact that the EU was able to adopt a coherent and constructive policy towards China. If one looks at the external relations of the EU, he will see that the "China policy" is a very special animal. In fact, it is a case where the EU has achieved a very high degree of coherence of action at the level of the EU and between EU policies and Member States actions. There are hardly any significant differences among Member States policies toward China. China itself has traditionally good relations with the EU. The Union is seen as one of China's foreign policy priorities. There are several reasons for that, mainly related to the multipolar vision of the world that the Chinese leadership seems to have and the usually quiet and discreet but deeply rooted and persistent aim of creating more policy space towards the United States.

Where do we stand today on the EU – China relationship? We clearly have a policy of engagement; there is no doubt that there is only one way to deal with the "rise of China": we need to engage and build on the good relations. The last five years were very important from this point of view. The relations have grown more complex. What we have done to address this challenge can be seen in the successive strategies that we have developed concerning our relation with China. In 2004, we brought China in Galileo, a satellite navigation system that

Europe is preparing. A huge issue which includes very difficult dimensions of technology control, technology transfer and security implications. We have reached a very important agreement of bringing China into Galileo, not to the extent it wanted but still as a very important partner. In 2004 we also signed what we call the Authorized Destination Status (ADS) tourism agreement which deals not only with tourism. It also has a dimension of facilitating repatriation. This is very important to us, it is related to the challenge that we face with Chinese immigrants. Progress achieved in 2005 includes the textile agreement that we have concluded as a result of EU textile import surge. When we got into important trading friction we were able to reach a negotiated solution.

Currently we are preparing an agreement on civil aviation and a full readmission agreement which is a huge concern for the EU but for the US as well. We have a relationship which is unique also in other respects: for example, we maintain with China a global dialogue which could be called a "strategic dialogue" on global issues and important sectors. I mentioned some previously: energy, environment, etc. The EU is the largest trading partner of China. We are hoping now to be able to explore the possibilities of starting a partnership and cooperation agreement which a few years ago was considered completely impossible because of human rights related considerations.

Impressive results and lingering concerns

The results are honestly quite impressive: dynamic interaction, very rich and constructive engagement, a continuously complex and beneficial cooperation but, at the same time we see very clearly a number of concerns rising, too. Just to mention a few: the trade deficit, around €100billion. We are not enormously concerned by it. It is an important deficit but the EU does not have the overall deficit the US has. We are more concerned about market access to China. There are some unbalanced issues, some unfair elements in the trade relationship with China from our point of view as well as from the US point of view. It is probably all right to suffer from an important deficit but your exports must be treated fairly at the other end. Although China has done a lot of progress since its accession to the WTO there is a lot more to do. As an illustration of the joint EU and US concerns, you must have noticed that for the first time the EU and the US will start almost simultaneously a WTO consultation procedure towards China. It is a significant step to those who follow this triangular relationship.

A more difficult issue for the transatlantic relationship is the question of the EU arms embargo. At some point, the EU appeared more or less decided to remove it, despite the very strong reactions from the US. At no point however was the EU's intention to increase arms sales to China. We have a code of conduct that controls arms export. And, in fact, the European Council had stated several times that even if the embargo is lifted this will not lead to an increase of arms export to China. The idea always was to lift the embargo and at the same time reinforce the code of conduct. It is true that the embargo has a symbolic value and it is not an easy decision politically. This is left aside for the time being mainly because of the Human Rights related concerns and of the strong reactions of the US. We have developed a process of EU-US strategic dialogue to promote common understanding of each others wishes and concerns.

Obviously, we have huge concerns about human rights in China. It is an issue on

which we have very similar views with the US: China's progress on that field is insufficient. The EU policy is to promote dialogue, to get involved, and try to convince China to act. In fact, I was the head of the dialogue team on human rights with China for the European Commission. I must tell you it is quite a frustrating process, the progress is not really that impressive nor as quick as we would like it to.

As I said, on multilateral and global issues China is very careful and globally has a positive role. Examples of positive developments include China's continual rise of its engagements in UN peace keeping forces and several positive international initiatives, for example the last conference Beijing organized concerning avian flu.

Our policy is to try to involve China more, try to make China a more responsible partner and from this point of view we completely agree with the US

I already mentioned the issue of the energy supplies, I repeat just to underline that, from the global perspective, this is the area where we probably start seeing a worrying and disturbing trend which can be an indication of the different attitudes and different positions that can progressively develop on important international issues between the western world and China.

On the Taiwan issue the EU shares similar positions with the US We accept the "One China" principle but we want a peaceful resolution of the dispute. And, of course, we want an acceptable solution for the Taiwanese people. In that respect, during the last couple of years the EU has become much more active, we have issued policy declarations, we follow the events that are happening there and we try to influence the process with a more pro-active attitude.

Where do we go from here?

Of course, it is always difficult to predict the future but overall I believe we can clearly see some of the current trends:

1. As I said, we are in the process of building a much deeper, much wider relationship between the EU and China with a lot of new areas of cooperation developing rapidly. This positive dynamic is set to continue.
2. At the same time, I think we are also moving towards a more realistic relationship, a more balanced relationship where we have a lot in common, a lot to do together and a lot of challenges to face together, particularly in areas where competition for resources and differences of vision and policies both domestic (Human Rights, Minorities etc.) and international (mainly relation with "difficult" regions) emerge.
3. The whole spectrum of this triangular EU-US-China relationship is more conditioned by the force of the transatlantic relationship.

I have a small reference of Robert Zoellick comment. He said: "We want a China which is a responsible stakeholder." I think this is an idea on which we are really building the relationship right now and we are on the same global line with the US on that.

From the EU's point of view the negotiation of a new Partnership and Cooperation Agreement with China is seen as a very strategic instrument. We need and hope that we will reach a couple of key breakthroughs with our Chinese counterparts concerning human rights and other mainly political concerns in order to make this agreement possible. We hope that we will see this happening and that this agreement will be the key instrument on building the relationship for the future.

Conclusion

Overall, I think the EU and the US, in their policies towards China not only share the same fundamental values but also pursue many identical objectives. Certainly China's rise brings unavoidably several significant threats to specific sectors or on specific issues and a lot of the Western analysts and press discussions presenting China as a threat are legitimate. Often, however are also exaggerated. Overall, the EU and the US in their policies toward China agree that the rise of China must be seen as an opportunity for all. We also agree that containment is not an option. We need positive engagement and realistic engagement.

In this respect, I believe important no to forget that the rise of China is not only economic, is not only trade related, it is global, it is geopolitical.

I tend to see the rise of China, and by the way also the rise of India, as probably the more certain and the more profound challenge that we have to face in the 21st century. We need between the EU and the US a sound triangular relation with China to ensure that this rise is peaceful and done in a way that positively contributes to global prosperity and to the well-being of the people of all parties involved.

Thank you very much for your attention.